

**From Foreign to State Investment in the
Brazilian Electric Power Sector: the
Expropriation of the American Foreign
and Power in Brazil (1959-1965)**

**ALEXANDRE MACCHIONE SAES
FELIPE PEREIRA LOUREIRO**



From Foreign to State Investment in the Brazilian Electric Power Sector: the Expropriation of the American Foreign and Power in Brazil (1959-1965)

Alexandre Macchione Saes - alexandre.saes@usp.br

Felipe Pereira Loureiro - fpeloureiro@gmail.com

Research Group: [Hermes & Clio]

Abstract: The first half of the 1960s was a hallmark in the process of nationalization of the electric power sector in Brazil. The Brazilian State raised its participation in terms of installed capacity from 6.8% in 1952 to more than 54% in 1965. After the Second World War, the demand for energy in Brazil soaked, pulled by an increasing process of industrialization and urbanization. Since the private-owned concessionaries (both national and foreign firms) seemed not interested in meeting that demand, the State was called to play a more preminent role in energy's production, setting the stage for the increase of the government share in the field. Thus, the paper deals with the six last years of Amforp's involvement in the Brazilian electric power sector, employing original data from US and Brazilian archives. The US enterprise came to Brazil in the 1920s, but by the late 1950s its participation and its role in the country was being challenged by many people. Personified as a representative of US interests in Brazil, and charged of not only spoiling national resources as well as of being negligent as to the services provided to society, Amforp faced many judicial charges in courts, leading in 1959 to the takeover of one of its subsidiaries in the state of Rio Grande do Sul by the governor Leonel Brizola. What could be only a matter of the provision of public services in a regional arena, settled by a financial and juridical agreement, became a major diplomatic issue between Brazil and the United States at the early 1960s. At that period, Brazil faced serious balance of payment constrains. As a crucial money-lender, Washington used this condition to blackmail the Brazilian government. Credits were withheld to force the administration of Joao Goulart (1961-1964) to settle Amforp's expropriation in the ways desired by the company. In this sense, the paper analyses the diplomatic agreements that led to Amforp's departure of the Brazilian market, showing how this established not only a redefinition of the strategies of foreign investments in Brazil, but also a change of the role played by the Brazilian state in the local electric power sector.

Keywords: Electric Power, Amforp, João Goulart, Brazil

JEL Codes: N46, N76

From Foreign to State Investment in the Brazilian Electric Power Sector: The Expropriation of the American Foreign and Power (AMFORP) in Brazil (1959-1965)

Alexandre Macchione Saes
Department of Economics, University of Sao Paulo, Brazil

Felipe Pereira Loureiro
Casper Libero University, Brazil

Abstract

The paper deals with the six last years (1959-65) of involvement of the US company *American Foreign and Power* (Amforp) in the Brazilian electric power sector, employing original data from US and Brazilian archives. The US enterprise came to Brazil in the 1920s, but by the late 1950s its participation and role was being challenged by many. Personified as a representative of US interests in Brazil, and charged of not only spoiling national resources but also of being negligent with services provided to society, Amforp faced many judicial challenges in courts, leading in 1959 to the takeover of one of its subsidiaries in the state of Rio Grande do Sul. What could be only a matter of provision of public services in a regional arena, settled by a financial and juridical agreement, became a major diplomatic issue between Brazil and the United States in the early 1960s. In that period, Brazil faced serious balance of payment constrains. As a crucial money-lender, Washington used this condition to blackmail the Brazilian government. Credits were withheld to force the administration of João Goulart (1961-1964) to settle Amforp's expropriation in ways desired by the company. In this sense, the paper analyses the diplomatic agreements that led to Amforp's departure of the Brazilian market, showing how this established not only a redefinition of the strategies of foreign investments in Brazil, but also a change of the role played by the Brazilian state in the electric power sector.

Keywords

US-Brazilian relations, electric power sector, Amforp, Goulart administration

The first half of the 1960s was a hallmark in the process of the nationalization of electric power sector in Brazil. The Brazilian state increased its participation in terms of installed capacity from 6.8 percent in 1952 to more than 54 percent in 1965. This change was the result of a slow and conflictive process that began during the 1930s, when the government of Getúlio Vargas (1930-45) enacted the first important legislation related to the sector: the so-called Water Code (*Código de Águas*) of 1934, which established rules on the revision of tariffs and on the maximum profit rates for those engaged in generating and distributing electric power. After the Second World War, the demand for energy in Brazil soaked, pulled by an increasing process of industrialization and urbanization. Since the privately owned concessionaries (both national and foreign firms) seemed uninterested in meeting that demand, the state was called to play a more preeminent role in energy production, setting the stage for the increase of the government's share in the field.

It was in this context that major struggles broke out between the Brazilian government and the two major local energy companies: the Canadian Brazilian Traction Light and Power Co. (Light), whose investments were focused on the two biggest markets (the cities of Sao Paulo and Rio de Janeiro), and the American Foreign and Power Co. (Amforp), which had ten subsidiaries dispersed over the country (with headquarters in state capitals) and in the countryside of the states of Sao Paulo and Rio de Janeiro. Together, Light and Amforp accounted approximately for 70 percent of the Brazilian electric power production in 1930.¹ Local nationalist groups tended to criticize not only this large share of foreign companies in what was seen as a strategic sector, but also the allegedly bad services provided by them. On the other hand, those in favor of these foreign enterprises, often called *privatistas*, argued that the decrease in investments was the result of laws such as the Water Code, which reduced the companies' profits, blocking new investments.

Giving this broader context, the paper deals with the six last years of Amforp's involvement in the Brazilian electric power sector, employing original data from US and Brazilian archives. The US enterprise came to Brazil in the 1920s, but by the late 1950s its participation and its role in the country were being challenged by many people. Personified as a representative of US interests in Brazil, and charged with not only spoiling national resources but also being negligent as to the services provided to society, Amforp faced many

¹ Szmrecsányi, "Apontamentos", p. 133.

judicial challenges in courts, leading in 1959 to the takeover of one of its subsidiaries in the state of Rio Grande do Sul by the governor Leonel Brizola. What could be only a matter of the provision of public services in a regional arena, settled by a financial and juridical agreement, became a major diplomatic issue between Brazil and the United States in the early 1960s. At that period, Brazil faced serious balance-of-payment constrains. As a crucial moneylender, Washington used this condition to blackmail the Brazilian government. Credits were withheld to force the administration of João Goulart (1961-64) to settle Amforp's expropriation in the ways desired by the company. In this sense, the paper analyzes the diplomatic agreements that led to Amforp's departure from the Brazilian market, showing how this established not only a redefinition of the strategies of foreign investments in Brazil, but also a change of the role played by the Brazilian state in the local electric power sector.

The paper is divided into four sections. Section 1 presents a historical background of Amforp's investments in Brazil. Section 2 deals with the economic changes featured in postwar Brazil, leading to an increased demand for electric power supply and a growing state intervention in the field. Section 3 analyzes the difficulties faced by Amforp in the late 1950s and early 1960s in the country, which provoked the expropriation of one of its subsidiaries in the state of Rio Grande do Sul, as well as the company's wish to sell its assets to the Brazilian federal government. And, finally, section 4 shows how Amforp's agreement with the Goulart administration was permeated by heavy US diplomatic blackmails, leading to a questionable deal (from the point of view of Brazil's interests) in the mid-1960s. As a general conclusion, the paper brings strong evidence to support the thesis that the growing intervention of the Brazilian state in the electric power sector did not take place only because the sector was considered strategic by Brazilian policymakers and politicians. Although this local nationalist ideology played a significant role, we show that one cannot understand the trends that characterized the electric power sector in Brazil without paying close attention to the foreign companies' interests and, most importantly, to the across-the-board pressures executed by the US government over Brazil in the diplomatic arena.

