

## Message Text

UNCLASSIFIED

PAGE 01 LA PAZ 03356 01 OF 02 232250Z

64

ACTION ARA-20

INFO OCT-01 ISO-00 FPC-01 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 EB-11 FEA-02 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01 USIA-15

AGR-20 XMB-07 DRC-01 /196 W

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P R 232105Z MAY 74

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 3193

INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY LIMA

AMEMBASSY SANTIAGO

AMEMBASSY ASUNCION

AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY QUITO

UNCLAS SECTION 1 OF 2 LA PAZ 3356/1

E.O. 11652: N/A

TAGS: ECON, EFIN, EMIN, ENRG, BL, BR

SUBJECT: PRESIDENT'S GEISEL AND BANZER SIGN GAS AND

INDUSTRIAL DEVELOPMENT "ACT"

REF: A-269 OF DECEMBER 12, 1973; A-074 OF APRIL 16, 1974

SUMMARY "ACT OF COOPERATION AND INDUSTRIAL COMPLETION" WAS SIGNED BY PRESIDENTS GEISEL AND BANZER MAY 22 IN COCHABAMBA. THE ACT IS TO BECOME EFFECTIVE UPON RATIFICATION. COMPLETE TEXT AS PUBLISHED IN NEWSPAPERS BEING SENT BY AIRGRAM TOGETHER WITH OTHER DOCUMENTATION. THIS MESSAGE SUMMARIZES MAIN ELEMENTS OF AGREEMENT WHICH COVERS POSSIBLE GAS SALES TO BRAZIL  
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PAGE 02 LA PAZ 03356 01 OF 02 232250Z

AND BRAZILIAN ASSISTANCE FOR INDUSTRIAL DEVELOPMENT

POLE IN SOUTHEAST BOLIVIA.

END SUMMARY.1. ART. 4 IF STUDIES SHOW THEIR TECHNICAL AND ECONOMIC FEASIBILITY (A) BOLIVIAN GOVERNMENT (GOBO) IS COMMITTED TO SELL AVERAGE 240 MILLION CUBIC FEET OF NATURAL GAS TO BRAZIL FOR 20 YEARS ON TERMS AND CONDITIONS (INCLUDING PRICE WHICH CAN BE ADJUSTED EVERY SIX MONTHS IN ACCORDANCE WITH INTERNATIONAL MARKET PRICE) TO BE ESTABLISHED IN CONTRACT BETWEEN PETROLEO BRASILEIRO S.A. (PETROBRAS) AND YACIMIENTOS PETROLIFEROS FISCALES BOLIVIANOS (YPFB); (B) BRAZILIAN GOVERNMENT (GOBR) IS COMMITTED TO COOPERATE IN IMPLEMENTATION OF PROJECTS AND INFRASTRUCTURE NEEDED FOR GAS PIPELINES AND INDUSTRIAL DEVELOPMENT POLE AS SET OUT IN ARTS. 2 AND 3; (C) GOBR IS COMMITTED TO GUARANTEE MARKET FOR PRODUCTS OF BOLIVIAN INDUSTRIAL DEVELOPMENT POLE IN ACCORDANCE WITH TERMS OF ANNEX II OF ACT WHICH SPELLS OUT IN DETAIL PERCENT OF PRODUCTION OF EACH PLANT WHICH BRAZIL AGREES TO TAKE AS MINIMUM AND CUSTOMS AND INTERNAL TAXES THAT WILL APPLY.

2. (ART.3) GOBO WILL PRESENT TO GOBR STUDY ON GAS RESERVES CERTIFYING SUFFICIENT SUPPLIES TO MEET 240 MILLION CUBIC FEET PER DAY FOR 20 YEARS COMMITMENT TO GOBR. GOBO WILL DO STUDIES FOR GAS PIPELINES WITH SUFFICIENT CAPACITY TO SUPPLY BOLIVIAN INDUSTRIES TO BE ESTABLISHED PLUS COMMITMENT TO BRAZIL. GOBR WILL DO STUDIES FOR GAS PIPELINE FROM BORDER TO BRAZILIAN CONSUMPTION POINTS.

