

AIRGRAM

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ARMY	CIA	NAVY
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OSD	USIA	NSA
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MILITARY

ARMY

1. General Assis Brasil to Testify in Brasilia
2. Military Attache to Paris Returns to Brazil

NAVY

NEGATIVE

AIR FORCE

NEGATIVE

PSYCHOLOGICAL

NEGATIVE

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RIO DE JANEIRO

POLITICAL

1. Presidential Elections: Kubitschek Fights Back

The PSD's candidate for the Presidency, Juscelino Kubitschek, struck back on May 25 at those elements of the Revolution and others who seek to bar his participation in the next presidential election. Reportedly after weeks of agonizing over the manner in which he should respond to those who publicly demand his scalp for alleged corrupt and other unhealthy activities during his reign as President, Kubitschek released a note defending himself against "the scheme of calumnies and defamations mounted against me by my political adversaries". He pointed out with pride that he had presided over the 1960 election as a "magistrate" turning the office over to his successor and "decided adversary" and he claimed a record of "preservation of the democratic norms and Christian principles of the Brazilian people". He asserted that his detractors were seeking to "disparage through my person the democratic traditions" and "hit at the democratic system itself". "The people have already passed judgement on me," he stated, "and I am certain that they desire to do so again at the first opportunity." Kubitschek vowed that he would not retreat under any circumstances, and served warning that "I shall know how, in one manner or another, to do my duty".

Press comment on Juscelino's declaration was largely and emphatically unfavorable. Diario de Noticias termed it "pathetic". Anti-Kubitschek O Jornal labeled it only "one more sign of Kubitschek's obstinacy on returning to Alvorado Palace". And Correio da Manha squelched all gossip that it is on the Kubitschek payroll by terming the declaration: "a sad and unhappy document...(issued) after a thousand and one compromising vacillations and silences...It is useless to seek in it anything that can identify a political leadership; one distinguishes only the droning of somebody preoccupied with his own very personal ends."

Kubitschek's party tried to pull the difficult trick of remaining firmly loyal to its candidate while at the same time not committing itself to what may be a lost cause. PSD Chamber Leader Martins Rodrigues denied newspaper reports that the PSD would break with the Majority in Congress if JK's candidacy was impinged on. Instead, he said the party "could not remain indifferent" to such an event. O Estado de Sao Paulo reported on the 20th from Cuiaba, Mato Grosso, that PSD Senator Filinto Muller, Majority Leader in the Senate, had publicly declared himself in favor of an indirect election in 1966 in place of the direct election scheduled for 1965, a scheme which

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could serve to preserve Kubitschek's candidacy, at least in principle, without "betraying" the Revolution.

Among the military leaders of the Revolution, Fourth Army Commander Justino Alves Bastos issued a note on May 22 "clarifying" last week's O Cruzeiro article, the title of which imputed to him the belief that the candidacies of Kubitschek, Lacerda, and Adhemar de Barros were now obsolete and that the 1965 elections should be postponed. Bastos' note denied that he had mentioned any candidate by name and that he had suggested that the election not be held in 1965.

Reportedly, Bastos' note was issued following a meeting with War Minister Costa e Silva, during which the latter had suggested that military leaders refrain from making political statements. If that was in fact Costa e Silva's instruction to Alves Bastos, it was an instruction which he found difficult to follow himself. Speaking to a television audience in Sao Paulo on May 26, the War Minister compared Kubitschek's May 25 statement "in its violence and its challenge" to Joao Goulart's speech of March 30. Costa e Silva stopped just short of flatly declaring that Kubitschek would not participate in the next presidential election but made it clear that if he, Costa e Silva, has anything to say about it, Kubitschek might as well discard now any notions he has of reoccupying the presidential palace.

