DISCUSSIONS BETWEEN HIS EXCELLENCY
SENHOR OSWALDO ARANHA, MINISTER OF FOREIGN
AFFAIRS OF BRAZIL, AND OFFICIALS OF THE
GOVERNMENT OF THE UNITED STATES

The Minister of Foreign Affairs of Brazil reached Washington last month, in response to an invitation extended to him on January 9, 1939 in which reference was made to the close and friendly ties which have traditionally united Brazil and the United States and to the various questions of importance in which the two Governments are equally interested. Senhor Aranha's visit has been especially gratifying to the Government of the United States. His distinguished service as his country's Ambassador in Washington is recalled with particular pleasure, and he returned to the United States as a friend visiting friends.

During the past several weeks a series of discussions on all topics of mutual interest has been held between the Minister and the officials and experts of the Government of Brazil accompanying him, and officials of the Government of the United States. In these conversations the area of possible collaboration has been carefully explored and important decisions on matters of mutually beneficial cooperation have been reached.

The Government of Brazil plans to free the exchange market for commercial transactions and to facilitate the transfer of an equitable return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. In order to facilitate this improved exchange situation the Export-Import Bank will extend appropriate acceptance credits to meet amounts due American exporters for imports from the United States. Moreover, the Minister has indicated that it is the desire of the Government of Brazil to observe a general policy which will encourage the cooperation of United States citizens who have invested or who in the future may invest their capital and technical experience in the development of Brazilian resources and national economy.

Arrangements have also been made by the Export-Import Bank for the extension of credits which will facilitate the purchase by Brazil of American products, the importation of which will assist in improving Brazil's transportation facilities and the development of her other domestic undertakings designed to increase the productive capacity of the Brazilian nation and her trade with the United States. These facilities will at the same time aid American manufacturers and exporters in extending the market for their products.

It is anticipated that the Brazilian program of national development may likewise benefit by plans for surveys of tropical agricultural possibilities by experts of the United States Government and by the subsequent loan, should the Government of Brazil so request, of experts available under the terms of Public No. 545, enacted last year. In that connection views have been exchanged relative to the development
in Brazil of complementary, non-competitive products for which a substantial market is believed to exist in the United States, provided an assured supply can be developed. In the development and extension of complementary trade it is believed that the two Governments may find a field for increasingly effective cooperation.

The Government of Brazil has indicated its desire to organize and operate a Central Reserve Bank, and the Treasury Department is prepared to lend appropriate assistance to that end. Moreover, the President has stated that he is prepared to make a recommendation to the Congress for suitable authorization to place at the disposal of the Government of Brazil gold up to the amount of $50,000,000 to serve as possible supplementary assets in case of need, such amount as is drawn upon to be repaid from Brazil's future production of gold.

There are attached copies of notes exchanged between the Minister of Foreign Affairs of Brazil and the Secretary of State, with accompanying texts.

Cooperation in many other fields of activity not taken up in the above-mentioned exchange of notes was also profitably discussed with the Minister and the officials and experts of the Brazilian Government who accompanied him to this country.

The Minister has likewise engaged in discussions with the Foreign Bondholders Protective Council, Inc., relative to the status of the Brazilian dollar debt and has announced that the Government of Brazil intends to resume payments on July 1, 1939, on account of interest and amortization on such debts in accordance with a transitional arrangement, the details of which will be made known following his return to Rio de Janeiro. The Minister has also stated that it is the hope and expectation of his Government that with the improvement in its foreign commerce which it now foresees, a permanent settlement which will be equitable and satisfactory to all interests involved will follow upon the expiration of the temporary arrangement.

Enclosures:

1. Translation of a note dated March 8, 1939 from the Minister of Foreign Affairs of Brazil to the Secretary of State;

   Appendix A) Communication dated March 8, 1939, from the Minister of Foreign Affairs of Brazil to the Export-Import Bank of Washington;

   Appendix B) Communication dated March 8, 1939 from the Minister of Foreign Affairs of Brazil to the Secretary of the Treasury.