3. (ART.2) GOBO AND GOBR WILL COOPERATE TO DO STUDIES FOR (A) STEEL COMPLEX WITH CAPACITY TO PRODUCE ANNUALLY 900,000 M.T. SPONGE IRON AND STEEL AND LAMINATIONS EQUIVALENT TO 500,000 M.T. STEEL; (B) NITROGENOUS FERTILIZER PLANT WITH UREA PRODUCTION CAPACITY OF 1,000 M.T. PER DAY; (C) CEMENT PLANT WITH CAPACITY OF 1,000 M.T. PER DAY AND (D) INFRASTRUCTURE FOR DEVELOPMENT POLE.

4. (ART.1) GOBO AND GOBR AGREE TO CARRY OUT ASAP ESTABLISHMENT OF PLANTS REFERRED TO IN PRECEDING PARA PLUS POWER PLANT. BOLIVIA DISPOSED TO IMPLEMENT (CONCRETAR) GAS SALE TO BRAZIL "IN CONJUNCTION WITH" UNCLASSIFIED

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PAGE 03 LA PAZ 03356 01 OF 02 232250Z

ESTABLISHMENT OF DEVELOPMENT POLE.

5. ART.5 GOBR WILL FINANCE GOBO STUDIES REFERRED TO IN ART. II(PRECEDING PARA) IN AMOUNT UP TO US\$ 10 MILLION, 5 PERCENT INTEREST, 3 YEARS GRACE, 15 YEARS TOTAL TERM. LOAN AGREEMENT TO BE SIGNED WITHIN 30 DAYS FROM SIGNING ACT LOAN PROCEEDS FREELY DISPOSABLE AND CONVERTIBLE.

6. (ART 2.) GOBR AND GOBO WILL ESTABLISH BOLIVIAN-

BRAZILIAN ECONOMIC AND TECHNICAL COOPERATION  
COMMITTEE TO COORDINATE IMPLEMENTATION OF ACT.  
7. (ART.8) GOBO AND GOBR AGREE TO STUDY IN  
LATER PHASE ECONOMIC VIABILITY OF PETRO-  
CHEMICAL COMPLEX FOR PRODUCTION OF ETHYLENE  
AND ITS DERIVATIVES WITH POSSIBLE GOBR MARKET  
GUARANTEE.

8. (ANNEX I). GOBR IS COMMITTED TO (A) FINANCE ALL  
OF GOBO PURCHASES OF BRAZILIAN GOODS AND SERVICES  
FOR PROJECTS DESCRIBED IN ARTS. II AND III AT INTEREST  
RATES AND TERMS EQUAL TO BEST GRANTED BY GOBR TO  
OTHER COUNTRIES AT TIME REQUESTED; (B) GUARANTEE  
FINANCING OF UP TO HALF OF PURCHASES OF GOODS AND  
SERVICES GOBO MAY MAKE IN THIRD COUNTRIES FOR  
PROJECTS DESCRIBED IN ART. II AT INTEREST  
RATES AND TERMS PREVAILING IN INTERNATIONAL MARKET  
AT TIME PURCHASE CONTRACTS SIGNED; (C) FINANCE AT  
GOBO'S REQUEST LOCAL COSTS OF PROJECTS MENTIONED  
IN ACT IN AMOUNTS AND AT TERMS AND CONDITIONS  
TO BE ESTABLISHED; (D) COOPERATE WITH GOBO IN  
OBTAINING RESOURCES NEEDED FROM IFI'S SUCH AS IDB  
AND IBRD FOR FINANCING BOLIVIAN PORTION GAS  
PIPELINES.