The big question in the current discussion of presidential elections, the position of President Castello Branco, remains unanswered. At this point, however, the question seems to be not whether Castello Branco will agree to modify the 1965 election, but just how he will modify it, e.g., postponement of direct election until 1966, indirect election in 1965, restriction of candidates to figures of the Revolution, etc. Castello Branco is scheduled to visit the Federal Electoral Tribunal on May 27, and it has been speculated that he may clarify his position at that time. (LIMITED OFFICIAL USE)

2. Borges' Supporters Optimistic

The status of the Goias political crisis is largely unchanged, but there is now a general optimism in Goias PSD circles regarding Governor Mauro Borges' chances of retaining his office and his political rights. This optimism is largely due to a statement by President Castello Branco in Porto Alegre on May 22, in which he denied that "there was a threat to anyone" and affirmed that the federal government "has an obligation not to perturb the State of Goias". Further, despite Borges' denials to the contrary, there is a growing

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suspicion that Borges may have agreed to compromise with the federal government to the extent of accepting the removal of three members of his cabinet.

With the decision of his fate clearly in the hands of the President and the military, Borges has wisely chosen to await the government's decision in complete press silence. He is performing his normal administrative functions, and expects to take Minister of Planning Roberto Campos later this week to view his "magnus opus" colonization project. Also, he has sent Secretary of Public Safety Rivadavia Nunes to Sao Paulo to investigate, and defend him against, reports which allege that recently-seized records of Luis Carlos Prestes refer to him in an incriminating manner. (LIMITED OFFICIAL USE)

3. State of Para Investigated

As tension generated by the Goias crisis abated somewhat, the country turned its attention to political developments in the State of Para. After several days of rumors of an imminent move against Governor Aurelio do Carmo, federal troops on May 22, suddenly, and apparently without advance warning, occupied certain state and municipal offices in Belem and placed under detention most major state and municipal office holders. Aurelio do Carmo immediately fired off a telegram to President Castello Branco, repeated to all other state governors, protesting that which he termed unwarranted military intervention and calling upon the President to order it terminated.

The President has not replied to the telegram. General Bandeira Coelho, who as head of the federal investigation in Para had ordered the military action, denied that his move in any way represented military intervention. He discounted the temporary detention of state and municipal officials as necessary for an interrogation related to the investigation, and stated that he had posted troops in some offices only to assure preservation of documents and records pertinent to the investigation. Backing up Bandeira Coelho, Marshal Taurino de Resende, head of the nation-wide investigative apparatus, dismissed Aurelio do Carmo's protests as "sensationalism" and an effort to make himself appear a martyr.

In a number of dramatic gestures and pronouncements, Aurelio do Carmo continued throughout the rest of the week to protest the "intervention". He lowered the state flag to half-mast in mourning over loss of the state's sovereignty, attempted to assume the posture of an early member of the front ranks of the Revolution who was now being betrayed by the Revolution, and repeatedly vowed that he would

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not yield to military pressure to leave office. The governor has found some support in the opposition press and within his state's congressional delegation, but for the most part the country seems to be largely undisturbed by the development of events in Para.

Bandeira Coelho's first reports and recommendations to Taurino de Resende were returned for further documentation of the charges made therein. This has bolstered speculation that Aurelio do Carmo and some of his political allies will shortly find themselves unemployed. (LIMITED OFFICIAL USE)

4. Congress Votes Two Constitutional Amendments in Record Time

On May 22, Congress approved the two constitutional amendments submitted by President Castello Branco May 12, which permit collection of taxes decreed this fiscal year and extend the due date for presentation of the budget until July 31. Both amendments were voted in the record time of 13 hours, according to the norms established by the Ato Institucional, which allows passage by an absolute majority rather than two-thirds. The first voting took place at a night session May 21, and the required second voting was held the next morning. President of the Congress Auro Moura Andrade forced deputies to attend the second session by stopping the Rio-bound morning plane until voting had been completed. He promulgated the two amendments in a third session May 22.