2. Note dated March 9, 1939, from the Secretary of State to the Minister of Foreign Affairs of Brazil:

   Appendix A) Communication dated March 9, 1939 from the Secretary of the Treasury to the Minister of Foreign Affairs of Brazil;

   Appendix B) Communication dated March 8, 1939 from the President of the Export-Import Bank of Washington to the Minister of Foreign Affairs of Brazil.
Brazilian Embassy
Washington, March 8, 1939.

To His Excellency Cordell Hull,
Secretary of State of the United States of America,
Department of State,
Washington, D.C.

Mr. Secretary of State,

The Brazilian Government presents through Your Excellency, to your Government, its thanks for the courtesies which were extended to me and to my companions during my visit to your country.

Your Excellency may be assured that my grateful recollection of the period during which I had the honor of being my country's Ambassador to the United States, and that the amity of my people towards the American people and the mutual confidence that exists between our two Governments, have been enhanced by the repercussion of the new and expressive demonstrations of cooperation and of friendship towards Brazil which we have witnessed during the course of this visit.

With a desire to foster continued mutually beneficial economic relations between Brazil and the United States and to develop the national economy and natural resources of Brazil, the Government of Brazil, after due deliberation and the considered discussion of its authorized representatives with the authorized representatives of the Government of the United States of America, is undertaking or intends to undertake in the near future the following policies and actions to attain the objectives mentioned:

I

It is the decision of the Government of Brazil to issue a decree-law freeing the exchange market for commercial transactions. This will ensure the provision of funds in payments for imports from the United States in accordance with the note of the Brazilian Ambassador to the Secretary of State of the United States of February 2, 1935. This measure will also facilitate the transfer of an equitable return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. The Brazilian Government will give further study to this matter. I believe that, as a result of the discussions between the authorized representatives of our respective governments during the course of my visit, a substantial accord has been reached as to the basis of these provisions and for the necessary cooperation between our institutions.

In order to proceed with this proposed facilitation of exchange transactions, the Government of Brazil finds it necessary to provide dollar exchange to meet amounts now due American exporters. To make this provision, my Government has addressed a communication to the Export-Import Bank of Washington with a view to obtaining the extension of appropriate acceptance credits for this purpose by that organization. A copy of this communication is enclosed as Appendix A.
The Government of Brazil has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the milreis, and of controlling credit and the money market. The Central Reserve Bank will endeavor to eliminate unusual fluctuations in the balance of international payments and those arising from the irregular timing of in- and out-payments by a policy of adapting the balance of payments to normal exchange resources. To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable in order to ensure relative stability in the value of the milreis within the policy described. A copy of a communication addressed by my Government to the Treasury Department regarding this matter is enclosed as Appendix B.

With particular view to the systematic economic development of the Brazilian nation, my Government, in its communication to the Export-Import Bank of Washington, a copy of which is enclosed as Appendix A, took up the question of obtaining longer term credits to finance Brazilian purchases of industrial goods in the United States, and the terms of repayment of such credits. These credits are believed to be necessary to the proper utilization within a reasonable period of the known resources of Brazil, for the benefit of the Brazilian people and the further stimulation of Brazilian-American trade.

The Government of Brazil is especially desirous of stimulating the systematic large-scale production of agricultural products native to Brazil or capable of successful introduction to Brazil which will complement production and find a market in the United States. The Government of Brazil will, of course, appreciate the cooperation of the Government of the United States in the study and development of such products which may provide the United States with assured sources of supply.