1. Historical background: The development of Amforp's investments in Brazil

The Brazilian electric power sector was formed with a dual structure over the decade of the 1920s. On one side, national entrepreneurs have taken minor and rudimentary electric concessions, most of them focused on tiny cities; on the other, two foreign groups, Light and Amforp, have established themselves in the two most important and populous Brazilian

states, Rio de Janeiro and Sao Paulo.² The lack of a federal law regulating the electric sector allowed these companies to have a great autonomy in their concessions, high profit rates, and a large extent of political power, influencing local and national politicians as well as policymakers.³

Amforp was a subsidiary of the US group Electric Bond and Share. Originated from General Electric (GE), one of the major US industries in electric power equipments, Amforp was focused on making and distributing electric energy, which also involved fields such as distribution of light and organization of public transportation. As the company's reports point out, the production of electric power was a means of extending markets for GE's equipment and domestic appliances. From 1917 until the world economic crisis of 1929, when the company's strategy of expanding markets came to a halt, Amforp had reached eleven countries in Latin America and the Caribbean, besides having concessions in India and China. Alongside with Cuba, Brazil became one of the most important Amforp's markets, accounting roughly for 20 percent of the company's total revenues in the decade of the 1930s.⁴

Amforp's investments in Brazil began in 1926. In the state of Sao Paulo, for instance, which would soon become the company's most important market in the country, it bought twenty national electric power firms in just a few years, including the large Companhia de Força e Luz, which had also been the result of a combination of other tiny, local companies back in 1912.⁵ Amforp's strategy was to get electric power concessions in nearby places as a way to connect systems afterward. As a result, between 1927 and 1939, the company increased its services from 78 to 309 Brazilian cities. In this context, two enterprises were set up by Amforp: the Companhia Auxiliar de Empresas Elétricas Brasileiras (Caaeb) – at the beginning named only as Empresas Elétricas Brasileiras – and the Companhia Brasileira de Força Elétrica. These companies were accountable for subsidiaries scattered all over the country, such as in the states of Pernambuco (Companhia Força e Luz Nordeste do Brasil and The Pernambuco Tramways and Power Co. Ltd.), Bahia (Companhia Energia Elétrica da Bahia), Espírito Santo (Companhia Central Brasileira de Força Elétrica), Minas Gerais (Companhia de Força e Luz de Minas Gerais), Rio de Janeiro (Companhia Brasileira de

² Martin, *Processus*, ch. 1. For the evolution of Light's revenues in Brazil, see Armstrong and Nelles, *Southern*; and McDowall, *The Light*.

³ For the rudimentary electric power legislation in the Brazil's First Republic (1889-1930), see Saes, *Conflitos*, ch. 5.

⁴ Ferreira and Simonini, "Os donos da luz", p. 16-7.

⁵ For the evolution of Amforp in the São Paulo's state, see Lorenzo, *Eletrificação*, ch. 2.

Energia Elétrica), Sao Paulo (Companhia Paulista de Força e Luz), Paraná (Companhia Força e Luz do Paraná), and Rio Grande do Sul (Companhia Energia Elétrica Rio Grandense and The Rio Grandense Light and Power Synd. Ltd.).⁶ Figure 1 shows a map of the Brazilian federation in 1960, where the range of states covered by Amforp's subsidiaries can be seen.

Figure 1 – The Brazilian Federation, 1960



Source: Roett, *Politics*, viii

The world economic crisis of 1929 and the episode of the so-called Revolution of 1930 in Brazil, which brought Getúlio Vargas into power, changed things for Amforp. The creation of the Water Code in 1934 by the Vargas administration reduced the company's autonomy over the electric power sector, particularly in terms of the determination of service prices and

⁶ Memória da Eletricidade, *Panorama*, p. 83-90.

rights to energy exploitation.⁷ The Water Code established, for instance, that concessionaries of public service could not earn profits superior to 10 percent of the so-called “historical cost” of their investments.⁸ This affected Amforp’s capacity to raise revenues and increase savings. According to a 1961 company memorandum, profits on the electrical power sector grew by six times during the period of 1930-60, while general life costs in Brazil increased by a factor of 34.⁹ At the same time, however, one cannot assume that Brazil’s electric power market was being reduced as a consequence of the world economic crisis. On the contrary: due to this recession and to the decrease in supply of foreign exchange in the Brazilian market, there was an opportunity for periphery economies like Brazil to industrialize, intensifying a process of urbanization.¹⁰ More industries and larger cities meant a boost in the demand for electric power – though this scenario of new opportunities did not seem to pay off for the concessionaries, including Amforp, which halted investments from the decade of 1930 on.

During the Second World War it became clear to the Brazilian government that the local infra-structure had a stranglehold on domestic economic growth. While the annual consumption of electric power was growing by 179 percent, bolstered by the process of import-substitution industrialization (ISI) and urbanization, the increase of electric power’s installed capacity did not reach 20 percent a year.¹¹ It was in this sense that the improvement in infrastructure, particularly energy and transport, became a major Brazilian concern. The so-called “Salte Plan” (1947), formulated by the Dutra administration (1946-51), for example, made the energy issue a crucial matter for Brazil’s economic growth. However, due to a lack of resources, the law was not implemented the way it should have been.¹² Equally, between 1951 and 1953, a US-Brazilian Commission for Economic Development – the Comissão Brasil-Estados Unidos para o Desenvolvimento Econômico (CMBEU) – also

⁷ For more information on the Water Code, see Abreu et al., *Dicionário*, p. 1396-7.

⁸ The Water Code in Art. 166 defined that the reversal of the contracts would have compensation from the government by using the historical cost, that is, the company’s investment, less depreciation. Brazil, Decree n° 24.643, 10 July 1934.

⁹ Memorandum of the Empresas Elétricas Group of Public Utility Properties, Draft, 10 February 1961, Centro de Pesquisa e Documentação de História Contemporânea do Brasil, Fundação Getúlio Vargas [henceforth CPDOC-FGV], Roberto Campos’ Archives [henceforth RG] e/ag 61.02.101-1, p. 10-2.

¹⁰ For the process of import-substitution industrialization in Brazil, see Abreu et al., “Import Substitution”; Colistete, “Revisiting”; Fishlow, “Origins”; Suzigan, *Indústria*, ch. 1; Tavares, “Auge e declínio”.

¹¹ Branco, *Energia*, p. 74.

¹² Smith, *Petróleo*, p. 85. See also Malan et al., *Política econômica*, ch. 1.

pointed out the urgent need for more investments in energy and transport as a way to strengthen economic growth.¹³

Amforp was aware of this increasing requirement for a larger electric power supply in Brazil. Just after the Second World War, the Caeeb built 370.180 kW in power capacity and also modernized part of its equipment. This program cost US\$ 213 million over the period 1946-50. According to the company's justifications, these investments were made as a result of better economic conditions brought with the end of the Vargas regime (1930-45), particularly the fact that the 1946 Brazilian Constitution assured in one of its articles adequate tariffs for companies of public utilities.¹⁴ It was during this period that Peixoto's Hydroelectric (capacity of 200.000 kW a year) was built. In 1956, the company presented another investment program, which would cost US\$ 250 million.¹⁵ At that time, credit arrangements were made with the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico, BNDE) and with the Export-Import Bank (EXIMBANK). However, according to the enterprise, the BNDE did not fulfill its part of the agreement. Therefore, the company was able to build only two new hydroelectric pieces: one at Peixoto's plant and the other at Sao Gonçalo's plant. In the end, the US\$ 250 million project was not implemented in full.¹⁶

It has to be emphasized, though, that during the Dutra administration the two biggest energy companies in Brazil (Amforp and Light) received large amounts of credit from the International Bank for Reconstruction and Development (IBRD) and from the EXIMBANK, surpassing other sectors of the Brazilian economy in terms of international credit supply. According to Bastos, Light got 56 percent of all loans offered by IBRD to Brazil from 1949 to 1958. In turn, Amforp was given the largest amount of credit released on behalf of the projects made by the US-Brazilian Commission for Economic Development (US\$ 41 million).¹⁷ One cannot say, thus, that Light and Amforp were running out of capital during the postwar years.