On May 27, the Chamber approved with amendment the executive bill creating a National Information Service. (UNCLASSIFIED)

5. President in Rio Grande do Sul

President Castello Branco paid a quick visit to Rio Grande do Sul this week, arriving there on May 22 and departing for return to Rio de Janeiro on May 23. In the approximately forty hours the President spent there, he visited a number of state and federal institutions, including the military school he had attended as a boy, delivered several addresses, held an informal press conference, and attended the customary luncheons and dinners.

In his formal speeches, the President said little that he had not said before. He spoke in favor of an agrarian reform that would give the agricultural worker the same benefits enjoyed by the industrial worker and at the same time increase agricultural production. To the producer classes of the state, he said that a principal objective of his government was to assure social justice to all

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workers, and he stressed the vital role of private capital in the pursuit of this goal.

The President's press conference was probably of more immediate importance than his formal speeches. In response to questions, the President read a prepared statement in which he clearly implied that there would be no more cancellations of mandates or suspensions of political rights in Rio Grande do Sul, thus bolstering the position of Governor Ildo Meneghetti. He also stated that the government would proceed with circumspection in its handling of the political crisis in Goias, affirming that "the government has the obligation not to perturb the State of Goias".

This visit was judged important primarily as a gauge of the popularity of the Revolution and the person of the President in the home state of Leonel Brizola and Joao Goulart. Press reports indicate that the President was accorded a warm and enthusiastic reception by the general public, and this has been interpreted as a manifestation of popular gaucho approval of the Revolution. (UNCLASSIFIED)

6. Major Tax Reform Passes Chamber

The government's tax reform bill passed the Chamber of Deputies this week without fundamental changes and is expected to move rapidly through the Senate. The bill has many facets and constitutes the first major tax reform since 1956. New taxes provided for in the measure include a 5 percent tax on compulsory revaluation of assets (replacing the 10 percent tax on voluntary revaluations); a 30 percent tax on foreign exchange purchases eventually to replace the present system of compulsory purchase of Bank of Brazil letters based on the value of foreign exchange purchases; and a substantial broadening of the use of withholding taxes raising the level of incomes on which withholding taxes will apply from its present limit of four times the monthly minimum wage to 15 times the monthly minimum wage.

Additionally, the measure increases the ceiling on outstanding Treasury bonds from Cr.\$ 130 billions to Cr.\$ 700 billions and permits periodic adjustment of the face value of such bonds based on price movements. Presumably some of these bonds will be sold to the public while others will be used on a non-negotiable basis, as workers indemnification reserves (with firms obliged to hold such reserves in bonds); voluntarily, as a substitute for the revaluation tax mentioned above except at a 10 percent instead of 5 percent rate; and to pay government contractors in some cases.

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Perhaps the most important elements of the omnibus tax bill are those correcting archaic provisions of the old law which were considered detrimental to investment. Among such corrections are provisions permitting depreciation reserves to be calculated at present rather than historic values, giving tax deduction credit for working capital reserves, and allowing deductions for capital expansion based on new, marketable nominative shares. Tax penalties also would be made more realistic in that taxes due as well as fines are to be revaluated periodically on the same bases as the value of government bonds. Previously, taxpayers were encouraged to delay tax payments in doubtful cases because usually, the currency depreciation has been such that even with a heavy fine the amount finally paid would be less in real terms than the original tax due. (UNCLASSIFIED)

Comment: Collection of the new taxes provided for were earlier facilitated by a constitutional amendment waiving for this year the prohibition on collection of new taxes passed during the fiscal year (See Item 4).

Revenue-wise, the main benefits of this tax bill will be noticed this year. In particular the extension of the withholding tax is expected to increase income tax collection by about 20 percent over previous estimates. Another bill increasing consumption taxes is expected to be submitted soon increasing consumption taxes by 30 percent on certain luxury items. (UNCLASSIFIED)

7. War Minister Performs on T-V

With heavy advance publicity, Minister of War Artur Costa e Silva appeared on a Sao Paulo television program on May 26 and answered questions for over two hours. Initial speculation had it that Costa e Silva would make a major political pronouncement on the program, with most observers predicting that he would define the government's or at least the military's attitude toward the 1965 elections. A few days before the program, however, it was generally reported that the War Minister would not comment on the 1965 elections, and that he would confine himself generally to remarks on the antecedents and goals of the Revolution.