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PAGE 01 LA PAZ 03356 02 OF 02 232254Z

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P R 232105Z MAY 74

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 3194

INFO AMEMBASSY BRASILIA

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UNCLAS SECTION 2 OF 2 LA PAZ 3356/2

9. (ANNEX II) PERCENTAGES OF PRODUCTION FROM DEVELOPMENT POLE THAT GOBR GUARANTEES TO TAKE AS MINIMUM ARE SET OUT IN DETAIL. SUPPLY OF GAS TO BRAZIL WILL DEPEND ON CONCLUSION OF ALL STUDIES; FEASIBILITY OF PROJECTS; SIGNING OF MARKET GUARANTEE, PRICE, FINANCING, AND TECHNICAL ASSISTANCE CONTRACTS AND COMPLETION OF GAS PIPELINE. IRON AND STEEL PRICES WILL BE SET FOLLOWING COMPLETION FEASIBILITY STUDIES AND ON BASIS COMPETITIVENESS IN BRAZILIAN MARKET. FERTILIZER PRICE AT CORUMBA WILL BE EQUIVALENT TO CIF PRICE SANTOS UREA IMPORTED FROM THIRD COUNTRIES. GAS PRICE WILL BE ESTABLISHED IN PETROBRAS-YPFB CONTRACT.

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PAGE 02 LA PAZ 03356 02 OF 02 232254Z

10. (ANNEX III) GOBR WILL PROVIDE TECHNICAL ASSISTANCE AT REQUEST GOBO FOR IMPLEMENTATION INDUSTRIAL PROJECTS MENTIONED IN ACT WITHIN TERMS BASIC AGREEMENT OF JULY 10, 1973 (SEE REFAIR) AND IN ACCORDANCE WITH FURTHER GUIDELINES SET OUR IN ANNEX III.

1. COMMENT: ACT MAKES CLEAR THAT THERE IS STILL MUCH TO BE DONE BEFORE GAS PIPELINE AND DEVELOPMENT POLE EVEN GET STARTED. FIRST CONCRETE FOLLOW-UP SHOULD BE SIGNING OF US\$ 10 MILLION LOAN WITHIN ONE MONTH. MINFIN TOLD ADCM THIS LOAN WOULD BE IMMEDIATELY ADDED TO RESERVES AS IN CASE BANK OF AMERICA US\$ 25 MILLION LOAN. HE ADDED, HOWEVER, THAT THESE LOANS WILL ALSO BE CARRIED AS BELOW THE LINE LIABILITY. THUS, THEY WILL NOT INCREASE BOLIVIA'S PROSPECTIVE BALANCE OF PAYMENTS SURPLUS AT LEAST IN BOLIVIA'S OFFICIAL ACCOUNTS. NEXT STEP WOULD APPEAR TO BE FINAL STUDY PROVING ADEQUATE GAS RESERVES. ONLY THEN CAN PIPELINE AND GAS SALES CONTRACTS BE SIGNED. OTHER PROJECT STUDIES CAN, OF COURSE, GO FORWARD IN MEANTIME. CERTAIN LEVEL OF OBJECTION TO THIS DEAL FROM BOLIVIAN GROUPS PROBABLY ENHANCES GOBO NEGOTIATING STRENGTH WHICH APPRANTLY NEEDS TO BE MAINTAINED FOR SOMETIME TO COME. RECENT HIGTER THAN

ACCEPTABLE PITCH TO THIS BACKGROUND NOISE AND  
OTHER POLITICAL IMPLICATIONS OF SIGNING ACT ARE  
DISCUSSED IN SEPTEL.

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** NATURAL GAS, INDUSTRIAL DEVELOPMENT, TREATY SIGNATURE, DEVELOPMENT PROGRAMS, TECHNICAL ASSISTANCE CONTRACTS, COMMODITY AGREEMENTS, COOPERATIVE SERVICE AGREEMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 MAY 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974LAPAZ03356  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740130-0017  
**From:** LA PAZ  
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**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** A-269 OF DECEMBER 12, 1973; A-074 OF  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** cunninfx  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 29 OCT 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <29 OCT 2002 by boyleja>; APPROVED <09 JAN 2003 by cunninfx>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PRESIDENT'S GEISEL AND BANZER SIGN GAS AND INDUSTRIAL DEVELOPMENT "ACT"  
**TAGS:** ECON, EFIN, EMIN, ENRG, BL, BR  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005