However, in spite of the credits released for Amforp and Light, the demand for energy in Brazil was far from being met by supply. Local politicians and nationalistic groups questioned whether the money received by these companies was being employed to the

¹³ For more information on the US-Brazilian Commission for Economic Development, see Wais, *Cold Warriors*, ch. 4; and Dálio and Miyamoto, "Governo Vargas".

¹⁴ Corrêa, *Setor de energia*, p. 223.

¹⁵ Memória da Eletricidade, *Panorama*, p. 238-42.

¹⁶ Memorandum of the Empresas Elétricas, 9.

¹⁷ Bastos, "Sobre a dinâmica do nacionalismo", p.14.

expansion of the electric power infrastructure or only to build up profits. In 1957, Amforp announced a new five-year investment plan. The forecast was to increase the installed capacity by 421.500 kW by 1962, representing another trial to double the company's electric power supply. According to the plan, Amforp would be responsible for half of the costs, while the EXIMBANK and the BNDES would cover the other half. Once more, the investment plan was not implemented. In 1964, the electric power generated by Amforp's subsidiaries reached a total of 530.000 kW – 315.000 kW less than foreseen. The lack of energy generated by the enterprise became evident. In 1962, Amforp's subsidiaries were buying one-third of the energy they distributed out of other firms.¹⁸

To sum up, the two postwar decades in Brazil featured the contrasting needs of the Brazilian economy, eager for expansion of the electric power sector to meet the requirements of economic development, and the interests of the electric power companies, which did not seem willing to pursue large investments plans without assurances that these investments would be supported by a low-cost capital supply and high returns. Politically, this was a moment of redefinition in terms of actors' positions in the Brazilian electric power sector.

2. The postwar years: A period of change?

The postwar years were characterized by important changes in the Brazilian electric power industry. The intervention of the state grew substantially, particularly during the governments of Getúlio Vargas (1951-54) and Juscelino Kubtschek (1956-61). This was the moment when the federal government (and also some state governments) began to invest in the sector, most of all in areas that were not being adequately supplied by private companies. As a result, state-owned electric power companies started to be created all over the country, such as in the states of Sao Paulo, Minas Gerais, Rio de Janeiro, and Rio Grande do Sul, as well as in the Brazilian Northeast. Public investment became the key to resolving the country's energy bottleneck, producing and distributing electric power not only in the most vigorous regions, but also in less developed places.

A turning point in this process of increasing the state's participation in the electric power sector was the formulation in 1954 of a national plan to expand the electric power supply (Plano Nacional de Eletrificação). From here on, several measures were taken by the Brazilian government to support the expansion of the sector, such as the creation of a special

¹⁸ “A compra das subsidiárias da AMFORP. Análise de um libelo fundado na mentira, na mistificação e na má-fé”, June 1963, CPDOC-FGV, RC e/ag 61.02.101-14, p. 3.

tax fund (Fundo Federal de Eletrificação) and of a national tax (*imposto nacional de eletrificação*), both managed by the BNDE, to carry the construction of hydroelectric plants. The setup of the state-owned electric power company in 1962 (Eletrobrás) – a holding of the state-owned energy firms already in operation – was also a by-product of 1954's National Plan of Electrification.

Besides sending to Congress a law project to create Eletrobrás, which would be approved only during the Quadros and Goulart administrations, President Juscelino Kubitschek gave a boost to the Brazilian electric power sector in the second half of the 1950s by implementing the so-called Target's Plan (Plano de Metas). Almost half of the total investments foreseen by the law were to be employed in energy (23.7 percent in electric power).¹⁹ According to the Target's Plan, over the period 1956-61 an increase in the installed capacity of the public companies of 2,408 megawatts (68.7 percent) and of the private companies of 1,095 megawatts (31.3 percent) was expected. These numbers reflect the difference in amount of investments foreseen for public and private enterprises (Cr\$ 16.5 million and Cr\$ 5.7 million, respectively).²⁰ The startup of the state-owned Furnas hydroelectric plant in 1957 was a milestone in Kubitschek's success in expanding the production of electric power in Brazil. With Furnas, the production targets of 5,000 megawatts in 1960 and of 8,000 megawatts in 1965 were roughly achieved. For the first time in fifty years the public sector had the opportunity to surpass private companies in terms of electric power's installed capacity.²¹

The decade of the 1950s was also characterized by the creation of a variety of state mechanisms aimed at getting resources on behalf of the electric power sector. Besides the national tax for electrification (IUEE) – split among federal (40 percent), state (50 percent), and municipal (10 percent) governments –, some state administrations set up different types of resource funds. The state of Rio Grande do Sul, for instance, established in 1950 an additional 10 percent rate on all taxes (except the export tax) to finance the expansion of the electric power sector. The state of Sao Paulo did the same in 1955, but with a lower tax rate

¹⁹ See Lessa, *Quinze anos*, p. 35; and Memória da Eletricidade, *Panorama*, p. 186. For studies focused on the Target's Plan, see Lafer, *Planning Process*; and Shapiro, *Engines*.

²⁰ This is not to say, however, that the Kubitschek's administration was hostile to foreign capital. On the contrary, President Kubitschek strengthened incentives for the arrival of foreign investments in Brazil. See Benevides, *Governo Kubitschek*, ch. 5; and Skidmore, *Brasil*, ch. 5.

²¹ História e Energia, *Estatização*, p. 302-5.

(3.75 percent). The states of Parana and Santa Catarina increased the consumption tax by 10 percent, while Minas Gerais created a 30 percent tax on services for economic recovery.²²

Another turning point for the electric power sector in Brazil, which also took place during the Kubitschek administration, was the creation of the Ministry of Mines and Energy (MME) in 1960. The new ministry took over all federal institutions accountable for the electric power sector in the country. This was important for blocking potential institutional struggles among state organisms, something that could retard the sector's development. The ministry also took control of Eletrobrás (the state-owned electric power company). Eletrobrás' authorization was ratified by President Jânio Quadros in 1961, but its inauguration was made only by President João Goulart in the following year. Eletrobrás became responsible by the federal tax fund for electrification and took control over four federally-owned electric power subsidiaries. By 1963, more than ten other subsidiaries (owned by local and state governments) had gone into Eletrobrás' hands.

The increasing intervention of the state in the electric power sector in postwar Brazil has been interpreted by many scholars through the perspective of the debates that were taking place inside the state apparatus.²³ In this sense, the growing involvement of the Brazilian government was seen as a reflection of a nationalistic bias of local politicians and policymakers, since electric power was considered by many as a strategic field for the defense of national sovereignty. On the other hand, the maintenance of private capital in the sector and the difficulties faced by the Brazilian government in the approval of the *Eletrobrás* project were considered for those authors as an indication of successful private lobbies before state officials. Although the perspective of the struggles that were occurring inside the state is important, one has to look to the side of private companies as well.

There is some evidence that suggests that in the postwar years, particularly during the second half of the 1950s, the pattern of investment presented by multinational enterprises in the electric power sector was changing. According to Judith Tandler, these companies would not be interested anymore in controlling the process of energy generation, but only in concentrating efforts on the distribution of energy for consumers.²⁴ Other scholars, such as Tamás Szmercsányi, emphasize that the problem was not of a change in the multinationals' strategy, but that of decreasing profits. According to Szmercsányi, the foreign companies had

²² Memória da Eletricidade, *Panorama*, p.215.

²³ Branco, *Energia elétrica*, ch.X; Maranhão, *Capital estrangeiro*; Lima, *Estado e energia*, ch.3; Corrêa, *O setor de energia elétrica*, ch.3; and Silva, *Energia elétrica*, ch.2.

