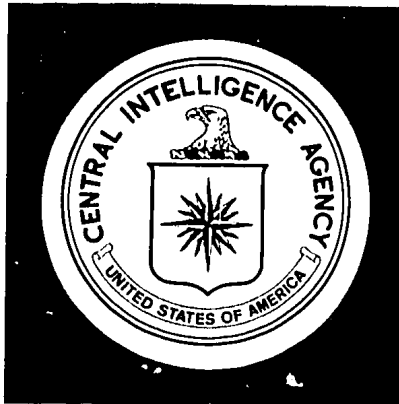


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Weekly Summary

Special Report

Brazil: Geisel Takes Over

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Geisel Takes Over

Ernesto Geisel is the fourth army general to assume the presidency since the 1964 revolution. His inauguration marks the culmination of a process begun well over a year ago and developed without the air of tension that accompanied all previous changes of government since the revolution. Basic policy directions—top priority to economic development, continued stress on rooting out subversion, and further attention to expanding Brazil's international prestige—are likely to remain unchanged. The new President will have ample opportunity to demonstrate his considerable competence in dealing with a number of economic and, to a lesser extent, political challenges.

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Geisel and members of Congress



Background

Geisel was formally confirmed as president on January 15 by a special electoral college composed of the national congress and a number of state legislators. He had earlier been designated by Medici, in consultation with leading members of the military establishment. The smooth transition to Geisel differs markedly from earlier successions since 1964. In 1967, Costa e Silva had maneuvered himself into the presidency by becoming the spokesman for officers who called for harsher

policies than those of Castello Branco, first of the military presidents. When Costa e Silva was incapacitated by a stroke in 1969, wrangling among generals who wanted the presidency led to the installation of Emilio Medici as a compromise candidate.

Medici undoubtedly had all this in mind when he began to plan for the succession, and he laid the groundwork carefully. Several factors enabled him to deal from a position of strength his predecessors did not enjoy. One is the



Castello Branco ('64-67)



Costa e Silva ('67-69)



Medici ('69-74)

Special Report

March 15, 1974

SECRET

SECRET

25X1

performance of his administration. Sustained economic growth and virtual cessation of serious terrorist activity solidified support behind him. His demonstrable success prevented the emergence of a serious challenger who could appeal for support to military officers dissatisfied with the regime's performance. Then there is Medici's choice of Ernesto Geisel, highly regarded by the military establishment as well qualified to administer the next phase of the revolution.

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Ernesto Geisel

The presidency of Brazil caps a career that has included a variety of high posts. A retired four-star general, the 65-year-old Geisel most recently headed Petrobras, the national oil enterprise. Under his guidance the company pursued highly aggressive policies to help fulfill the needs of an increasingly oil-thirsty nation. Because Brazil has relatively little oil of its own, the company undertook numerous ventures overseas and, in the process, became Latin America's largest corporation.

Geisel also served as a judge on the Supreme Military Tribunal, which has jurisdiction over cases involving national security matters. In that capacity he delivered tough, well-articulated

opinions. A leader of the movement that ousted left-leaning President Goulart in 1964, Geisel served as chief military adviser in the cabinet of President Castello Branco.

It appears that Geisel's cabinet will be hard-working, competent, and entirely trustworthy. None of the ministers has an independent power base, and all are expected to be responsive and subordinate to the President. Geisel is accustomed to running his own show and, unlike his predecessor, will keep a firm grip on the day-to-day formulation and execution of policy. Some observers also feel that Geisel will be more nationalistic



Reis Velloso
Minister of Planning



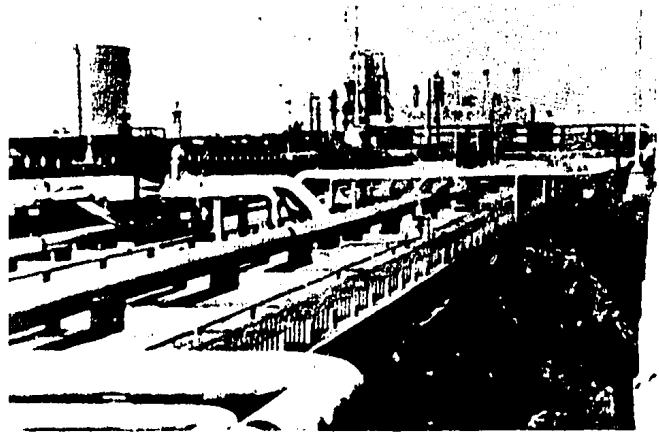
Shigeaki Ueki
Minister of Mines and Energy

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New refinery, the sixth built by Petrobras



One of the largest petrochemical complexes in South America at Santo Andre



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than Medici, especially with respect to the terms governing foreign enterprises wishing to operate in the country.

Economic Problems

To implement economic policy, Geisel has chosen as finance minister Mario Henrique Simonsen, a 39-year-old economist who is highly accomplished in academic, business, and government undertakings. Simonsen, like his predecessor, favors the energetic pursuit of growth rather than redistribution of income. Another important member of the economic team is the current planning minister, Reis Velloso, also an able economist, who will remain in that post. Geisel's chief financial adviser at Petrobras Shigeaki Ueki, will join the cabinet as minister of mines and energy.

