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FM AMEMBASSY RIO DE JANEIRO
TO RUEHC/SECSTATE WASHDC IMMEDIATE
INFO RUESPD/USDEL PONTA DEL ESTE IMMEDIATE
RUESDO/AMEMBASSY MONTEVIDEO
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CONFIDENTIAL SECTION 01 OF 02 RIO DE JANEIRO 9889

LIMDIS

ARA FOR KUBISCH -DELIVER OPENING BUSINESS APRIL 11.

PUNTA DEL ESTE FOR GORDON -DELIVER OPENING BUSINESS APRIL 11.

1. FOLLOWING ARE OUR THOUGHTS AND SUGGESTIONS ON DEALING WITH PRESIDENT COSTA E SILVA AT SUMMIT BASED ON PERSONAL OBSERVATIONS, HIS OFFICIAL STATEMENTS AND OTHER INDICATIONS OF HIS OUTLOOK AND PERSONALITY.

2. COSTA E SILVA'S APRIL 5 FOREIGN POLICY STATEMENT GIVES SOME INSIGHT ON HOW HE CONCEIVES BROAD LINES AND THRUST OF HIS GOVERNMENT'S ACTIVITIES IN INTERNATIONAL FIELD. HIGHLIGHTED THEMES ARE: A) INTERNAL DEVELOPMENT IS KEY TO BOTH INTERNAL AND COLLECTIVE SECURITY, B) INTERNATIONAL ECONOMIC COLLABORATION IS ESSENTIAL FOR MEETING DEVELOPMENT GOALS, C) LATIN AMERICAN ECONOMIC INTEGRATION IS INDISPENSABLE, THOUGH ADMITTEDLY COMPLEX AND D) LATIN AMERICA CAN ONLY CLOSE GAP WITH DEVELOPED COUNTRIES BY ALL-OUT POOLED DEVELOPMENT PEACEFUL APPLICATION NUCLEAR SCIENCE, UNHAMPERED BY "IMMEDIATE OR POTENTIAL OBSTACLES."

3. FROM USG STANDPOINT, STATEMENT CONTAINS NO REAL SURPRISES AND ON WHOLE IS CONSISTENT WITH OUR OBJECTIVE. HIS SUPPORT FOR LATIN AMERICAN ECONOMIC INTEGRATION, FOR EXAMPLE, IS MORE FORTHCOMING THAN MIGHT HAVE BEEN EXPECTED ON BASIS GOB PERFORMANCE AT PRESIDENTIAL REPRESENTATIVES MEETING MONTEVIDEO, SINCE HE CALLS THIS STEP "INDISPENSABLE" AND PLEDGES BRAZIL'S "FIRMEST SUPPORT." WHILE RECOGNIZING AS WE DO THAT RESPONSIBILITY FOR INTEGRATION PROCESS LIES PRIMARILY WITH LATIN AMERICA, HE COUPLES THIS WITH APPRECIATION FOR CONSTRUCTIVE US ATTITUDE OF OFFERING FINANCIAL ASSISTANCE.

4. HIS OPENING THEME THAT SECURITY BOTH AT HOME AND IN THE WORLD

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CONTEXT DEPENDS PRIMARILY ON ACHIEVING ECONOMIC PROGRESS AND SOCIAL JUSTICE IS ALSO SHIFT FROM CASTELLO BUT IN LINE WITH OUR THINKING AS REGARDS BRAZIL AND OTHER DEVELOPING COUNTRIES, PARTICULARLY SINCE HE ALSO NOTES DISARMAMENT CAN FREE RESOURCES FOR DEVELOPMENT. HOWEVER, COSTA E SILVA MAY WELL PLAY A DIFFERENT TUNE WHEN IT COMES TO DISCUSSING ACTUAL EXPENDITURES ON ARMAMENTS AND IN PARTICULAR THE QUESTION OF FUTURE MILITARY ASSISTANCE.

5. HIS FORMULATIONS REGARDING RELATIONS WITH OTHER AREAS OF THE WORLD ARE REASONABLY CLEAR BUT ALLOW ROOM FOR SOME FLEXIBILITY. AN EXAMPLE HERE IS CHANGED TONE (AS COMPARED TO CASTELLO BRANCO) TOWARDS EAST-WEST RELATIONS IN LIGHT OF THAW IN COLD WAR, WHICH COSTA E SILVA SAYS OPENS UP NEW OPPORTUNITIES FOR COOPERATION AND TRADE, WITH BRAZIL GUIDED NOT BY AN AUTOMATIC ALIGNMENT BUT SOLELY BY ITS NATIONAL INTEREST. PARALLEL TO THIS NOTE, HE CALLS "NORTH-SOUTH" DIVISION SOURCE OF INTERNATIONAL TENSION WHEN DISCUSSING UNCTAD AND TERMS OF TRADE. STATEMENT AMOUNTS TO FAIRLY ACCURATE DESCRIPTION WHAT CASTELLO BRANCO ADMINISTRATION DID IN RELATIONS WITH SOVIETS AND EAST EUROPE SOCIALIST COUNTRIES, AS WELL AS IN SEEKING BETTER TERMS TRADE, BUT DRESSES IT UP IN VERBIAGE PROBABLY DESIGNED TO DISARM DOMESTIC CRITICS WHO HELD CASTELLO BRANCO WAS TOO RIGIDLY ALIGNED WITH US.

