

TELEGRAM

Foreign Service of the
United States of America

INCOMING

XX BRASILI

SUBJECT

ACTION *km*
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INFO
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QUITO FOR GORDON

1. SINCE MY RETURN A WEEK AGO I HAVE BEEN PARTICUPARLY IMPRESSED BY NUMEROUS IFDICATIONS THAT THE INCOMING COSTA E SILVA ADMINISTRATION WILL DIFFER RADICALLY IN STYLE AND PERHAPS EVEN IN CERTAIN MATTERS OF SUBSTANCE FROM THE CASTELLO BRANCO ADMINISTRATION. AFTER *THREE YEARS OF CLOSE CO) - 794-589, -, \$ 3;3, 8\$3,58!8:-589, 285# 5#3 ## : ' 53))9 74-,:9 &9;34,,3,5, WE ARE ENTERING A PERIOD WHERE THERE MAY WELL BE SOME SURPRISES AHEAD -- AND NOT ALWAYS HAPPY ONES.

2. ONE COULD, I SUPPOSE, COME TO THIS CONSLUSION BASED SIMPLY ON THE DIFFERENCES IN THE CHARACTER OF THE TWO CHIEFS OF STATE, BUT OTHER SIGNS OF IMPENDING CHANGES ARE BECOMING MORE APPARENT EVERY DAY. THE BASIC AREAS IN WHICH SUCH CHANGE IS MOST EVIDENT ARE: (A) IN THE NAMING OF THE NEW MINISTRY AND THE INITIAL INDICATIONS OF POLICY DECISIONS BEING MADE BY THE NEW

*#THREE YEARS OF CLOSE COLABORATION AND EVEN IDENTIFICATION WITH THE COSTEL [O BRANCO GOVERNMENT, WE ARE ENTERING A PERIOD WHERE THREERE]

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MINISTERS, AND (B) THE GENERAL POLITICAL EBULLIENCE WHICH CAN BE OBSERVED, NOT ONLY IN ARENA AND MDB, BUT ALSO IN VARIOUS GROUPS NOT ADEQUATELY REPRESENTED UNDER THE PRESENT TWO PARTY SYSTEM AND IN THE POLITICALLY ACTIVE PORTION OF THE MILITARY.

3. IN GENERAL, THE NEW CABINET IS COMPOSED OF ABOVE AVERAGE MEN CHOSEN EITHER ON THE BASIS OF TECHNICAL COMPETENCE, FRIENDSHIP OR POLITICAL EXPEDIENCY, BUT TEMPERED THROUGHOUT BY POLITICAL LOYALTY TO COSTA E SILVA. IT IS HETEROGENEOUS AND CONTAINS FEWER TECHNICIANS THAN THE PRESENT CABINET. HOWEVER ITS OUTSTANDING CHARACTERISTIC IS THAT IT CONTAINS A NUMBER OF OPEN CRITICS OF THE PRESENT REGIME. MAGALHAES PINTO, THE MOST OUTSPOKEN AMONG THESE, CLEARLY ASPIRES TO BE THE STRONG MAN OF THE CABINET. A MAN OF FIRM CHARACTER, WITH PRESIDENTIAL AMBITIONS, HE MATURED POLITICALLY DURING THE HIGH POINT OF JANIO QUADROS' CAREER. HE WAS CLOSE TO QUADROS AND APPARENTLY ADOPTED HIS POPULIST APPROACH AS WELL AS HIS NATIONALISM AND "INDEPENDENT" LINE ON FOREIGN AFFAIRS. A WEALTHY BANKER, HE IS, BASICALLY MORE CONSERVATIVE THAN QUADROS. WITH THE RESPONSIBILITIES OF OFFICE HE MAY NOT INTERPOSE INSURMOUNTABLE BLOCKS IN RELATIONS BETWEEN OUR TWO COUNTRIES. HOWEVER, INCONVENIENCES AND RELATIVELY MINOR PROBLEMS ARE SURE TO DEVELOP. HE HAS FREQUENTLY CRITICIZED CASTELLO BRANCO GOVERNMENT FOR RESTRICTIVE ECONOMIC POLICIES, AND ADVOCATED INCREASED QUOTE INDEPENDENCE UNQUOTE FOR BRAZIL.

