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ARA	EUR	FE
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NEA	CU	INR
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E	P	IO
	2	5
PM	FBO	AID
1		9
PC	S/IL	S/P
2	1	1
AGR	COM	FRB
2	3	2
INT	LAB	TAR
	2	
TR	XMB	AIR
2		10
ARMY	CIA	NAVY
10	20	7
OSD	USIA	NSA
46	11	3
81		NSC
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DEPARTMENT OF STATE

AIRGRAM

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PRIORITY

TO : Department of State

HANDLING INDICATOR

RECEIVED
DEC 27 10 27 AM 1966

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ANALYSIS BRANCH

FROM : AmEmbassy RIO DE JANEIRO

DATE: DEC 23 1966

SUBJECT : WEEKA 50

DATE: December 23, 1966

REF :

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GROUP 3: Downgraded at 12-year intervals;
not automatically declassified.

FORM 4-62 DS-323

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Drafted by: POL:Ed:PSolmsen:sl

Contents and Classification Approved by: POL - Max V. Krebs

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POLITICAL1. Initial Approval for New Constitution

As expected, the Administration's draft constitution passed its first -- and major -- hurdle in the Congress with little strain. After ten days filled with opposition speeches, government forces gathered 223 federal deputies and 37 senators on December 21 to vote approval of the text submitted by the executive. The opposition turned out 110 votes in the Chamber of Deputies and 17 votes in the Senate against the proposal. There was very little crossing of party lines in the vote. Seven deputies and one senator registered abstentions.

Both leaders and rank and file of the two parties held informal meetings during the week. ARENA leaders were anxious to have continued MDB participation in the sessions, and the MDB wanted ARENA support for its proposed amendments. By the final session, most MDB congressmen had no hopes for achieving major changes, but expected support from elements within ARENA to approve at least some amendments during the final voting January 17-21. (LIMITED OFFICIAL USE)

2. Assistant Secretary Gordon's Visit to Brazil

Assistant Secretary Lincoln Gordon was in Brazil from December 14 to 16 to discuss matters concerning the time, place, and agenda of the forthcoming Latin American Summit meeting. While in Brazil, Secretary Gordon had discussions with high GOB officials in both Rio de Janeiro and Brasilia, including President Castello Branco, Foreign Minister Magalhães, Planning Minister Campos and Finance Minister Bulhões. (UNCLASSIFIED)

President Castello Branco suggested a Summit agenda to include collective defense, but not IAPF as such; economic integration; multi-lateral infrastructure for projects, particularly in the River Plate region; and matters of health, education and agriculture. Secretary Gordon replied that he doubted that defense subjects could be considered at the Summit meeting because it would be difficult for the various governments to reach agreement within the next three months. Brazil expressed willingness to accept Punta del Este as the site of the meeting, but would prefer a time later than the mid-April date now being considered, because the new president of Brazil will then have been in office less than a month. (CONFIDENTIAL)

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3. Commission to Study Castello Impeachment

On December 20 the Chamber of Deputies elected a commission to study the petition for impeachment of President Castello Branco which was presented by two opposition deputies last August (Week 33). Since the commission is composed of six ARENA members and three from the MDB, it is anticipated that the petition will be shelved. (UNCLASSIFIED)

4. Peru-Ecuador Border Problem

Activities of the four guarantor powers of the Rio Protocol (Argentina, Chile, Brazil and the United States) with respect to the current Peru-Ecuador border problem are being coordinated in Rio by the Brazilian Foreign Office. For the present, the guarantors are attempting to draft a suitable response to a Peruvian note and an oral request by Peruvian officials that the guaranteeing powers publicly re-affirm the validity of the Rio Protocol, which supports the Peruvian position, in such a manner as to avoid undue adverse reaction in Ecuador and that will allow the Ecuadorians a dignified way to withdraw from their threat to abrogate unilaterally the provisions of the Rio Protocol. (CONFIDENTIAL)

5. Brazil-US Taxation Agreement

A US tax negotiating team, headed by Assistant Secretary of the Treasury Stanley S. Surrey, departed for Washington December 16 following successful negotiations with the Brazilian tax team which resulted in the initialling of an agreement designed to eliminate double income taxation of nationals and firms of the two countries. Brazil already has a similar treaty with Sweden, one with Norway will come into effect as soon as ratified by the Brazilian Congress and an agreement with Japan is at a similar stage as that negotiated with the US. The next stage is executive level review of the draft treaty worked out by the technical level group, and ultimately presentation to the Congresses of Brazil and the US for ratification. It is unlikely that the treaty procedure would be completed before the first part of 1968.

An interesting feature of the US-Brazilian agreement is the provision that US firms in Brazil will be allowed -- for purposes of computation of US tax liability -- the 7 percent investment credit accorded to firms operating in the US, this

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will be in effect only during such periods when it is allowable in the US. This is only the third instance -- the others are Thailand and Israel -- where the US has included the investment credit feature in a tax convention, but neither of the earlier agreements has been ratified by the US Congress. (UNCLASSIFIED)

MILITARY

6. Brazilian Shells Fall on Porto Alegre

Tuesday December 13th was Sailor's Day in Brazil. In the evening as part of commemoration activities at Porto Alegre, the Brazilian Navy Ship BENEVENTE fired several 3-inch illumination rounds. A combination of parachute failure, and failure to account for windage, carried at least 3 of the rounds inland where they fell on the city. One round fell through the roof of a hotel. Fortunately, no one was injured. An investigation has been convened. (UNCLASSIFIED)

ALLIANCE FOR PROGRESS

7. Program Loan Negotiations

Negotiations between the US and Brazilian Government in connection with the FY 1967 Program Loan began in early December and are continuing. Among the items being discussed in these negotiations are Brazil's commitment to CIAP regarding monetary expansion rates, as well as Brazilian policies in such fields as labor, agriculture and education. (LIMITED OFFICIAL USE)

PSYCHOLOGICAL

8. TRIBUNA Versus Lincoln Gordon

The text of a letter from then-Ambassador Lincoln Gordon dated March 16, 1965, which TRIBUNA DA IMPRENSA publisher Helio Fernandes had refused to publish (Week 49), was released to the press in Rio this week in response to queries.

The letter was published by all leading Rio newspapers, but not by TRIBUNA. Attacks on Mr. Gordon continue to appear in TRIBUNA for "coniving to internationalize Amazonia" and "trying to impose a supernational military force" on the Hemisphere, but the subject of Gordon's 1965 letter has not been raised.

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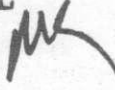
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9. Viet Nam Coverage

The alleged Hanoi bombings, the TIME weapons survey of last week and the high priority given to U Thant's peace attempts, as well as the attacks on the US Consulate in Zagreb were all given top news play, but minimal editorial comment in the Rio press this week. Domestic events, with emphasis on proceedings concerning the new constitution were given top billing, and continue as the priority interest item. (UNCLASSIFIED)

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