6. MOST TROUBLE SOME FOR USG IS COSTA E SILVA'S LENGTHY TREATMENT OF NUCLEAR ISSUE. AS INDICATED RIO 9576, THIS TOPIC HAS ACHIEVED RECENTLY STATUS OF SYMBOLIC RALLYING POINT AS LANFZ AND NPT NEGOTIATIONS REVEALED DEPTH OF US CONVICTION THAT ANY NUCLEAR EXPLOSIVE DEVICE IS POTENTIAL WEAPON. COSTA E SILVA REFLECTING OTHER OFFICIAL PRONOUNCEMENTS APPARENTLY SEES IN NUCLEAR TECHNOLOGY A MAGIC FORMULA FOR CATCHING UP TO THE DEVELOPED NATIONS. AT SAME TIME HE HAS BOUGHT THE IDEA THAT IF GOB GIVES UP ITS FREEDOM TO CONDUCT NUCLEAR EXPLOSIONS ITS SCIENTISTS WILL BE EMASCULATED IN THEIR EFFORTS TO ACHIEVE THIS MIRACULOUS BREAK-THROUGH. BRAZILIAN ATTITUDES ON THIS SUBJECT, EVEN AMONG USUALLY HIGHLY OBJECTIVE SCIENTISTS, ARE CHARGED WITH STRONG NATIONAL EMOTIONS, AND PRESIDENT IS RIDING POPULAR WAVE ON THIS SUBJECT. OUR BEST HOPE IS FOR GRADUAL EDUCATIVE APPROACH, AVOIDING DIRECT CONFRONTATION EXCEPT WHEN ABSOLUTELY ESSENTIAL TO MEET OUR HIGHEST PRIORITY SECURITY OBJECTIVES.

7. SPEECH GENERALLY FOLLOWS ECONOMIC FOREIGN POLICY GUIDELINES

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OF PREVIOUS ADMINISTRATION WITH SLIGHTLY MORE EMPHASIS ON ITS DEVELOPMENT ASPECTS. NO RADICAL DEPARTURES FORESHADOWED. HOWEVER RECENT EVENTS, PARTICULARLY APPOINTMENT OF COIMBRA AS HEAD OF IBC, HIS INITIAL STATEMENT, AND PRESIDENT S EMOTIONAL REACTION TO SOLUBLE COFFEE ISSUE, RAISE SOME WARNING SIGNS IN FIELD OF COFFEE POLICY. IN HIS APRIL 9 SPEECH GIVEN IN THE HEART OF THE COFFEE PRODUCING AREA COSTA E SILVA DID NOT PROMISE AN INCREASE IN COFFEE PRICES, BUT COIMBRA HAS ALREADY ADVOCATED PRICE RISE AND THE PRESSURE OF THE COFFEE LOBBY IS INTENSE.