4. MINISTER OF FINANCE DELFIM NETO WHILE OF THE SAME ECONOMIC SCHOOL AND GENERAL ORIENTATION AS ROBERTO CAMPOS, HAS RECENTLY CRITICIZED CASTELLO BRANCO GOVERNMENT'S EXECUTION OF THE PROGRAM AS NOT ATTUNED TO THE FACTS OF BRAZILIAN LIFE (PARTICULARLY THAT OF THE PAULISTA INDUSTRIALIST AND FAZENDEIRO). MINISTER OF PLANNING AND COORDINATION BELTRAO INTENDS TO CUT BACK THE SCOPE OF HIS JOB TO A MORE TECHNICAL OPERATION AND HE, TOO, HAS INDICATED THAT HE WILL NOT ISOLATE HIMSELF FROM THE BRAZILIAN PEOPLE (AS BY INFERENCE DID ROBERTO CAMPOS) AND THAT HE WILL SEEK BRAZILIAN SOLUTIONS (I.E., WILL NOT SUBORDINATE HIMSELF TO FOREIGN ELEMENTS). THUS THE NEW ECONOMIC TEAM IS TRYING HARD AT THIS POINT TO DIVORCE THEMSELVES POLITICALLY FROM THE CAMPOS/BULHOCES IMAGE WHILE MAINTAINING THE BASIC LINES OF THEIR POLICY. MAGALHAES PINTO HAS TOLD ME THAT HE EXPECTS TO NEGOTIATE ALL INTERNATIONAL AGREEMENTS INCLUDING ECONOMIC.

5. OF THE CIVILIAN-MILITARY ELEMENTS IN THE CABINET, MINISTER

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OF TRANSPORT ANDREAZZA WHO MIGHT BE DESCRIBED A REFUGEE FROM THE SORBONNE GROUP IS REPORTEDLY SUSPICIOUS OF THE INTENTIONS OF CASTELLO BRANCO AND THE SORBONNE GROUP TOWARD THE PRESIDENT-ELECT. MINISTER OF REGIONAL COORDINATION ALBUQUERQUE LIMA IS REPUTEDLY A HARD LINER DISSATISFIED WITH THE ADMINISTRATION'S "SOFT" LINE. MINISTER OF LABOR AND MINES AND ENERGY, EX-COLONELS PASSARINHO AND COSTA CAVALCANTI, FELL INTO DISFAVOR WITH CASTELLO BRANCO AS A RESULT OF THEIR EARLY SUPPORT FOR COSTA E SILVA.

6. THE NEW MINISTERS OF AIR AND NAVY ARE WELL-KNOWN HARD LINERS, WITH THE LATTER PARTICULARLY BITTER TOWARD CASTELLO BRANCO. THE WAR MINISTER ON THE OTHER HAND IS ONE OF THE MOST ARTICULATE OF THE SORBONNE GROUP LECTURING WIDELY AND HAVING WRITTEN MUCH ON THE SUBJECT OF NATIONAL SECURITY. HE IS REPORTEDLY A STRONG BELIEVER IN THE PRINCIPLE THAT POLITICS SHOULD BE KEPT OUT OF THE ARMY AND THAT THE MILITARY SHOULD KEEP OUT OF POLITICS. THE MINISTER OF AGRICULTURE SEEMS TO BE MAINLY A POLITICAL NOMINATION AND HE, TOO, HAS SHARPLY CRITICIZED THE ADMINISTRATION SINCE HIS APPOINTMENT; MINISTERS OF JUSTICE AND HEALTH ARE CLOSE FRIENDS OF THE PRESIDENT-ELECT AND MINISTER OF EDUCATION REPRESENTS A CONCESSION TO FORMER MAJORITY BUT NOW PUSHED ASIDE PSD PARTY.