²⁴ Tandler, *Electric Power*, ch.2.

lost interest in investing in energy generation because the profitability of their investments had gone down.²⁵ In one way or another, this thesis illuminates experiences that occurred in Brazil at the early 1960s. The Canadian company Light, for instance, was clearly centering its efforts during the 1960s and 1970s on activities related to the distribution of energy, while huge investments on new hydroelectric power plants were becoming the responsibility of the federal government.²⁶ In fact, looking at what was happening on a global scale, it is clear that the Brazilian case was not unique. In many countries, government participation in energy generation and energy management became commonplace, whether because of a loss in interest by multinationals in producing electric power or due to a growing government concern in controlling strategic sectors, such as those related to energy. As a result, multinationals saw their range of scale being reduced worldwide.

The diminished importance of multinationals in the generation of energy was also linked to a great number of state-led expropriations, particularly in underdeveloped countries. Thus, the expropriation of an Amforp's subsidiary in the state of Rio Grande do Sul in 1959 was not a new phenomenon. One of the first examples of expropriation in Latin America evolving Amforp's proprieties took place in Argentina between 1943 and 1945, when the Argentinean military regime took over the company's assets in the provinces of Tucumán, Jujuy, Corrientes, Mendoza, Entre Ríos, and San Luis.²⁷ The issue of the payment of the expropriations would be raised during Peron's administration, but a settlement would be reached just at the end of the 1950s. In 1946, the Mexican government took control of two Amforp subsidiaries: the Mexican Tramways and the Mexican Light and Power Ltd. (the latter only partially). The following year, the same happened in Cali, Colombia. In 1962, the rest of Amforp's subsidiaries in the country would pass to the Colombian government. However, none of these expropriations could be compared to the losses suffered by Amforp in Cuba after the 1959 evolution. The island was the focal point of Amforp's investment in the hemisphere, and the revolutionary government did not pay a penny for the company's assets.²⁸

This trend of increasing expropriations in postwar Latin America challenged Amforp's prospects for maintaining investments in the field of electric power generation. Throughout

²⁵ Szmrecsányi, "A era dos trustes", p. 19; and "Apontamentos", p. 134-5.

²⁶ This is not to say that the permanence of foreign private companies in the field of energy generation was prohibited. Actually, this right was assured even by the Eletrobrás' constitution.

²⁷ Lanciotti, "Foreign Investments", p. 14. For the "domestication pattern" of utilities, see Hausman et al., *Global Electrification*, ch. 6; and Wilkins, *Maturing*, p. 361.

²⁸ Hausman et al., *Global Electrification*, p. 239-42.

the 1950s, the company's reports showed disappointment about keeping capital in Latin American public services. The alternative was to bargain with local governments in order to guarantee a negotiated wayout, without incurring in losses similar to that happened in Cuba.²⁹ This was exactly the company's strategy in Brazil at the early 1960s.

3. Amforp in Brazil: From the 1959 expropriation to diplomatic debates

At the end of the 1950s, Amforp was responsible for supplying electric power service in ten different Brazilian states. The enterprise was also the second larger private company in the Brazilian electric power sector, just behind the Canadian Light.³⁰ The fact that Amforp was dispersed all over the country made it susceptible to local and regional issues, distinguishing it from Light, which had its assets concentrated in the two biggest Brazilian cities (Sao Paulo and Rio de Janeiro). In 1959, Amforp faced serious problems in the state of Rio Grande do Sul. The state was being ruled by Leonel Brizola, a member of the Partido Trabalhista Brasileiro (PTB, Brazilian Labor Party), a left-wing follower of Getúlio Vargas and advocate of a radical nationalist ideology. Under the justification that Amforp's service in Rio Grande do Sul was below minimal standards and that the company, in spite of large profits, did not invest in the expansion of the local electric power infrastructure, Brizola expropriated the company's assets, depositing only a cent as payment.³¹

In a memorandum dated 1963, the governor Leonel Brizola explained why the state of Rio Grande do Sul did not pay for the expropriation of the Amforp's subsidiary. According to Brizola, based on a law from 1941, concessionaries of public services that earned profits over 10 percent of their original investment in nominal currency would be breaking the law – thus, earning what was called “excessive profits” (*lucros excessivos*). The calculation done by the governor's staff based on Amforp's accounts showed that the company had earned Cr\$ 580 million in “excessive profits” since 1941, while the “fair compensation” for its assets would have been Cr\$ 393 million. Therefore, according to this reasoning, it was Amforp that should have paid Cr\$ 190 million to the state of Rio Grande do Sul.³² One has to point out, though, that inflation in Brazil after 1941 went up rapidly. So, to base the calculation of profits on

²⁹ For more information on the agreements settled by Amforp in different Latin American countries over the 1950s and the 1960s, see Wilkins, *Maturing of Multinational*, ch. 13.

³⁰ The states whose energy was supplied by Amforp's subsidiaries were Rio de Janeiro, Sao Paulo, Minas Gerais, Parana, Espirito Santo, Pernambuco, Bahia, Alagoas, Rio Grande do Norte, and Rio Grande do Sul (see Figure 1).

³¹ Brizola, Leonel. “A Compra das subsidiárias da American Foreign Power no Brasil (Bond and Share)”. Rio de Janeiro: *Centro de Memória da Eletricidade*, 1963, p. 1.

³² “A compra das subsidiárias da AMFORP”, p. 6.

nominal currency, instead of real currency, was unrealistic. This was, in essence, one of Amforp's complaints against Brizola's attitude.³³

Besides these problems in Rio Grande do Sul, Amforp faced new challenges in the state of Pernambuco, Northeast Brazil. There, in 1962, the local government asked for a judicial intervention regarding Amforp's subsidiary located in the city of Recife (the state capital). The authorities claimed that, according to the contract signed between Amforp and the local administration, the enterprise should have to return all assets without cost to the government after the expiration of contract (e.g., in 1962). Amforp's executives argued, however, that the contract did not establish that. According to the company's interpretation, it would be only the assets related to public lighting that should have to be returned without cost to the state, but not the proprieties of electric power generation and distribution.³⁴ Moreover, still following the company's reasoning, after the 1934 Water Code, public service contracts signed with local governments were transferred to the federal sphere. So, the state of Pernambuco would not have the right to pursue the expropriation by itself, but only through the authorization of the federal government. To conclude, Amforp's executives argued that only two contracts (out of more than two hundred signed by the company in Brazil), including that of Pernambuco, contained provisions that established the reversion of some assets to local governments. In other words, contrasting with the justification presented by domestic nationalist groups, which argued that all Amforp assets should revert to the state without cost, the company emphasized that, in reality, only a small minority of contracts contained that condition.³⁵

In this context, Amforp already knew that its position in Brazil was getting complicated. Even if the Brazilian federal government reverted the company's losses in Rio Grande do Sul and in Pernambuco, it would be hard to change the atmosphere of uncertainty that surrounded all of Amforp's investments in the country. Furthermore, Amforp faced big losses in Latin America in the period, particularly in Cuba. It seems that the company's strategy was to speed up its departure from the hemisphere, minimizing potential future damages.

This position became clear looking at the demands brought by Amforp's president (Henry B. Sargent) to the US government at the beginning of 1962. Sargent told US officials

³³ For other judicial inconsistencies of Brizola's act, see "A compra das subsidiárias da Amforp", p. 3.

³⁴ *Idem*, p. 3-4.