8. ON THE OTHER HAND, MINISTER OF FINANCE DELFIM NETO AND CENTRAL BANK PRESIDENT RUY WYME, IN MINISTERIAL LEVEL PROGRAM LOAN REVIEW SESSION APRIL 10, STATED THAT PRESSURES FROM COFFEE SECTOR WOULD BE RESISTED AND THAT COFFEE POLICY WOULD BE IN ACCORDANCE WITH GOB'S MONETARY BUDGET. DELFIM ALSO MADE SOMEWHAT DISTURBING STATEMENT COFFEE POLICY WOULD HAVE "NEUTRAL EFFECT. THEY DECLINED TO GIVE EXPLICIT ASSURANCE CRUZEIRO PRICE FOR 1967/68 CROP WOULD REMAIN UNCHANGED. DELFIM NETO AND LEME ALSO STATED IT WAS POLICY OF MONETARY AUTHORITIES TO USE OPEN MARKET OPERATIONS TO DEAL WITH CURRENT EXCESSIVE LIQUIDITY OF BANKS, BUT ASSURED US CATEGORICALLY THEY WERE PREPARED RAISE RESERVE REQUIREMENTS IF OPEN MARKET OPERATIONS FAILED TO REDUCE BANK LIQUIDITY SUFFICIENTLY. WITH RESPECT EXCESSIVE FIRST QUARTER FISCAL DEFICIT DELFIM NETO EXPRESSED CONFIDENCE THIS WOULD BE REDUCED TO PROGRAMMED LEVEL BEFORE END OF YEAR. LOSS OF REVENUE FROM TAX EASING MEASURES (ESTIMATED AT N R\$120 MILLION) TO BE OFFSET BY EQUAL REDUCTIONS ON PUBLIC INVESTMENTS (PRESUMABLY TO BE MADE IN SECTORS OTHER THAN EDUCATION, AGRICULTURE AND HEALTH, SINCE HE SEEMED TO AGREE WITH US THAT PROGRAMS IN THESE SECTORS WERE OF SPECIAL IMPORTANCE). ON THE WHOLE WE WERE REASONABLY WELL IMPRESSED WITH UNDERSTANDING SHOWN BY THESE OFFICIALS OF FISCAL AND MONETARY PROBLEMS CURRENTLY CONFRONTING BRAZIL AND WITH POLICIES OUTLINED BY THEM FOR DEALING WITH THESE PROBLEMS. HOWEVER, WE CONTINUE TO HAVE SOME NAGGING DOUBTS AS TO WHETHER THEY WILL HAVE THE FULL SUPPORT OF COSTA E SILVA IN CARRYING OUT THESE POLICIES WHEN THE POLITICAL PRESSURES ARE APPLIED DIRECTLY ON THE PRESIDENT. THERE EXISTS A DISTURBING GAP BETWEEN STRAIGHTFORWARD ASSURANCES GIVEN US PRIVATELY AND PUBLIC POSTURE OF GOB, WHICH GENERALLY MORE PLEASING TO COFFEE INTERESTS AND ADVOCATES OF EASY CREDIT.

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ARA FOR KUBISCH -DELIVER OPENING BUSINESS APRIL 11.

PUNTA DEL ESTE FOR GORDON -DELIVER OPENING BUSINESS APRIL 11.

09. SPEECH AND OUR REALTIONS WITH COSTA E SILVA TEAM TO DATE DO NOT GIVE GROUNDS TO BELIEVE THAT GOB WILL WISH TO MAKE BASIC OR FUNDAMENTAL CHANGES IN ITS INTERNAL OR FOREIGN POLICIES LIKELY TO CHANGE RADICATLY ITS RELATIONS WITH US OR REST OF WORLD. COSTA E SILVA ADMINISTRATION CAME INTO OFFICE CONVINCED OF NEED TO CHANGE IMAGE OF GOB WITH ITS OWN PEOPLE IF IT WERE

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TO HAVE ANY HOPE GOVERNING IN A REASONABLY STABLE POLITICAL ATMOSPHERE. AFTER THREE YEARS OF AUSTERITY, CASTELLO BRANCO ADMINISTRATION HAD BUILT UP SO MUCH DISCONTENT IN ALL SECTIONS BRAZILIAN SOCIETY THAT TO HAVE CONTINUED ITS STYLE WOULD HAVE BEEN QUIXOTIC AND SELF-DEFEATING. COSTA E SILVA WAS SENSITIVE TO NEED TO GIVE IMPRESSION OF CHANGE WHILE STILL WELL AWARE THAT MOST OF THE POLICY WAS SOUND. THUS THE TALK OF "IMPACT PROGRAMS" AND THE TONE OF SPEECHES OF MINISTERS AS THEY TOOK OFFICE WAS TO LEAD THE BRAZILIAN PEOPLE TO BELIEVE THAT THEIR LOT WOULD BE IMPROVED. THE ADMINISTRATION ON THE OTHER HAND IS WELL AWARE THAT THIS PERIOD OF POLITICAL DECOMPRESSION CANNOT LAST FOREVER AND THAT IT MUST BEGIN TO SHOW CONCRETE RESULTS IF SERIOUS INSTABILITY IS NOT TO DEVELOP.

10. AT THE SAME TIME AND FOR PUBLIC IMPACT, BECAUSE OF CLOSE IDENTITY CASTELLO BRANCO ADMINISTRATION WITH US IT WAS TO BE EXPECTED COSTA E SILVA WOULD SHOW A MORE "INDEPENDENT" ATTITUDE TOWARD THE US. IN HIS SPEECH HE REFERS TO US IN CONTEXT OF EQUAL TALKING TO EQUAL, BUT THIS OF COURSE CAN BE CONSIDERED A HEALTHY APPROACH.