7. AS BEST CAN BE DEDUCED FROM NUMEROUS INDICATIONS INCLUDING PUBLIC AND PRIVATE STATEMENTS OF PRINCIPALS IN THE NEW GOVERNMENT, THE COSTA E SILVA GOVERNMENT WILL TRY TO MAINTAIN THE OBJECTIVES OF THE ECONOMIC STABILIZATION POLICY OF THE CASTELLO BRANCO ADMINISTRATION. THE SHIFT IN EMPHASIS WILL BE TO PRODUCTION AND GROWTH AS THE MEANS TO ACHIEVE STABILIZATION, SYMBOLIZED BY THE SLOGAN GAINING GENERAL CURRENCY, "PRODUCTION WITH AS LITTLE INFLATION AS POSSIBLE." THE BEST PROGNOSIS WE CAN MAKE AT PRESENT IS THAT CREDIT WAGES AND PERHAPS OTHER AREAS WILL BE LOOSEMED TO PULL THE ECONOMY OUT OF THE CURRENT RECESSION.

8. COSTA E SILVA TAKES OFFICE WITH A NUMBER OF ADVANTAGES. ALTHOUGH THE ELECTION WAS A RESTRICTED ONE, HE IS ACCEPTED AS A CONSTITUTIONAL PRESIDENT PARTICULARLY BY THE MILITARY. HE HAS A READY MADE BASE OF SUPPORT IN THE ARMY, AND IS WIDELY LOOKED UPON AS THE MAN WHO WILL "RESCUE BRAZIL FROM CASTELLO BRANCO'S AUSTERITY PROGRAM." HE HAS AT HIS DISPOSAL A STRONG GOVERNMENTAL MACHINE CAREFULLY CONSTRUCTED BY CASTELLO BRANCO, AND CAN TAKE ADVANTAGE OF A FRAGMENTED

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OPPOSITION, MOST OF WHOSE LEUDERS ARE DISPOSED TO OFFER HIM THEIR SUPPORT. THE PREDOMINANT CHARACTERISTIC OF THE POLITICAL ATMOSPHERE IN WHICH THE TRANSITION TO COSTA E SILVA IS TAKING PLACE IS THAT ALL AREAS ARE IN MOTION AT ONCE, PREPARED EVENTUALLY TO MAKE CONFLICTING DEMANDS AND PERHAPS EVEN TO ALTER THE EXI

STING PARTY STRUCTURE. THE MAJOR POLITICAL FORCES ARE AS FOLLOWS:

(A) THE GOVERNMENT PARTY ARENA CONTAINS A GROUP (ABOUT ONE-THIRD OF THE PARTY) COMPOSED OF NEWLY ELECTED DEPUTIES AND SOME DEPUTIES DISSATISFIED WITH THE PRESENT ARRANGEMENT SEEKING TO WIELD INFLUENCE ON THE EXECUTIVE. PERHAPS IN TIME THIS GROUP WILL BE MILLIFIED, BUT MEANWHILE IT CONSTITUTES A THREAT TO THE UNITY OF THE PARTY.

(B) THE MDB HAS INDICATED IN A VARIETY OF WAYS THAT IT DESIRES TO COOPERATE WITH THE INCOMING ADMINISTRATION. THE EXAPTB MINORITY WITHIN THE MDB, HOWEVER, LEANS MORE TOWARD OPPOSITION TO COSTA E SILVA.

(C) THE FRENTE AMPLA ORGANIZED BY CARLOS LACERDA, WITH JUSCELINO KUBITSCHK'S BLESSINGS WILL ALMOST CERTAINLY END UP IN OPPOSITION BUT IS NOW OFFERING TO SUPPORT COSTA E SILVA IF HE IS WILLING TO ACCEPT IT AND MAKE SOME CONCESSIONS TO LIBERALIZING THE REGIME. LACERDA IS FACING AN UPHILL BATTLE IN BUILDING THE FRENTE AMPLA BUT HIS FORTUNES COULD CHANGE IF COSTA E SILVA FALTERS.