³⁵ *Ibidem*, p. 5-6.

that Amforp “would like to sell all of its eleven proprieties in Brazil as a package” similar to what had been done in Mexico in 1960. Sargent also pointed out that the enterprise preferred to negotiate through the Brazilian federal government (and not with the various local state administrations), and that it “was prepared to re-invest many funds as it might receive for its properties in new manufacturing enterprises in Brazil”.³⁶ Indeed, this proposal had already been made to the Brazilian federal government in 1961. Amforp justified its desire to sell all properties as a package by arguing that this was the trend in postwar Brazil. The increasing participation of the Brazilian state in the generation and distribution of electric power was evident after the war, leaping from 6 percent of the total electric power supply in 1953 to 35 percent in 1960 – without counting the new power plants under way, which would enhance this sharing to 51 percent. So, concluded Amforp’s proposal, the purchase of the company’s assets as a whole by the Brazilian government would help the integration of the electric power supply in the country, enhancing economies of scale and improving the capacity of the state to formulate future projects in the field.³⁷

But one might ask: How much did Amforp want for its assets in Brazil? The 1961 company’s memorandum stated that the purchase value had to count not only primary investments made by the company (calculated as present values, and not as historical ones), but also investments done afterward – discounting the depreciation of capital incurred during the entire period as well as company’s debts. Expressed as a whole, the amount presented by Amforp to the Brazilian government was US\$ 155.8 million. This value could be paid in fifteen years by six-month installments (US\$ 8.1 million each), totaling US\$ 243 million in the end, including principal and interest.³⁸

The presentation of a purchase proposal by Amforp forced the Brazilian government to begin examining the issue. In April 1962, President João Goulart visited the United States and promised President John Kennedy that Brazil would settle the subject following the main lines of Amforp’s proposal, e.g., the Brazilian federal government would be responsible for the negotiations and the company’s assets would be bought as a whole. On the other hand, Amforp would have to invest part of the money it got from the deal in assets in Brazil, and the price and the conditions of payment would be subject to further study. The US

³⁶ Memorandum of Conversation [henceforth MemCon], Sargent, Balgooyen et al., 27 February 1962, National Archives and Records Administration [henceforth NARA], Record Group [henceforth RG] 59, Box 2, Folder ECO 3.6.

³⁷ “Memorandum of Empresas Eléctricas”, p. 1921.

³⁸ *Idem*, p. 4-5.

government agreed to the terms. Just after Goulart's arrival in Brazil, in May 1962, the Brazilian government set up a study group to examine the terms and conditions of Amforp's expropriation, particularly as to assets' prices and payment provisions. This study group was named Comissão de Nacionalização das Empresas Concessionárias de Serviços Públicos (Commission for Nationalization of Public Service Enterprises, CONESP). Goulart partially yielded to Amforp's demands because Brazil's balance of payment was passing through a serious hardship and it needed financial help from the United States. Not surprisingly, the Brazilian finance minister, Walter Moreira Salles, got out of Washington with a US\$ 35 million loan. This was enough to alleviate Brazil's situation briefly, but did little to guarantee that the country would not need to come to Washington again in the near future to ask for further help. The US government wanted to make sure that Goulart's promises on Amforp (and also on other issues, such as the relationship between the Brazilian government and communist-driven syndicates) would be settled in the long run.³⁹

To make things worse, in July 1962 the US Congress approved the so-called Hickenlooper Amendment. This prohibited US financial assistance to countries that had expropriated US assets without fair compensation. By "fair compensation" the amendment understood a payment seen as legitimate by the expropriated company. Purposively, the validity of the bill was backtracked to January 1, 1962, in order to include the case of an International Telephone and Telegraph (ITT) subsidiary expropriated in Brazil (again by Governor Leonel Brizola in the state of Rio Grande do Sul). It was clear that if the ITT's case were to be settled in favor of the US company, a huge pressure would be created in the Brazilian federal government to do the same for Amforp (expropriated two years earlier by the same governor and under similar circumstances). By the same token, the US Congress approved an amendment in the Sugar Act establishing that countries that had expropriated US assets without fair compensation would have their share of sugar exports to the US market diminished.⁴⁰ Since Brazil's external financial condition was fragile, and given the fact that sugar was an important (but not as fundamental as coffee) Brazilian export to the United States, one can imagine the impact that the approval of the Hickenlooper Amendment and of the amendment on the Sugar Act had on the Brazilian federal government. It has to be emphasized, though, that these bills were not implemented immediately. There was a legal

³⁹ "Declarações do Embaixador Roberto Campos para serem inseridas na ata de reunião extraordinária da Comissão de Nacionalização das Empresas Concessionárias de Serviços Públicos (CONESP)", 22 August 1962, CPDOC-FGV, RC d/emb 61.10.19, 3rd Folder, p. 6.

⁴⁰ "Comunicado de Roberto Campos ao Ministro das Relações Exteriores, Hermes Lima", 23 April 1963, CPDOC. RC d/emb 61.10.19.

six-month gap between approval and implementation. Therefore, as the Brazilian ambassador to the United States, Roberto Campos, stated in one of CONESP's meetings, the US financial assistance to Brazil would be suspended in February 1963 if Brazil did not implement the commitments taken by President Goulart in Washington in April 1962.⁴¹

For the US-Brazilian relations not to be disrupted, thus, CONESP should collaborate by giving Amforp what wanted it to conclude when it came to the settlement of expropriations. But this was not the case. At the end of 1962, three Amforp's representatives (Edwin D. Ford Jr., Henry Sargent, and William Nydorf) met Ambassador Roberto Campos and complained about a CONESP report that dealt with the conditions of the deal.⁴² There were several issues in this report that upset the US executives. First, CONESP wished for a separate negotiation for each of Amforp's subsidiaries in Brazil, and not a global agreement, as the company desired. Second, the report called for a full inventory of Amforp's assets. The executives argued that if the commission understood as a "full inventory" what was stated in the 1934 Water Code (e.g., a long process of investigation of tariffs charged by the enterprise and of the value of its assets, including the rate of their depreciation), then it would be impossible to settle the issue before the enactment of the Hickenlooper Amendment and the Sugar Act in February 1962, as it had been agreed between Amforp and high officials in the Brazilian government. And, third, the executives did not agree with the report's suggestion to employ Guanabara's Civil Construction Index to deflate Amforp's assets.⁴³ They wanted the General Price Index instead, whose growth rates in postwar Brazil were greater than the one suggested by CONESP. Roberto Campos, in turn, comforted the US executives, saying that the report's author, Jaime Azevedo Rodrigues, could propose to CONESP to hear Amforp officials before submitting the memorandum to vote.⁴⁴

In fact, Roberto Campos was already struggling inside CONESP to change the terms of the settlement. In a CONESP's meeting dated August 1962, the Brazilian ambassador to the US reminded the members of the commission that the idea to nationalize Amforp's assets came from President Goulart himself (although he did not say that this had been Amforp's desire well before). In that sense, said Campos, "it would be very odd for Brazil not to carry

⁴¹ Ibidem, p. 2-3.

⁴² "Relatório da Comissão de Nacionalização das empresas concessionárias de serviços públicos", (CONESP). *Revista Brasileira de Política Internacional*, vol. 8. Rio de Janeiro: Ano VIII, no. 30 (1965): p. 183.

⁴³ The state of Guanabara nowadays is the city of Rio de Janeiro. It was created in 1960, when the capital of Brazil changed from Rio to Brasília.

⁴⁴ Letter, Roberto Campos to Marcílio Moreira Marques, 5 November 1962, CPDOC-FGV, RC d/bem 61.10.19, 3rd Folder, p. 1.

out previous commitments” According to him, the best solution to evict diplomatic grips with the United States would be to pursue an overall expropriation, and not a settlement with each one of Amforp’s subsidiaries (which would take much longer to complete). Moreover, continued the Brazilian ambassador, following what Goulart had promised to Kennedy – e.g., Brazil should pay fair compensation to Amforp, which would be delivered in installments and with the company’s commitment to reinvest part of the money in the country –, the Brazilian government would not do an “expropriation with previous official inventories” (*expropriação com tombamento prévio*), but rather a “purchase of the company’s stocks and the assumption of the company’s control” Campos got the support of some of CONESP’s members (such as the Ministry of Mines and Energy, João Mangabeira, and the president of BNDES, Leocádio Antunes), but not of others, particularly Paulo Richer and João Pedro Gouveia, who thought it would be difficult to overlook the Water Code’s provisions in dealing with Amforp. According to Richer and Gouveia, the Brazilian government should deal with the circumstances as a case of expropriation and, that being the case, there was the need not only to make all the necessary inventories, but also to evaluate the company according to its “historical cost” and not present cost.⁴⁵

By the beginning of 1963, when the Hickenlooper Amendment and the Sugar Act were be legally binding, Brazil faced one of the most serious constraints of her postwar history as to the balance of payment. The Goulart administration badly needed US financial support in order to avoid an international moratorium. If the agreed settlement was not reached between the Brazilian government and Amforp, Washington could block further credits and also diminish Brazil’s sugar exports to the United States. It was under these circumstances that the resolution of Amforp’s case led to a specific issue, concerning mainly the Ministry of Mines and Energy, and became a subject of great importance for the performance of the Brazilian economy as a whole.

