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INCOMING TELEGRAM *Department of State*

RIO DE JANEIRO 1433 1-13-64

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Action
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Info

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Control: 8210
Rec'd: January 13, 1964
8:30 p.m.

044

FROM: Rio de Janeiro

ACTION: Secstate 1433 (SECTION 1 OF 2) PRIORITY

INFO: Paris 29 PRIORITY

DATE: January 13, 6 p.m.

WASHINGTON LIMDIS AND PARIS FOR USRO AND USRO FOR LEDDY EXDIS

Reference: EMBTEL 1423; repeated Paris 28.

1. I attended luncheon January 11 hosted by Moreira Salles with Serpa, Galvao, Valdir Borges (Galvao's new Chief of Cabinet) and Korp. Prevailing atmosphere one of apparent underlying consensus among Brazilians present for need cooperation among them for objective preservation democracy in Brazil and ensuring free 1965 elections. Of interest that Galvao and Borges (both from Rio Grande do Sul and particularly former frequently described as having links with Brizola) joined in, and frequently initiated disparaging remarks about persons such as Brizola, Brochado da Rocha, Cibilis Viana, and Diogo Gaspar. Galvao and Serpa indicated that Diogo Gaspar had just resigned (no confirmation yet in press) and Galvao remarked that Gaspar had owed his job on resident's staff to Evaadro Lins.

2. Serpa described tenor his recent conversations with Goulart and activities which had been set in motion, along lines of REFTEL and previous. He seemed be revealing some aspects these developments for first time to Brazilians present. Mentioned that his last talk with Goulart on January 10 (subsequent to talk with me reported REFTEL) provided further confirmation Goulart's determination proceed in indicated direction. Foresaw next steps toward debt negotiations would be exchange letters with de Gaulle and exchange of letters with OECD, after which Moreira Salles would be appointed negotiation.

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(Serpa told us privately that Jose Lopes de Oliveira, who slated take over Diogo Gaspar's position, left January 11 for Paris to join Camara and carrying original letter to de Gaulle and draft letter to OECD). Serpa again said in next few days Goulart would make announcement about Brazilian position at UNCTAD including airing private foreign capital problems there. Serpa hoped Moreira Salles would be appointed lead Brazilian delegation this meeting also.

3. Moreira Salles stated he pleasantly surprised at what achieved by Serpa which he termed remarkable and hopeful turn. On UNCTAD Moreira Salles said wanted Brazil play constructive role, looking toward expansion world economic activities and trade, rather than leading or joining line-up underdeveloped countries against industrial nations.

4. I mentioned importance and relevance Brazil's relations with the IMF to debt negotiations (along lines DEPTEL 904). Moreira Salles expressed some caution about a consultation mission, lest it might give political ammunition to nationalists thus jeopardizing new effort achieve orderly debt relations with international financial community generally. Galvao also appeared somewhat apprehensive. Serpa, however, less cautious, saying political risks could be minimized through personal Goulart involvement and pronouncements on debt negotiations. Moreira Salles agreed that if Goulart made clear Brazil seeking only debt re-negotiation abroad and not new credits, this would help relieve speculations about underlying purpose any IMF mission and preserve its routine nature as Article XIV consultation. All Brazilians around table appeared agree best issue invitation to IMF simultaneously with announcement initiation debt negotiations. All also felt any IMF mission should be kept small, preferably no more than 2 (Finch and Zassenhaus mentioned). Question mission and timing, however, remained inconclusive.

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Control: 8264
Rec'd: January 13, 1964
10:01 p.m.

FROM: Rio de Janeiro

ACTION: SECSTATE 1433 PRIORITY 044

INFO: PARIS 29 PRIORITY

DATE: January 13, 6 p.m. (SECTION TWO OF TWO)

WASHINGTON LIMDIS, PARIS FOR USRO AND USRO FOR LEDDY EXDIS

5. On timing debt negotiations Serpa and Moreira Salles expressed belief negotiations should begin soon as possible, with most likely time being February. Salles raised problem how handle stretching out obligations to private holders both suppliers credits and commercial arrears, especially in US case where, in contrast Europe, government guarantees mostly not involved. There was some suggestion small private creditors could be paid on schedule (or promptly as possible in case commercial backlog) with larger ones offered notes through banks acting as intermediaries, somewhat similar fashion to 1957 Colombian procedure. (Perhaps portion coffee revenue could be pledged this purpose.) Discussion of private claims during debt negotiation meeting in OECD context could probably be facilitated through participation in negotiations of representatives large private banks (e.g. Chase Manhattan, National City) normally having financial relationships with important exporters to Brazil. Any guidance Washington agencies can offer on this would be helpful to Embassy.

6. Agreed further contacts would be maintained on these questions. We stressed importance adequate analysis and breakdown debt obligations. Moreira Salles agreed Brazilian coffee policy and Brazilian earnings prospects from coffee under new market conditions would form one of central questions in any debt negotiations. Salles expressed hope IBC would adopt sensible policy of avoiding feeding speculative forces which he felt were rampant in the world coffee market, so as

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to help prevent unsustainable price increases which would only jeopardize level coffee consumption abroad and would lead new precipitous fall coffee prices. Salles believes 45 cents a pound is "excellent price" for Brazilian coffee and GOB efforts should be directed towards stabilizing price approximately this level.

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