(D) THE HARD LINE, HAS BEEN VOCAL IN ITS DEMANDS ON COSTA E SILVA AND HAS SOUGHT TO INFLUENCE APPOINTMENTS. THE INCREASED PRESENCE OF MILITARY OFFICERS IN THE CABINET IS A GENERAL INDICATION OF THESE DEMANDS AS WELL AS COSTA E SILVA'S PREFERENCE FOR CO-WORKERS OF A SIMILAR BACKGROUND. THE NAMING OF DEPUTY AND BRIGADIER GENERAL COSTA CAVALCANTI TO MINES AND ENERGY WAS A SPECIFIC CONCESSION TO THE HARD LINE. SECOND AND THIRD ECHELON APPOINTMENTS, WHEN MADE, SHOULD GIVE A FURTHER READING ON MILITARY PRESENCE IN THE GOVERNMENT.

9. UNFORTUNATELY THE COMPLEXITIES OF THE POLITICAL SITUATION AND THE CONFLICTING DEMANDS OF THE VARIOUS INTEREST GROUPS PRESENTLY DISPOSED TO COOPERATE WITH COSTA E SILVA MAKE IT VIRTUALLY IMPOSSIBLE FOR HIM TO PLEASE THEM ALL. HIS GOVERNMENT MUST RESTORE GENERAL BUOYANCY TO THE ECONOMY OR ENCOUNTER POLITICAL INSTABILITY PERHAPS

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SERIOUS ENOUGH TO WARRANT A RETURN TO SOME OF THE AUTHORITARIAN MEASURES UTILIZED BY HIS PREDECESSOR. HE MUST ALSO DEAL WITH THE ARTICULATED DISSATISFACTION OF INTELLECTUALS, STUDENTS AND LABOR. THE MDB, FOR ITS PART, IS NOT ONLY SEEKING A RETURN TO DEMOCRATIC PROCEDURES, INCLUDING LIBERALIZATION OF THE CONSTITUTION AND AMNESTY, BUT ALSO WISHES TO PROTECT THE PRESIDENT-ELECT FROM THE HARD LINE AND SORBONNE GROUPS. FOR ITS PART, THE SO-CALLED HARD LINE, WHILE NOT A STABLE, POLITICALLY COHESIVE GROUP, CAN GENERATE ALL BUT IRRESISTIBLE PRESSURE ON CERTAIN ISSUES. NEEDLESS TO SAY, THE HARD LINERS WILL NOT WELCOME CONCESSIONS TO THE INTELLECTUALS, MDB/FRENTE AMPLA GROUPS. THE SORBONNE GROUP WILL BE LOOKING MORE AT COSTA E SILVA'S ABILITY TO PUT A RATIONAL, EFFECTIVE PROGRAM OF GOVERNMENT INTO OPERATION BUT WILL ALSO OPPOSE MAJOR CONCESSIONS TO THE LEFT, OR ANY LOWERING IN THE MORAL TONE OF THE ADMINISTRATION.

10. TO EASE UP ON RESTRICTIVE MEASURES ENOUGH TO KEEP THE OPPOSITION MANAGEABLE AS HE APPARENTLY INTENDS TO DO, WITHOUT CALLING DOWN UPON HIMSELF THE IRE OF THOSE WHO BELIEVE THAT AUTHORITARIAN GOVERNMENT IS STILL NEEDED TO KEEP BRAZIL ON ITS REVOLUTIONARY TRACK, WILL REQUIRE A HIGHLY SKILLED PERFORMANCE. THE IDEAL WOULD BE FOR COSTA E SILVA TO BUILD A POPULAR BASE, WHICH BALANCED OFF AGAINST THE HARD LINE AND SORBONNE MILITARY GROUPS, WOULD GIVE HIM THE MANEUVERABILITY NECESSARY TO RESTORE DEMOCRATIC VITALITY. HOWEVER, THERE WILL BE MANY PITFALLS IN SUCH A COURSE OF ACTION, SEVERELY TESTING COSTA E SILVA'S STRENGTH OF CHARACTER AND POLITICAL LEADERSHIP TO AN EVEN GREATER EXTENT THAN THAT FOCED BY HIS LESS EASILY AROUSED PREDECESSOR.