In connection with all of the phases of economic relationships between the United States and Brazil, my Government has given renewed thought to the dollar bond indebtedness of the Government of Brazil and of the Brazilian States and Municipalities. The decision has been reached, as part of its general economic program, to resume payment on July 1, 1939 on account of interest and amortization on these external dollar debts. A transitional arrangement for a brief period to effect this has been discussed with the Foreign Bondholders Protective Council, Incorporated. These discussions in regard to the scale and amount of payment will be continued after my return to Rio de Janeiro and subsequent announcement will be made by my Government. It is the hope and expectation of my Government that with the improvement in its foreign commerce which it now foresees a permanent settlement which will be equitable and satisfactory to all interests involved will follow upon the expiration of this temporary arrangement.
Still with the desire of giving to the friendship between our two countries economic and juridical bases commensurate with the purpose of promoting cooperation between our two peoples, I wish to emphasize that my Government intends to observe a general policy which will inspire the confidence of United States investors giving them no more restrictions than those to which Brazilian investors may be subjected. I can assure Your Excellency that my Government has decided to encourage in any way and means the valuable and desirable cooperation of United States citizens who have invested or who in the future may invest their capital and technical experience in the development of Brazilian resources and national economy.

Renewing my expressions of appreciation to your Government and to all the officials of the various Departments who have given us inestimably valuable assistance during the period of our negotiations, believe me your sincere friend,

(signed) OSWALDO ARANHA
Brazilian Embassy
Washington, March 8, 1939

Export-Import Bank of Washington
Washington, D. C.

Gentlemen:

In order to increase trade between the United States and Brazil, the Government of Brazil would like to meet without delay all present and future trade obligations to United States firms and nationals, an arrangement that will be mutually beneficial to the United States of America and the United States of Brazil. My Government also contemplates the improvement and extension of Brazil's existing transportation facilities and the establishment and expansion of basic industries essential to the domestic economy of Brazil. To accomplish this, credits will be required, credits extending in some instances as long as five and possibly ten years, depending upon the character of the purchases for which the credits will be used.

These objectives can be greatly facilitated by the establishment by your Bank of acceptance credits in favor of the Banco do Brasil in order to permit the Brazilian Government to meet amounts due to American exporters to Brazil and to enable the prompt remittance of dollar exchange for future purchases of industrial and agricultural products of the United States of America. Such acceptance credits, if extended, will be utilized from time to time as required during the remainder of the calendar year 1939; and will be reimbursed in quarterly instalments over a period not exceeding twenty-four months for any individual item.

Suitable steps will be taken by the Government of Brazil to insure the acquisition by the Banco do Brasil of the dollar exchange required to extinguish the obligations as they mature.

The Government of Brazil is undertaking the economic development of the Brazilian Nation and proposes, among other things, to assist in the establishment of certain basic industries, improve transportation facilities, and to undertake other projects designed to increase the productive capacity of the Nation. The cost of the activities contemplated will be met by revenues other than those presently allocated to meet the normal expenses of the Government.

Substantial quantities of industrial goods produced in the United States are urgently needed to accomplish the purposes envisaged but the acquisition of such goods against cash payments would seriously affect the ability of Brazil to continue normal purchases from the United States and would strain my Government's foreign exchange resources. To obviate the inconvenience of restricting normal trade and the danger of too rapidly depleting Brazil's supply of foreign exchange, the Brazilian Government will need the longer term credits indicated, all of which will be used for the purchase of American products.
The amount of such credits and the time within which they can be most advantageously utilized, and repaid, will depend largely upon the progress of developments in Brazil. The tenor of individual credits will naturally be governed largely by the character of the product to be financed, but it is hoped that provision can be made in certain instances for payments over a period of ten years from the date of purchase.

It is our understanding that industrial credits approved by the Export-Import Bank ordinarily require the cooperation of the interested American manufacturers or financial institutions. We further understand that under existing law the Export-Import Bank is not empowered to advance funds subsequent to June 30, 1941.

We will welcome an expression of your attitude towards the two proposals we have outlined herein.

Very truly yours,

(signed) OSWALDO ARANHA
The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

The Brazilian Government has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the milreis, and of controlling credit and the money market.

The creation of a Central Reserve Bank is desirable first and foremost in order to coordinate under the direction of one competent Board of Directors all the functions and operations of a central bank - many of the elements of which already exist in one form or another - in the several departments of the Bank of Brazil and of the Brazilian Treasury - so that that body may guide and carry out effectively the monetary and banking policy of Brazil. At the present time these functions, insofar as they exist, are carried on by the virtually uncoordinated Exchange and Rediscount Departments of the semi-official Bank of Brazil (the Commercial Department handling fiscal agency operations) and the note issue section of the Treasury.