Even though Brazil's economy has been booming for several years and is in no apparent danger in the near-term, it is possible to discern areas of concern to the new administration. One is inflation, which the incoming finance minister views as a serious domestic problem. Last year the cost-of-living increase exceeded the regime's stated goal of 12 percent, the first time Medici had failed to hold it to the mark set. Rising import prices, as well as unusually large increases in the money supply, fueled the inflation. Especially hard hit were prices of staples such as rice, beans, beef, and milk. In an effort to stem the upward trend, the government put controls on prices, limited food exports, and imported some basic items that were in particularly short supply. Nonetheless, there have been shortages in food stores. Geisel's selection of several agricultural experts for cabinet posts suggests that he intends to place great emphasis on increasing Brazil's food yield as one way of dealing with shortages and inflation.

Since Brazil must import most of its oil and consumption is constantly rising, the sharply higher price of crude also contributes heavily to inflationary pressures. Already this year there have been two substantial price hikes for gasoline. Inasmuch as the new President has a specialized knowledge of oil and the oil industry, Brazil will certainly continue to improve its techniques in



Mario Simonsen
Minister of Finance

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the quest for more petroleum. Innovations may include barter deals exchanging such commodities as sugar, rice, and soybeans for crude. Geisel may even call on foreign oil firms to assist in difficult and expensive exploration within Brazil. In a nation traditionally wary of allowing foreign exploration, Geisel's credentials as an oil expert and a strong nationalist would place him in a far better position than any other Brazilian to consider such a move.

The high price of imported oil has caused some decline in Brazil's foreign reserve holdings. The drop prompted the government to abandon a 40-percent deposit requirement that it had imposed on the heavy influx of foreign loans last year as a means of curbing inflationary pressures. Brazil hopes that the relaxation will encourage foreign lenders, who have lately shown some hesitation in dealing with Brazilian enterprises. Since the country's foreign reserves are considerable, no real threat is seen for the short term. Careful management may be needed, however, to avert more serious, long-run consequences.

Brazil's practice of relatively frequent "mini devaluations" of the cruzeiro is apparently being altered and may undergo further changes. There have already been two devaluations this year, both larger than usual. Brazil's exporters have claimed for some time that the cruzeiro is overvalued relative to other world currencies, perhaps by as much as 10 percent, thus reducing their ability to compete. The Geisel administration may further step up the pace and scale of devaluations to assure a competitive edge in trade.

There is also a possibility that the government program of incentives to export industries may be revamped. The US is considering countervailing duties on Brazilian shoes, which have made large inroads in the US market, claiming Brazilian subsidies to the industry give it an unfair advantage. If such a move is carried out, Brasilia fears similar measures against its other manufactured exports. The incoming finance minister reportedly favors less direct subsidies and greater use of exchange rate adjustment to encourage exports.



Problems to be resolved

Foreign Policy

Geisel is not likely to make any significant changes in Brazil's independent but essentially pro-Western foreign policy. Outside Latin America, and especially in international forums, Brasilia will continue to pursue commercial advantages aggressively and seek to play an increasing role in international affairs.

In inter-American conclaves, Brazilian diplomacy is now attracting a bloc of conservative countries that includes Chile, Bolivia, Uruguay, Paraguay, and most of Central America. At the same time, Foreign Ministry officials will remain alert to any attempt by the Peron government in Argentina to isolate Brazil from the Spanish-speaking countries, particularly those in the Andean Pact.

The new foreign minister, Antonio Azeredo da Silveira, is a "Brazil firster," an ardent nationalist. He has served since 1969 as ambassador to Buenos Aires and is considered an expert on River Plate affairs. He does not, however, appear to

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have the personal stature to shape bold new policy directions on his own. Brazil already has strong economic ties with neighboring countries and will continue to be sensitive to their fears of its growing power.

undesirables—largely old style politicians—had their political rights suspended. They thus become eligible, in theory, to re-enter public life. At least one of them, former President Juscelino Kubitschek, remains well-known and popular. Geisel might decide to extend the period of suspension, but he is more likely simply to warn them to remain inconspicuous.

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Political Outlook

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The revolution has all but eliminated the old style, free-wheeling politics, which the military judged to be overly cynical and corrupt. Within the narrow confines of the "system" now in effect, however, Geisel will need to make a number of essentially political decisions, some of which could be more than routine.

One decision concerns senatorial and gubernatorial elections scheduled for later this year. Geisel, as his predecessors did, will pass on the acceptability of candidates. He has already begun preliminary groundwork in the state of Rio Grande do Sul, where he recently prevailed on the announced senatorial candidate—whom Geisel deemed a weak entry—to withdraw publicly from the race. The man Geisel apparently favors, however, reportedly may be unwilling to run. Geisel can be expected to continue his close scrutiny of Rio Grande do Sul, both because it is his home state and because the factionalized official party experienced setbacks there in recent local elections.

This year marks the expiration of a ten-year period during which a large number of political

There have been extensive rumors—nourished largely by those who stand to benefit—that Geisel may undertake some sort of general liberalization regarding censorship, relations with the church, and restrictions on political activity. Geisel, however, is well aware that despite promises by his two immediate predecessors to "humanize the revolution" and to "restore full democracy," neither felt confident enough to take steps in this direction. Thus, Geisel, in keeping with his reserved ways, has made no such public promises. He has avoided direct comment on the matter, stressing instead the need for hard work and continued vigilance, especially in the face of continued violence in other countries.

Yet the successes of the Medici regime—which all but eliminated the terrorist threat—have created conditions in which the military establishment might well go along with a very limited liberalization. In fact, Geisel's reputation and the respect in which he is held by civilians and military alike place him in a position from which he could, should he choose, carry out a modest easing in one or more areas.

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Special Report

- 7 -

March 15, 1974

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