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11. COSTA E SILVA SEEMS VERY SENSITIVE TO POLITICAL CURRENTS AND PUBLIC OPINION, BUT IT IS BEGINNING TO COME CLEARER THAT HE HAS IN FACT VERY LITTLE GROUNDING FOR HIS COMPLEX JOB. WE HAD NO REASON TO EXPECT A MAN, HOWEVER BASICALLY INTELLIGENT,

TO UNDERSTAND IN A SHORT TIME THE COMPLEXITIES OF DEVELOPMENTAL ECONOMICS AND THE ADMINISTRATION OF A COUNTRY AS LARGE AND DIVERSE AS BRAZIL. I WOULD HOPE THAT, CONSCIOUS OF THIS, HE WILL LEAN HEAVILY ON HIS MINISTERS TO FORMULATE POLICIES AND EXECUTE THEM. THE MOST APPARENT DANGER IS THAT COORDINATION WILL BE WEAK AND THE GOVERNMENT MAY SUFFER FROM TOO MUCH DISPERSION OF POWER.

12. ANOTHER FACTOR THAT MUST BE GIVEN MORE WEIGHT IS THE DANGER THAT ACTING EMOTIONALLY OR HASTILY WITHOUT ADEQUATE ADVICE, HE COULD SET THE COUNTRY ON A PATH FROM WHICH IT MIGHT BE DIFFICULT TO CHANGE COURSE. IN TIME HE WILL PROBABLY LEARN MORE ABOUT THE NEED TO EXERCISE RESTRAINT AND PATIENCE IN GOVERNING. FOR THE PRESENT, HOWEVER, WE SHOULD BE CONSCIOUS OF THIS FACTOR IN PERSONAL DEALINGS WITH THE MAN TO AVOID CREATING SITUATIONS IN WHICH HIS HYPERSENSITIVITY MIGHT LEAD TO HASTY OVER-REACTIONS.

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13. I BELIEVE BEST APPROACH TO USE WITH COSTA E SILVA IS TO LIMIT CONVERSATION TO GENERALITIES AND DEAL WITH MINISTERS ON SPECIFICS WHEREVER POSSIBLE. COSTA E SILVA AT THIS POINT IS PROBABLY A BIT SENSITIVE ABOUT HIS OWN INADEQUACIES; AT SAME TIME HE GOES TO PUNTA DEL ESTE APPARENTLY FEELING CONFIDENT, PERHAPS EVEN A LITTLE EUPHORIC AT INITIAL FAVORABLE REACTIONS HIS PUBLIC PRONOUNCEMENTS. THEREFORE SUGGEST PRESIDENT:

1) COMPLIMENT HIS ON SUCCESS OF HIS FIRST MONTH IN OFFICE, PARTICULARLY ON SPIRIT OF COOPERATION AND SUPPORT HE HAS ELICITED FROM ALL ELEMENTS; 2) TALK TO HIM IN TERMS OF BRAZIL'S DEVELOPMENT AND EMERGENCE AS A WORLD POWER. HIS NATION NOW CROSSING THRESHOLD WHERE DECISIONS HE MAKES EFFECT REST OF WORLD AS WELL AS BRAZIL; 3) EXPLAIN OUR DESIRE TO COOPERATE IN HELPING BRAZIL ACHIEVE ITS ASPIRATIONS FOR WORLD LEADERSHIP, INCLUDING CONTINUATION OUR ASSISTANCE IN THE FIELD OF EXPANDING NUCLEAR TECHNOLOGY. AN ECONOMICALLY STRONG AND PROSPEROUS BRAZIL IS OUR GOAL AS WELL AS HIS; 4) VOICE HOPE THAT WE CAN CONTINUE TO HAVE FRANK EXCHANGES ON ALL MATTERS OF COMMON CONCERN, RECOGNIZING THAT DIFFERENCES MAY ARISE, AS THEY DO AMONG THE BEST OF FIRENDS, BUT CONFIDENT THAT THESE DIFFERENCES CAN BE RESOLVED.

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14. DOUBT COSTA E SILVA WILL RAISE SOLUBLE COFFEE ISSUE IN STRONG TERMS BUT HE COULD MENTION IT IN PASSING. RECOMMEND PRESIDENT TRY TO DE-ESCALATE PROBLEM BY SUGGESTING COSTA E SILVA HAVE HIS APPROPRIATE OFFICIALS GET TOGETHER WITH USG TO EXCHANGE INFORMATION, WORK OUT TECHNICAL PROBLEMS AND DEVELOP COMMON POSITIONS WHEREVER THIS IS POSSIBLE, LEAVING ONLY MAJOR POINTS OF DIFFERENCE, IF THERE ARE ANY, FOR PRESIDENTS TO RESOLVE.

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