In addition to this major objective of coordinating the external and internal aspects of monetary policy, there are a number of specific ways in which an efficient Central Reserve Bank may be of assistance in the development of the Brazilian economy, including: (1) it may regulate the issuance of notes, removing this function from the direct exigencies of public finance; (2) it may be instrumental in the establishment of an effective money market and in improving techniques for its control, as have been the recently created Central Banks in other American countries; (3) as a consequence of (2) it may facilitate the regular issuance of Treasury bills, notes, and bonds, and aid in the development of additional banking and credit services for the financing of Brazilian industry and agriculture; and (4) it may establish efficient methods for collecting economic data necessary for the proper determination of external and internal monetary policies.

The draft organic law for the proposed Central Reserve Bank is outlined below. The Minister of Finance of Brazil, during his visit to the United States in 1937, explained the subject to the Secretary of the Treasury and American technicians, and he then had the opportunity of discussing and clarifying details for the project.

The capital of the Bank shall be 60,000 contos of reis, one-third to be subscribed by the Government, one-third by banks operating in Brazil, and one-third by public
public subscription. The Bank shall be governed by a Board of Directors consisting of a President and Vice-President appointed by the Government and additional directors elected by the shareholders.

The principal activities of the Bank shall be:

a. To issue notes
b. To hold the monetary reserve deposits of the banks of Brazil
c. To buy and sell, discount, and rediscount bills of exchange
d. To make advances guaranteed by gold bullion, bills of exchange, or Federal securities
e. To buy and sell gold
f. To buy and sell foreign exchange
g. To engage in open market operations in certain Federal securities, as well as in gold, exchange, and commercial bills
h. To act as fiscal agent
i. To act as clearing house.

The Bank shall be required to maintain minimum reserves of 25 percent of the total of its outstanding notes and sight obligations. This reserve will be composed initially of gold holdings, of balances abroad in free currency, and of public debt certificates of the National Treasury. As gold holdings are increased (such increase being ensured through purchases of gold produced within the country) the Bank will reduce by an equivalent amount the part constituted by bonds.

The Treasury already possesses 30 tons of gold worth about $35,000,000, or, at prevailing exchange rates, about 13 percent of the currency in circulation. Purchases of domestically produced gold may be estimated at an average of 8 tons annually; thus it may be foreseen that within five years the gold reserve will have attained 70 tons (about $80,000,000) or, in other words, more than 32 percent of the present note circulation.

Until the minimum reserves of the Bank can be constituted entirely in gold and exchange and until the economic position of Brazil attains a definitely favorable level, the Central Reserve Bank will endeavor to eliminate unusual fluctuations in the balance of international payments and those arising from the irregular timing of in- and out-payments by a policy of adapting the balance of payments to normal exchange resources. To this end, in the manner of an exchange equalization fund, the Bank will resort to the sale of Federal securities in the open market whenever it becomes necessary to prevent inflows of capital from having their full effect.
effect on the domestic money market. In the opposite circumstances, the Bank would find it necessary to draw against available funds abroad. To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable in order to ensure relative stability in the value of the milreis, within the policy described.

Believe me

Sincerely yours,

(signed) OSWALDO ARANHA
Departments of State  
Washington  
March 9, 1939  

His Excellency  
Oswaldo Aranha,  
Minister of Foreign Affairs of Brazil.  

Excellency:  

I have received with genuine appreciation Your Excellency's very friendly note of March 8, 1939 with reference to the matters which I have had the privilege of discussing with you during your visit to Washington. I need not assure you of the personal satisfaction which it has been for me to cooperate with you in a comprehensive survey of all phases of the questions interesting our two countries, and I am convinced that the traditionally close and cordial relations which have always existed between the people of Brazil and those of the United States will be materially strengthened as a result of the decisions taken during your visit.  