4. The Goulart administration at the crossroads: The settlement of Amforp’s case in 1963

In March 1963, Goulart’s finance minister, San Tiago Dantas, traveled to Washington to negotiate further US financial assistance for Brazil. After days of tense bargaining, Dantas signed an agreement with the Kennedy administration. The deal turned out to be far below Dantas’s expectations. Not only Brazil would receive less than it had asked for (US\$ 398.5

⁴⁵ “Ata da Reunião Extraordinária da Comissão de Nacionalização das Empresas Concessionárias e Serviços Públicos (CONESP)”, 22 August 1962, CPDOC-FGV, RC e/ag 61.02.10 I, p. 3-4.

million instead of US\$580 million), but the installments would be released according to the fulfillment of certain economic and political commitments, such as the promotion of a stabilization program to reduce inflation, change in Brazil's external diplomatic policy (limiting contacts with communist and neutralist countries, particularly Cuba), and the termination of Goulart's links with local communist groups, especially in trade unions. Besides all these, there was also a secret obligation taken up by Dantas in Washington: the first installment of the US financial assistance for Brazil (US\$ 84 million) would be authorized only if the Brazilian government came to mutually agreed terms with Amforp. More than never, Brazil's economic prospect was linked to the fulfillment of the interests of the US enterprise.

The problem of implementing this commitment with Amforp was twofold. First, CONESP would have to accept what it had been reluctant to do up to then. And, second, Goulart knew that the expropriation of Amforp's subsidiaries according to the company's conditions would bring serious nationalistic criticisms of his government. Probably because of these drawbacks, Goulart did not proceed with Dantas's promises as soon as the minister came back from Washington. Thus, the US government decided not to release the first installment of the March 1963 financial agreement. The US ambassador to Brazil, Lincoln Gordon, received clear instructions that the money would come only if Goulart kept his promise (made on his behalf by Dantas). The dilemma was that Brazil had a debt to pay off on April 19, 1963. Without US assistance, the country would go into default. Gordon made it clear to Goulart that Washington would stand by its decision and that the consequences of a Brazilian moratorium would be disastrous. According to Gordon's words, "this [the moratorium] would result in shortages [of] foreign exchange to buy oil, wheat, raw materials, and capital goods – a real economic crisis"⁴⁶. Goulart yielded to US pressure. On the same day, the president created a new study group, an Interministerial Commission (Comissão Interministerial), comprised only of key Brazilian ministries (Finance, War, Industry and Commerce, and Mines and Energy), and put CONESP on hold.

The day after its establishment, on a Saturday afternoon, the Interministerial Commission gathered at the offices of the Ministry of War in the city of Rio de Janeiro and approved unanimously the terms of a memorandum of agreement with Amforp. This memorandum basically acquiesced to the company's demands – e.g., the negotiation would include all subsidiaries and would be based on a value agreed upon by the company's

⁴⁶ Embtel 7298, Section II, 9 April 1963, JFKL, NSF, Box 14, Folder Brazil, General, 4/63, p. 1.

executives. The Brazilian government would pay US\$142.7 million to Amforp, with US\$10 million as down payment and the rest to be paid off in twenty-five years (with a three-year grace period). On the other hand, the company would have to invest 75 percent of the value of the compensation in the Brazilian economy. It was also agreed that an inventory of the company's assets would be done within 180 days of the signing of the contract. This inventory would be just to check the company's declared assets, but not to reevaluate them. In other words, the inventory did not have the power to change the value of the compensation agreed to by the Brazilian government and Amforp, unless Brazilian officials found that the company declared assets that it did not have.⁴⁷ According to Brazil's finance minister, San Tiago Dantas, the terms of this agreement did not receive full support from the extinct CONESP.⁴⁸ Some days after the decision made by the Interministerial Commission, the Brazilian ambassador to the US, Roberto Campos, signed the memorandum of agreement with Amforp's executives.⁴⁹ Not coincidentally, after this, the US government released the first installment of the March 1963 agreement, allowing Brazil to pay its short-term debts.⁵⁰

However, the problems for Goulart did not disappear, but changed. Domestic opposition to the agreement with Amforp arose intensely. The federal deputy for Guanabara and ex-governor of the state of Rio Grande do Sul, Leonel Brizola, angrily denounced the agreement was "harmful" for Brazil and "an offense against the Brazilian people"⁵¹ The argument made by nationalist groups was similar: Amforp earned "illegal profits" over the previous decades. Thus, it should not get any compensation at all. To make things worse, the price paid for the company's assets (seen as old-fashioned and badly treated) was considered too high, and the fact that it could hardly be changed by the inventory of Amforp's properties, disrespectful and impermissible. No wonder, they said, Brazil was called by a US publication ("Hanson's Letter") the "clown of the hemisphere" for using "gold" to pay for "junk."⁵² Due to these allegations, the Brazilian Congress set up two different Parliamentary Committees of Inquiry (Comissão Parlamentar de Inquérito, CPI) to investigate the

⁴⁷ For the terms of the memorandum of agreement between Amforp and the Brazilian government, see "Resolução da Comissão Inter-Ministerial Encarregada de Análise da Nacionalização das Empresas Concessionárias de Serviços Públicos", 20 April 1963, CPDOC-FGV, RC e/ag 61.02.10 II 7-12.

⁴⁸ Embtel 1927, 5 April 1963, NARA, RG 84, Box 136, Folder 501. In January 1963, CONESP proposed to pay only US\$ 100 million to Amforp, which was considered "unacceptable" by Amforp's president, Henry Sargent. See Embtel 1414, 25 January 1963, NARA, RG 84, Box 136, Folder 501.

⁴⁹ Telegram, Brazilian Embassy in Washington to the Finance Ministry, 22 April 1963, CPDOC-FGV, RC e/ag 61.02.10 II 7-12.

⁵⁰ Deptel 1900, 20 April 1963; Embtel 2035, 21 April 1963, NARA, RG 84, Box 136, Folder 501.

⁵¹ Embtel 2328, 31 May 1963, NARA, RG 84, Box 136, Folder 501, p. 1-2.

⁵² Embtel 2331, 1 June 1963, JFKL, NSF, Box 14, Folder Brazil, General, 6/63, p. 1.

agreement.⁵³ Goulart's officials, particularly San Tiago Dantas and Roberto Campos, were brought before Congress to testify on the issue.⁵⁴ Left-wing politicians wanted to impeach Goulart if he did not change his mind, denouncing the agreement as unfair and tearing it apart.⁵⁵ As the US embassy informed to the Department of State in June 1963, the "campaign led by Brizola against GOB [government of Brazil]" was "overshadowing other political issues" The embassy was sure that Goulart was "increasingly uncomfortable in these circumstances" – something not difficult to understand.⁵⁶ As a Vargas protégé and a politician who positioned himself with strong nationalist and leftist tones, Goulart could not stand being charged as a "scallywag" (*entreguista*) by the "communo-nationalists"⁵⁷ Although Brazil needed US financial support, Goulart also needed to keep his popularity on track. In this sense, the Amforp's agreement was a stone in his shoes.

