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CENTRAL INTELLIGENCE AGENCY
DIRECTORATE OF INTELLIGENCE

Brazil

MEMORANDUM

SUBJECT: Worsening Brazil-US Relations

US criticisms of the Brazil - West German nuclear accord are producing an extremely hostile reaction in Brazil's highest policy circles and could result in long-term damages to US-Brazilian relations.

Within the past few weeks the "special relationship" proclaimed by Secretary Kissinger a year ago has deteriorated to the point where military and government leaders speak dramatically of an "undeclared war" and threaten a critical review of all official relations with the US. Such rhetorical outbursts could be translated into strong retaliatory measures; they have already begun to strain the close diplomatic ties that made Brazil the US's strongest and most important ally in Latin America for most of the 20th century.

The rapid escalation of a difference in views over nuclear proliferation into a major diplomatic dispute is in large measure attributable to a basic conflict in aims and perceptions. It is clear that Brazil sees US efforts to halt the spread of nuclear weapons technology as a deliberate attempt to impede the country's economic and technological development. This reaction is not simply a manifestation of nationalistic paranoia. Rather, Brazil sees atomic energy as a supplement to increasingly costly hydroelectric power during the 1980s and beyond, and as means of eventually reducing the dependency on imported fossil fuels.

This paper was prepared by the Latin American Division of ORPA and coordinated with the Office of Economic Research, the Office of Scientific Intelligence, and the Clandestine Services.

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These fuels currently constitute the most serious drain on the nation's financial resources. Oil imports provide 40 percent of the country's energy requirements and last year cost approximately \$3.5 billion in foreign exchange.

Ambitions for world prestige also play a role. Brazilian military leaders firmly believe that a sine qua non of great power status is the ability to explode a nuclear device.

Despite the fact that Brazil is one of the strongest and most moderate of the so-called less developed nations, it still seeks major concessions from the industrial powers. This frequently leads its leaders to adopt aggressive and uncompromising positions. As one knowledgeable observer has noted, "The intense focus on rapid modernization tends to lead Brazilian policy makers to perceive almost all foreign policy conflicts as potentially threatening to Brazil's most basic interests."

Brazil still looks to the US for military defense in the hemisphere, and for economic investment, but its rapidly expanding economy has enabled it to establish close ties with other powerful nations, thus reducing US leverage. Over the past decade the US has lost ground in trade as Brazil has expanded its exports and imports to all corners of the globe.

The US still leads other foreign investors by a wide margin, but West Germany and Japan are moving up quickly. US investment there--which doubled between 1969-1974--now is approximately \$2.4 billion. West European investments already exceed those from the US, and are growing at a more rapid rate. Moreover, Japanese holdings since 1969 have increased eight-fold. Agreements signed during President Geisel's visit to Tokyo last summer will probably add \$700 million to the current \$841 million value of Japan's direct investment over the next decade.

Washington is clearly no longer as vital to Brazil as it once was and its influence will probably decline further in the coming years. It is becoming increasingly obvious that Brazil is willing to take economic risks in its relations with the US on the nuclear issue.

Brazilian intransigence is being reinforced by domestic political developments. President Geisel is clearly benefiting politically from his refusal to consider revisions in the Brazilian - West German nuclear accord or to delay its implementation. Under the agreement, West Germany will sell Brazil plans for uranium enrichment and spent-fuel reprocessing. The support Geisel is receiving from military leaders and politicians in both political parties is apparently stiffening his resolve to persist in his hard-line approach.

Until a few weeks ago, opposition to Geisel appeared to be growing. One of Brazil's leading newspapers strongly attacked his year-end address to the nation for its failure to admit responsibility for current economic problems. In mid-January, a presidential decision to add a surcharge to the price of gasoline sparked more public criticism and threats of major strikes by bus and taxi drivers in Sao Paulo.

These problems are not resolved, but they have been overshadowed by the present nuclear imbroglio.

Brazilians view US pressure on the nuclear issue as an insult and have rallied behind Geisel's decision. Pro-government sentiment is so strong that widely circulating reports that the administration will not permit direct elections for state governors in 1978, and that Geisel intends to reorganize the party structure next month--issues that normally would have produced strong outcries--have provoked little public comment. Both rumors, however, are causing extreme uneasiness among the political opposition.

In the past, the Brazilian government has rarely used foreign policy issues to rally domestic support; it has preferred to tie diplomatic relations closely to national economic objectives. Brazil regards nuclear development, however, as essential to continued technological and economic progress. For this reason it is increasing its pressure on Bonn to fulfill the terms of the agreement. Brasilia has strongly intimated that if the Germans renege on the provisions for reprocessing, it will look elsewhere to purchase the eight nuclear reactors--currently worth \$4-5 billion--that will provide jobs for thousands of West German technicians.

The fact that Geisel has stated his position pub-

licly makes any compromise politically difficult, especially since his stand met with a favorable response in Brazil. We believe that if the nuclear controversy is prolonged and Geisel does not shift his position, his popularity could increase to the point where he would exercise more control over the choice of his successor than have any of his predecessors. Geisel's term ends in 1979. It is also reinforcing the concept that Brazil needs a military president at a time when the regime is searching for new ways to postpone the return to civilian rule.