I have noted with especial satisfaction that in your communication under acknowledgment you have enumerated policies and actions which the Government of Brazil, after due deliberation and the considered discussion of its authorized representatives with the authorized representatives of the Government of the United States, is undertaking or intends to undertake in the near future in order to foster continued mutually beneficial economic relations between the United States and Brazil and to develop the national economy and national resources of Brazil. As you well know, my Government is keenly desirous of taking any steps possible in order to continue and expand the economic cooperation between Brazil and the United States.  

My Government is pleased to note that it is the intention of the Government of Brazil to establish and maintain a free exchange market for commercial transactions and to facilitate the transfer of an equitable return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. I am informed that the Export-Import Bank of Washington has found it possible to assist in the facilitation of exchange transactions by extending appropriate acceptance credits in order to provide dollar exchange to meet amounts due American exporters for imports from the United States.  

I am also informed that the Treasury Department finds itself heartily in sympathy with the objectives stated in your communication to it regarding the establishment of a Central Reserve Bank, and will be glad to assist your Government in the establishment of such a bank and in its operations, by placing at your disposal its advisory facilities and by the extension of a line of credit. In the latter connection, I understand that the Secretary of the Treasury, with the approval of the President, is informing you that the President is prepared to make a recommendation to the Congress for suitable authorization.  

I am further informed that the Export-Import Bank, with a view to cooperating in the facilitation of trade between the United States and Brazil and in the development of Brazilian
natural resources, has agreed to consider the arrangement of suitable longer term credits to finance Brazilian purchases of economic equipment in the United States.

Copies of communications in regard to these matters addressed to you by the Secretary of the Treasury and by the President of the Export-Import Bank are enclosed as Appendices A and B.

The Government of the United States is interested in cooperating with the Government of Brazil in every practicable way in the study and development of agricultural products and production which will complement production in the United States. In this regard, as you are aware, legislation has already been enacted which authorizes the loan of experts of the Government of the United States to assist the Government of Brazil in specialized agricultural studies and developments. Plans have also been formulated for surveys of agricultural possibilities, including the development of tropical hardwoods, rubber, and other products, which surveys could readily include the incidental study of many additional native products of Brazil. Draft legislation which would provide authorization for these surveys is now before the Congress.

In relation to this general program of economic cooperation between the United States and Brazil, I welcome the information that your Government plans to resume payment on July 1, 1939, on account of interest and amortization of the external dollar debt of the Government of Brazil and of the Brazilian States and Municipalities, in accordance with a transitional arrangement, and that it is the hope and expectation of your Government that with the improvement in its foreign commerce which it now foresees a permanent settlement which will be equitable and satisfactory to all interests involved will follow upon the expiration of this temporary arrangement.

I likewise welcome with sincere gratification the assurance that it is the intention of the Government of Brazil to observe a general policy which will encourage the participation of citizens of the United States in the economic life of Brazil.

In reiterating to Your Excellency the assurances of my most distinguished consideration, allow me to add my sincere thanks to you and to the officials of the Brazilian Government accompanying you for the close and valuable cooperation invariably accorded throughout the period of our important negotiations, and to wish you all a safe and pleasant journey in returning to Brazil.

(signed) CORDELL HULL

Enclosures:
APPENDIX A) Communication dated March 9, 1939, from the Secretary of the Treasury to the Minister of Foreign Affairs of Brazil;

APPENDIX B) Communication dated March 8, 1939, from the President of the Export-Import Bank of Washington to the Minister of Foreign Affairs of Brazil.
The Secretary of the Treasury
Washington
March 9, 1939.

My dear Mr. Minister:

I have before me your letter of March 8, 1939, containing an outline of the plan which the Brazilian Government has under consideration for the establishment and operation of a Central Reserve Bank.

Our discussion appears to me to bring out plainly the soundness of the objectives envisaged in this plan and of the useful results that may be attained both for the Brazilian economy and for the future development of Brazilian-American trade and monetary relationships.