Not surprisingly, it did not take too long for Brazilian officials to come to the US government to ask for flexibility. Basically, the Brazilian government wished for two things: one, to do the inventory of Amforp's assets before signing the contract; and two, to have the possibility to change the purchase price in the case of a contrasting evaluation of the company's properties. The enterprise agreed to the inventory, so long as the price was kept the same. Talking to Amforp's president, San Tiago Dantas replied that this rigid attitude "could create problems" According to Brazil's finance minister, in a conversation with US Ambassador Lincoln Gordon, it "would be imprudent, and even dangerous for [the] survival [of the Brazilian] government, [to] hold to original timetable for [the] purchase [of] proprieties" The US government had to take into the consideration, concluded Dantas, the "vocal oppositions and questioning in Congress [against Amforp's agreement], military, labor unions, including congressional investigation by commission whose membership [is] hostile".⁵⁸

Although US officials recognized the difficulties faced by Goulart, they did not yield. The US secretary of state, Dean Rusk, in a communication with the US embassy, stated that although Amforp's case was not "inherently [the] most important issue of Brazilian-US

⁵³ Embtel Brasília 228, 8 June 1963, NARA, RG 84, Box 136, Folder 500.8.

⁵⁴ "Discurso Proferido na Sessão Noturna da Câmara dos Deputados pelo Ministro da Fazenda San Tiago Dantas", 12 June 1963, ANRJ, AP 47, Cx. 4, Pac. 2; "Resumo das Declarações do Embaixador Roberto de Oliveira Campos em Reunião da Comissão Parlamentar de Inquérito sobre Nacionalização das Concessionárias de Serviços Públicos", 26 June 1963, CPDOC-FGV, RC e/ag 61.02.10 II – 13.

⁵⁵ Embtel 2553, 4 June 1963, NARA, RG 84, Box 136, Folder 501.

⁵⁶ Embtel 2328, 31 May 1963, 1–3.

⁵⁷ *Idem*, p. 3.

⁵⁸ MemCon, Dantas, Gordon et al., 2 June 1963, JFKL, NSF, Box 14, Folder Brazil General June 1963.

relations, [it] has become a test of Goulart good faith and capacity to resist Brizola [e.g., local communo-nationalist groups] in [the] interest of future collaboration with US". In other words, Washington would maintain its original position not only due to Amforp's private interests, but also (and some would say primarily) because of the implications that the maintenance of the original agreement would have on Goulart's political alliances, particularly with the Brazilian radical left. In a way or another, however, the fact is that Washington upheld the company's position: no great changes would be made to the agreement. If Brazil did not do what it had promised, the US government would be obliged to withhold further financial assistance.

The final months of the Goulart administration, from June 1963 to March 1964, were characterized by a standstill. Brazil kept asking for the US government to extend the period for signing the contract and making the down payment to Amforp. Washington reluctantly accepted these deadline extensions because it did not want to give Goulart any chance to break diplomatic relations with the United States. The fear was that Goulart could justify the rupture on the grounds that the US government went to extremes to protect the interests of a US company, putting private interests ahead of Brazil's public good. In terms of US financial assistance to Brazil, Washington extended terms to avoid a moratorium (and also another opportunity for Goulart to break diplomatic relations), but did not provide new credits. Thus, according to Lincoln Gordon, the best thing to do for Washington's interests would be to "keep [the] Hickenlooper [Amendment] application [as] much as possible in [the] background so as [to] avoid politically effective anti-US argument"⁵⁹. And it was exactly this that the governments of Kennedy and Lyndon Johnson did – e.g., overturn a law pragmatically to promote a long-term geopolitical interest.

The standstill between the Goulart administration and Washington came to an end on March 31, 1964, when a military coup toppled Goulart from power. The new president, General Castelo Branco, changed patterns in dealing with Amforp, opening paths for a quick and peaceful agreement. The Brazilian government signed a contract with a Scandinavian company (Scandinavian Engineering Corporation) to do the inventory of Amforp's assets. The calculation of Amforp's fixed assets (discounting debts) made by the Scandinavian company amounted US\$ 151.4 million, which was superior to the price settled in the 1963 memorandum of agreement (US\$ 135 million). With this inventory in hands, the deal was finally settled. Brazil would pay US\$ 135 million to Amforp over forty-five years, bearing

⁵⁹ Embtel 374, Section III, 21 August 1963, JFKL, NSF, Box 14, Folder Brazil General Aug. 1963, p. 1.

6.5 percent annual interest (US\$ 7.7 million in total), plus US\$ 10 million for the delay in signing the contract. In November 1964, according to the law number 4.428, Amforp's assets in Brazil passed to Eletrobrás. As a result of the agreement, given that Amforp accounted for 20 percent of the generation of electric power of the country, the Brazilian state became the most important actor in the generation and distribution of electric power in Brazil. This situation would last up to the 1990s, when the neoliberal trend in Latin America reversed the pattern on behalf of private investors again.

5. Conclusion

In the short space of one generation, the Brazilian state became a key player in Brazil's electrical power sector. This change began to take shape in the postwar period, when the demand for electric power supply increased substantially, pulled by an intense process of urbanization and industrialization. Since the foreign companies that dominated the field did not show interest in meeting the increasing demand for electric power, this role was left to the state. New sources of tax revenue and new public institutions were brought in to perform this role, but this was insufficient. The demand for energy was growing greater than the supply the state could provide. Logically, nationalist groups started to challenge the lack of investment made by foreign enterprises, as well as the allegedly bad services provided by them. The path was open for open hostile acts against these companies, led by local nationalist politicians. It was exactly in this context that Amforp suffered its losses in Brazil. First in the state of Rio Grande do Sul, with the expropriation of one of its subsidiaries by Governor Leonel Brizola, and second in the state of Pernambuco, when a court struggle was put into place to decide whether the company's assets should return to the local government after the end of the contract or remain under Amforp's control. It became clear that the mood in the early 1960s in Brazil (and also in Latin America, with the blows of the 1959 Cuban Revolution) was against Amforp. It was necessary to get out before things get worse. But this exit had to be performed in a way that minimized losses and, preferentially, expanded gains for the company. The Brazilian case showed that this was possible, but only with the decisive help of the US government.

In the early 1960s Brazil faced serious balance-of-payment constraints and badly needed US financial support to avoid a moratorium. The suspension of debt payments would be disastrous to the country's development because Brazil depended heavily on US and Western European imports to keep its economy on track. Although the process of import-

substitution industrialization advanced strongly in the postwar period, Brazil still needed several types of imports – particularly oil, capital, and intermediate goods – to strengthen the process of industrialization and, thus, to maintain the high growth rates that boosted her economy in the late 1950s. Aware of these circumstances, Washington pressured the Brazilian government, presided over by Joao Goulart, to accept Amforp's terms for the nationalization of its assets in the country. Mainly, the US enterprise wanted the deal to be made as a whole, including all subsidiaries at the same time (and not one by one, with different agreements signed with different local governments), and without the need for a protracted inventory of assets. Moreover, the price to be paid by the Brazilian federal government should take into account not only original investments, but also investments made by the company afterward, and, of course, deflated by a general price index. After months of difficult negotiations and blackmail by Washington, in the form of withholding financial support, the Goulart administration decided to sign a memorandum of agreement based on Amforp's demands. Domestic criticism ravaged Goulart, and the president turned back to avoid a loss in popular support. Goulart's overthrow in March 1964, however, opened the door for the agreement to be materialized, following Amforp's interests. The Brazilian state became, as a result, the most important player in the generation and distribution of electric power energy in Brazil from that moment on.

This evidence shows that to understand the growing participation of the state in the Brazilian electric power sector in postwar years one has to look beyond the role played by nationalist groups inside the state apparatus. Of course they played an important role, particularly by arguing that the state should control strategic areas in society, such as energy and transportation. And this was facilitated by the fact that the growing demand for energy in Brazil gave the state no alternative except to invest in the field, since private investors did not show interest or did not have the capacity or the capability to do so. However, this paper presented strong evidence that, at least when it comes to the electric power sector, it is necessary also to take into account other aspects to comprehend the general trend toward the increasing nationalization of the sector in this period. The analysis of Amforp's case in Brazil shows that the company's strategy was also fundamental for the growing role of the state and, of course, the key intervention of the US government in pressuring Brazil to do what the US enterprise wanted the country to do. In other words, if one argues that the neoliberal trend of the 1990s was strongly dependent upon the so-called "Washington consensus" and on the pressures the United States exerted over Latin America to privatize and diminish state

invention in the economy, this paper showed that the state nationalization of the 1960s in Brazil, at least in the electric power sector, was also influenced by external government pressures and by the interests of foreign companies.