As the program developed, Costa e Silva, with the assistance of an aide, did spend a great deal of time displaying and explaining documents which confirmed extensive subversion of the government of Joao Goulart, and he spoke at length on the goals and ideological significance of the Revolution. He also answered a number of questions on post-revolutionary developments and the present political situation, and it was in this context that the Minister made what might be considered a political pronouncements.

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Asked whether the Supreme Command of the Revolution continued to exist, Costa e Silva replied: "Yes. It is invested in...President Castello Branco, whom I serve as Minister with great honor." Costa e Silva presented the Revolution as the culmination of 34 years of effort on the part of democratic military leaders such as Juarez Tavora, Odilio Denys, and himself. Questioned whether he considered a year and a half sufficient time to carry out the aims of the Revolution and thus to prevent corrupt elements from regaining control of the government, Costa e Silva answered that he did not know whether the time was too short or not, but he could give assurances that the country would never again fall into the hands of the corrupt.

Finally, the War Minister displayed an open hostility toward Juscelino Kubitschek in answering a question on Kubitschek's statement of May 25 (See Item 1). (LIMITED OFFICIAL USE)

Comment: Costa e Silva obviously enjoyed his T-V experience and could not resist the opportunity to give an authoritative answer to every question put to him. He might have proved a better politician had he been less frank and direct, possibly less authoritative in some of his responses, but the delighted response of the studio audience to these same responses showed him to be an excellent showman. (LIMITED OFFICIAL USE)

8. Lacerda in Europe

Press accounts indicate that Carlos Lacerda continues his now official trip through Europe. He left Paris early this week for visits to Bonn and Berlin and returned to Paris for further talks before proceeding to London, Lisbon, and the United States. In Bonn he was received by President Heinrich Luebke and in Berlin by Mayor Willy Brandt, but the widely-heralded interview with President Charles De Gaulle failed to materialize. (UNCLASSIFIED)

9. "Seven Days in May" Banned

Presumably to avoid letting the movie-going public draw any unsavory parallels between the plot of "Seven Days in May" and the recent change in government here, the Guanabara state police have banned the showing of the American-made film for a period of six months. The book remains on sale at local bookstores. (UNCLASSIFIED)

MILITARY

ARMY

1. General Assis Brasil to Testify in Brasilia

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General Assis Brasil, Chief of the Military Household under Joao Goulart, has been removed from Rio de Janeiro and now remains under arrest in Brasilia, where he will testify before the investigation committee headed by General Souza Aguiar. In addition to the testimony of General Assis Brasil, the committee will question each of the officers who were serving in the Presidential Military Cabinet.
(UNCLASSIFIED)

2. Military Attache to Paris Returns to Brazil

Colonel Joao Sarmento, ex-Military Attache to Paris, returned to Brazil on May 15 and has been ordered to assume command of the 25th Recruiting Center located in Terezina, Piaui. However, prior to departure for his new post, Sarmento will give testimony in the recently re-opened inquiry into the attempt on the life of Governor Carlos Lacerda, in which he played a prominent role. (LIMITED OFFICIAL USE)

Comment: Assignment to an Army Recruiting Center has been the traditional fate of all who are in disfavor with the regime in power and is designed to negate the influence of any officer so assigned.

As a result of his role in the Carlos Lacerda affair, Colonel Sarmento could eventually face punitive action, possibly including forced retirement and conceivably even a suspension of his political rights. (CONFIDENTIAL)

NAVY - NEGATIVE

AIR FORCE - NEGATIVE

PSYCHOLOGICAL

NEGATIVE

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