11. IMPLICATIONS FOR U.S. NATIONAL INTERESTS: ONE HERITAGE FROM THE CASTELLO BRANCO GOVERNMENT IS A REACTION IN MANY CIRCLES AGAINST THE OVER-IDENTIFICATION OF THE CASTELLO BRANCO REGIME WITH THE U. S. EVERY INDICATION AS OUTLINED ABOVE IS THAT COSTA E SILVA WILL MAKE AN EFFORT TO ASSERT A MORE INDEPENDENT POSIHION, LESS CLOSELY TIED TO U.S. A STRONG PATRIOT, COSTA E SILVA UNDOUBTEDLY HAS RESERVATIONS RE MANY PHASES U.S./BRAZIL RELATIONS (E.G., HIS VISCERAL REACTION TO THE CIAP LETTER) AND WILL BEND OVER BACKWARDS TO AVOID BEING IDENTIFIED AS AN "ENTREGUISTA." LESS SCHOOLED IN WORLD AFFAIRS THAN HIS PREDECESSOR, WHOSE STRONG TIES WITH THE U.S. AND INTERNATIONAL OUTLOOK WERE STRENGTHENED BY HIS PARTICIPATION IN THE ITALIAN CAMPAIGN, COSTU E SILVA IS LIKELY TO GIVE MORE PRIORITY TO "NATIONAL INTERESTS" IN THE NARROW SENSE OF THE WORD AND IN BUILDING UP HIS

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OWN POPULARITY THAN CASTELLO BRANCO. WHILE HE MAY NOT ATTACH THE SAME VALUES TO IT AS CASTELLO BRANCO DOES, COSTA E SILVA IS NONE-THELESS FULLY COMMITTED TO THE WESTERN ALLIANCE AND TO COOPERATION WITH THE U.S. (WHICH WAS CLEARLY STRENGTHENED BY HIS PERSONAL CONTACT WITH PRESIDENT JOHNSON); THUS, OUR DIVERGENCIES ARE MORE LIKELY TO BE ON STYLE AND TACTICS AND ON RELATIVELY MINOR ISSUES THAN ON MATTERS OF BASIC POLICY. THE DANGER WILL EXIST ON COURSE THAT, WITHOUT FULLY REALIZING IT, COSTA E SILVA MAY TAKE POSITIONS ON A NUMBER OF RELATIVELY MINOR PROBLEMS WHICH CUMULATIVELY COULD ADVERSELY AFFECT HIS OVERALL POLICY. HOWEVER, BASIC U.S. AND BRAZILIAN OBJECTIVES AND VIEWPOINTS WILL CONTINUE LARGELY PARALLEL. THE METHODS WHICH BRAZIL CHOOSES TO ACHIEVE HER OBJECTIVES MAY NOT ALWAYS CONFORM TO OUR OWN VIEWPOINTS OR PREFERENCES BUT THIS WILL NOT NECESSARILY BE ENTIRELY TO THE U.S. DISADVANTAGE SINCE RELATIONSHIPS MORE REALISTICALLY ATTUNED TO BRAZILIAN OPINION COULD IN THE LONG RUN LOWER THE TEMPERATURE OF ANTI-AMERICANISM HERE.

12. WHILE THIS TELEGRAM, AND PREVIOUS MESSAGES, HAVE SOUNDED A WARNING NOTE, I SEE NO REALISTIC ALTERNATIVE TO GIVING OUR SUPPORT TO COSTA E SILVA. EVEN WITH THIS SUPPORT HE MAY NOT BE ABLE TO ACHIEVE ALL WE EXPECT OF HIM BUT WITHOUT IT HE STANDS LITTLE CHANCE OF SUCCESS. IF HE FAILS THE COUNTRY WILL LIKELY BE SET BACK AT LEAST ANOTHER DECADE MUCH AS HAPPENED AFTER THE QUADROS RESIGNATION. RETICENCE OR HESITANCY ON OUR PART AT THIS CRITICAL JUNCTURE WOULD ONLY INCREASE THE DANGER OF EXTREMISM, OF EITHER LEFT OR RIGHT VARIETY, IN THE FUTURE.

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