6. References

Archives and libraires

Arquivo Nacional, Rio de Janeiro, Brasil

Centro da Memória da Eletricidade no Brasil (Memória da Eletricidade), Rio de Janeiro, Brasil

Centro de Pesquisa e Documentação de História Contemporânea do Brasil, Fundação Getúlio Vargas (CPDOC-FGV), Rio de Janeiro, Brasil

National Archives and Records Administration, College Park, Maryland, United States

John F. Kennedy Library, Boston, Massachusetts, United States

Books and papers

ABREU, Alzira *et alli* (orgs). *Dicionário Histórico-Biográfico Brasileiro*. 2nd Edition, Fundação Getúlio Vargas, Rio de Janeiro, 2001.

ABREU, Marcelo de Paiva *et alli*. “Import Substitution and Growth in Brazil, 1870-1970”, Workshop on Import-Substituting Industrialization in Latin America, Oxford, mimeo, 1996.

ARMSTRONG, Christopher and NELLES, Henry V. *Southern Exposure: Canadian Promoters in Latin America and the Caribbean, 1890-1930*. Toronto: University of Toronto, 1988.

BASTOS, Pedro Paulo. “Sobre a dinâmica do nacionalismo Varguista: o caso de empresas estatais e filiais estrangeiras no ramo de energia elétrica”. *XXXIV Encontro Nacional de Economia - ANPEC*. Salvador, 2006.

BENEVIDES, Maria V. *O governo Kubitschek. Desenvolvimento econômico e estabilidade política (1956-1961)*. 3rd Edition. Paz e Terra, São Paulo, 1979.

- BRANCO, Catullo. *Energia elétrica e capital estrangeiro no Brasil*. Prefácio Barbosa Lima Sobrinho. São Paulo: Alfa-Ômega, 1975
- COLISTETE, Renato. "Revisiting Import-Substituting Industrialization in Post-War Brazil", MPRA, Paper n° 24665, São Paulo, 2010.
- CORRÊA, Maria Letícia. *O setor de energia elétrica e a constituição do Estado no Brasil: o Conselho Nacional de Águas e Energia Elétrica (1939-1954)*. Niterói: Tese de Doutorado – UFF, 2003.
- DALIO, Danilo and MIYAMOTO, Shiguenoli. "O governo Vargas e a Comissão Mista Brasil-Estados Unidos", *Ideias*, 2nd Semester, 2010, p. 151-81.
- FERREIRA, Ângela; da Silva, Alexandro; SIMONINI, Yuri. "Os donos da luz: sistemas de gestão e redes técnicas no território brasileiro. O caso da Amforp (1927-1939)". *Simpósio Internacional Globalización, innovación y construcción de redes técnicas urbanas en América y Europa, 1890-1930*. Barcelona: Universidad de Barcelona. Facultad de Geografía e Historia, Janeiro de 2012. http://www.ub.edu/geocrit/Simposio/cFerreiraetal_Osdonos.pdf
- FISHLOW, Albert. "Origins and Consequences of Import-Substitution in Brazil", in Luis DiMarco (ed.). *International Economics and Development. Essays in Honour of Raúl Prebisch*. Academic Press, New York and London, 1972, p. 311-365.
- HAUSMAN, W., HERTNER, P. & WILKINS, M. *Global electrification. Multinational enterprise and international finance in the history of Light and Power, 1878-2007*. Cambridge: Cambridge University Press, 2008
- HISTÓRIA & ENERGIA 7. *Estatização x Privatização*. São Paulo: Eletropaulo, 1997.
- LAFER, Celso. *The Planning Process and the Political System in Brazil: A Study of Kubitschek's Target Plan*. PhD diss., Cornell University, New York, 1970.
- LANCIOTTI, Norma. "Foreign Investments in Electric Utilities: A Comparative Analysis of Belgian and American Companies in Argentina, 1890-1960". *Business History Review*, vol. 82, 3, 2008.
- LESSA, Carlos. *Quinze anos de política econômica*. Brasiliense, São Paulo, 1983.
- LIMA, José Luiz. *Estado e energia elétrica no Brasil*. São Paulo: IPE-USP, 1984.
- LIMA, José Luiz. *Política de governo e desenvolvimento do setor de energia elétrica: do código de águas à crise dos anos 80 (1934-1984)*. Rio de Janeiro: Memória da Eletricidade, 1995.

- LORENZO, Helena. *Eletrificação, urbanização e crescimento no estado de São Paulo, 1880-1940*. Rio Claro: UNESP – Tese de Doutorado, 1994.
- MALAN, Pedro S., BONELLI, Regis, ABREU, Marcelo de P. e PEREIRA, José Eduardo de C. *Política econômica externa e industrialização no Brasil (1939-1952)*. Rio de Janeiro: IPEA/INPES, 1977.
- MARANHÃO, Ricardo F. de A. *Capital estrangeiro e estado na eletrificação brasileira: A Light, 1945-1957*. (Tese de Doutorado) - USP/FFLCH, São Paulo, 1993
- MARTIN, Jean-Marie. *Processus d'Industrialisation et développement énergétique du Brésil*. Paris: Institut des Hautes Études de l'Amérique Latine, 1966.
- McDOWALL, Duncan. *The Light. Brazilian Traction Light and Power Co Ltd. (1899-1945)*. University of Toronto Press, 1988
- MEMORIA DA ELETRICIDADE. *Panorama do setor elétrico de energia elétrica no Brasil*. Rio de Janeiro: Centro de Memória da Eletricidade no Brasil, 2006.
- ROETT, Riordan. *The Politics in the Brazilian Northeast*. Vanderbilt University Press, Nashville, 1972.
- SAES, Alexandre. *Conflitos do capital*. Bauru: Edusc, 2010.
- SHAPIRO, Helen. *Engines of Growth. The State and Transitional Auto Companies in Brazil*. Cambridge University Press, Cambridge and New York, 1994.
- SILVA, Marcelo Squinca da. *Energia elétrica*. São Paulo: Alameda, 2011.
- SKIDMORE, Thomas. *Brasil: de Getúlio a Castelo*. 12th Edition. Paz e Terra, São Paulo, 2000.
- SMITH, Peter. *Petróleo e Política no Brasil Moderno*. Rio de Janeiro: Editora Artenova, 1978
- SUZIGAN, Wilson. *Indústria brasileira. Origem e desenvolvimento*. Hucitec / Unicamp, São Paulo, 2000.
- SZMRECSÁNYI, Tamás. “A era dos trustes e cartéis”. *História e Energia*. São Paulo, n.1, 1986.
- SZMRECSÁNYI, Tamás. “Apontamentos para uma história financeira do grupo Light no Brasil – 1899-1939”. *Revista de Economia Política*, v. 6, n.1, p.132-135, jan-abr 1986.
- TAVARES, Maria C. “Auge e declínio do processo de substituição de importações no Brasil”. In: Maria da C. Tavares. *Da Substituição de Importações ao Capitalismo Financeiro*. 2nd Edition. Zahar, Rio de Janeiro, 1973, p. 27-124.

- TENDLER, Judith. *Electric Power in Brazil: Entrepreneurship in the Public Sector*. Cambridge: Harvard University Press, 1968.
- TOLEDO, Caio Navarro. "1964: O golpe contra as reformas e a democracia". *Revista Brasileira de História*. Vol.24, no. 47. ANO
- WEIS, Michael. *Cold Warriors and Coups D'état: Brazilian-American Relations, 1945-1964*, University of New Mexico Press, Albuquerque, 1993.
- WILKINS, Mira. *The maturing of multinational enterprise. American business abroad from 1914 to 1970*. Cambridge: Harvard University