I am therefore instructed by the President to advise you that when and as the Brazilian Government may decide to move forward in this matter, this Government will be glad to assist it by placing at the disposal of your Government the advisory facilities of the Treasury Department. Moreover, if the Brazilian Government in its further examination of the question decides that, as part of the plan of cooperation between the financial and monetary authorities, it can usefully be assisted by the according of loan facilities to the new institution, the President will be glad to present to Congress a request for authorization to place at the disposal of the Government of Brazil, under such terms and conditions as deemed wise, gold up to the amount of $50,000,000, to serve as possible supplementary assets in case of need. This fund, I understand from you, might or might not be drawn upon, but it would be certain to be helpful in the event that the new institution should have to deal with special situations of a temporary character. You have informed me that in the event this amount is drawn upon, the Government of Brazil would plan to make repayment from its future production of gold.

I would also like to recall our discussion of last week with reference to the maintenance of a financial attaché by your Government at the Embassy in Washington. I think the work of such an official in Washington would be helpful and would doubtless serve to extend the field of cooperation between the two Treasuries. This will be particularly true since this Government intends to maintain at the Embassy of the United States in Rio de Janeiro an officer fulfilling a similar role and the officer so designated will proceed to Rio de Janeiro in the immediate future. The appointment of these officials should facilitate and expedite the course of further discussion of the objectives above mentioned.

Believe me

Sincerely yours,

H. Morgenthau, Jr.

His Excellency
Oswaldo Aranha,
Minister of Foreign Affairs of Brazil,
Brazilian Embassy, Washington.
Office of the President
March 8, 1939.

My dear Mr. Minister:

Reference is made to your communication of March 8.

The Export-Import Bank will undertake to establish acceptance credits for the Banco do Brasil in order to assist the Government of Brazil in its purpose to discontinue official control over foreign exchange operations in so far as such control affects commercial relations between Brazil and the United States. Such credits will be provided directly or through American commercial banks satisfactory to the Banco do Brasil and ourselves, and shall be repayable in instalments over a period not exceeding 24 months.

To permit the Banco do Brasil ample opportunity to liquidate its obligations under the credit, it is suggested that each original draft shall be payable at 3 months' sight and may be satisfied at maturity by the payment of 10% of the face amount thereof and the delivery of a renewal draft payable at 3 months' sight for the balance; and thereafter at 3 month intervals, similar transactions shall take place, except that the two last instalments shall each represent 20% of the face amount of the original drafts. The total amount of such credits outstanding at any one time, whether representing original or renewal drafts, shall not exceed $10,200,000. The discount, including the acceptance commission, shall be 0.9% flat upon each draft or acceptance — equivalent to an annual rate of 3.6%. The details of the transaction will hereafter be arranged between the Export-Import Bank, or the approved commercial banks, and the Banco do Brasil, but it shall be understood that all drafts shall be liquidated on or before June 28, 1941.

To aid in improving Brazil's transportation facilities and the development of her other domestic undertakings designed to increase the productive capacity of the Brazilian nation and her trade with the United States, the Export-Import Bank will cooperate with the American manufacturers and exporters in supplying the requirements for these developments by participating with such manufacturers and exporters, to the extent that its funds may be available for such purposes, in the extension of credits of a tenor calculated to enable the Government of Brazil and the Banco do Brasil to create the necessary exchange without disrupting normal purchases from the United States, or too rapidly depleting Brazil's supply of foreign exchange.

The Export-Import Bank understands that credits of the kind under consideration will be of a commercial character.
character and will bear a rate of interest commensurate with
the individual transactions, not in excess of 5% per annum.
Accordingly, we would prefer that any advances should be
against the obligations of the Banco do Brasil or other
qualified banking institutions, and that adequate assurances
be made by the Brazilian authorities that the requisite
dollar exchange will be available for repayments. It is
suggested likewise that provision be made for periodic
payments to the end that no single payment will occasion
any serious depletion of your country's exchange reserve.

Within the period during which the Bank is in position
to assist in providing these credits, and to the extent that
its funds may be available for this purpose, we will con­
sider any specific proposals as they may develop.

Sincerely yours,

(Signed) WARREN LEE PIERSON

President

The Honorable
Oswaldo Aranha
Minister of Foreign Affairs