

CENTRAL INTELLIGENCE AGENCY
Office of Current Intelligence
24 April 1963

CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: Situation in Brazil

1. Another major public crisis in US-Brazilian relations was narrowly averted last weekend when the Goulart Government finally honored its commitment to purchase US-owned public utilities in Brazil. Doubt as to Brazil's intentions on this question had caused a two-week delay in the release of US funds arranged for during Finance Minister Dantas' recent visit to Washington. Continued refusal by Brazil to carry out its agreement would have in effect washed out the Dantas negotiations. It would also have prejudiced Brazil's negotiations for aid from European countries and the International Monetary Fund.

The Economic Situation

2. Brazil's foreign exchange position has been deteriorating rapidly despite a reduction of imports and virtual cessation of profit remittances. Commercial arrears totaled \$138.2 million on 1 April, including arrears to petroleum companies of some \$37 million. A further debt to petroleum companies of \$17.7 million accumulated in 1962 has been postponed to September 1963.

3. The cost-of-living in Rio de Janeiro rose 16 percent in the first three months of 1963, rising 9.7 percent in March alone. The recent March rise probably gained impetus from the government's large currency issuances last December, which are now having peak effect in the banking system, and from the removal of subsidies in January. Government tightening of credit should begin to show effect this month. However, announcement of the March price rise may give rise to additional criticism of the government's stabilization program and generate other unfavorable effects such as increased wage demands.

State Dept. review
completed

DIA review(s)
completed.

Communist Gains

4. The deepening economic crisis favors further Communist gains. In recent months the Communists have made notable progress in labor organizations and in the administration of Pernambuco state. They now direct three of Brazil's five national labor confederations, including the National Confederation of Industrial Workers, the largest and most powerful, and have a fair chance of taking over the other two confederations this year. The Brazilian Labor Minister is said to be pressing for the establishment of the pro-Communist General Workers Command as a directing organ for all Brazilian labor. This step would give the Communists increased influence not only over urban labor, but also over rural labor, which is now beginning to organize.

5. In Pernambuco state, pro-Communist Governor Miguel Arraes has appointed Communists and extreme leftists to key positions in his administration. President Goulart recently told Ambassador Gordon that Arraes would be sobered by executive responsibility. In fact, however, Arraes is depending more on Communists at present than he did in his previous position as mayor of the Pernambucan capital of Recife.

6. Particularly significant among Arraes' appointments is that of Diogenes Arruda Camara, who directed the Brazilian Communist Party during the late 1940's and early 1950's when Secretary General Prestes was in hiding. Arruda Camara has fallen from favor in the party because of his advocacy of a hard line, in contrast to the party's pro-Khrushchev position, but he is still one of the party's most important members. He is apparently in charge of Pernambuco's agrarian reform program. Arraes' new police chief is Humberto Andrade, for years a faithful ally of the Communist Party, [redacted]

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7. In the Brazilian national congress, the Communists have not thus far openly pitted the Nationalist Parliamentary Front--which they influence strongly--against the anti-Communist Democratic Action. They may show their hand, however, if Goulart

pursues his apparent intention to get congress to modify the constitutional amending procedure. He appears to be interested in an amendment permitting his own reelection, a move which the Communists would probably favor.

Unrest Among the Military

8. Increased Communist and pro-Communist influence in the Brazilian government and particularly in organized labor has heightened tension in the Brazilian military. Both Goulart and the military are aware that a government with strong backing from organized labor would stand a good chance of resisting military pressure for many years, as did Juan Peron in Argentina.

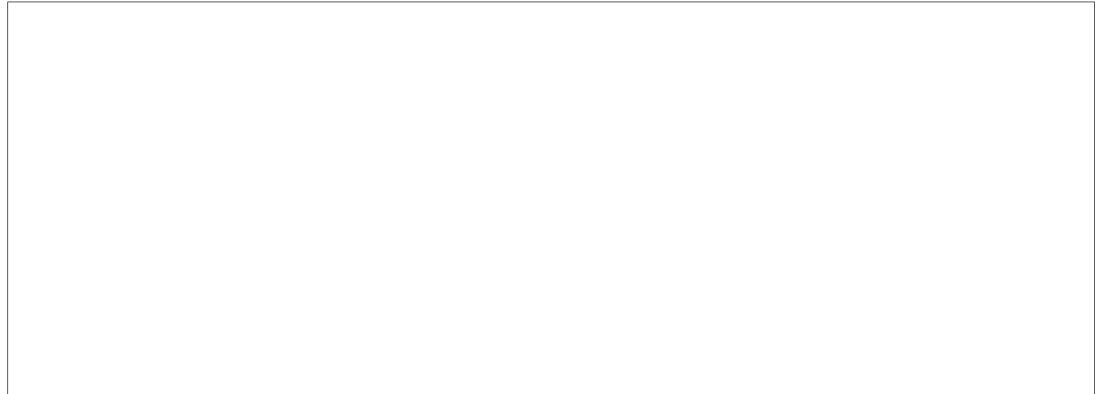
9. The military are also seriously concerned about Goulart's promotion policies. They realize that in time he could go far toward neutralizing his opposition in the armed forces through further selective promotions and reassignments. They also realize that their careers will be adversely affected, at least in the short run, if they become closely associated with anti-Goulart activity.

10. At present, a majority of the armed forces officers are anti-Goulart, but pro-Goulart officers occupy a considerable number of key positions. In the powerful First Army, near Rio de Janeiro, pro-Goulart officers now hold the post of army commander, the three key division commands and some subsidiary positions. Goulart has fewer adherents in the Second and Third Armies, and is weak in the small Fourth Army. This unit, however, is stationed in Pernambuco, far from Brazil's center of power.

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12. General Amaury Kruei, Goulart's War Minister, who has frequently made anti-Communist pronouncements but has taken little anti-Communist action, may hold the balance in the situation. An influential but ambiguous figure, he has reassured elements fearful of the government's leftist orientation that he is a bulwark against Communist subversion. At the same time, however, he has convinced Goulart and his labor allies that he is on their side.



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Foreign Policy

13. The Goulart government's handling of its recent agreement with the US reflects its "independent" foreign policy, which is designed to demonstrate its ability to take positions opposing or at least differing from those of the United States. Brazil has recently encountered difficulties, however, in expressing its independence by the establishment of closer relationships with other great powers. Brazil has been especially anxious to make closer contact with De Gaulle, whose foreign policy it considers "truly independent," but has been frustrated in this by its recent dispute with France over fisheries. Brazil's efforts to gain increased trade and aid from the Soviet bloc have also apparently failed to fulfill Brazil's initial expectations. Protracted negotiations with the USSR for renewal of the Brazil-Soviet trade agreement which expired on 31 December 1962 were only completed on 20 April;



Outlook

14. President Goulart seems likely to continue his efforts to increase his personal power, primarily by strategic reassignments and promotions within the military and by building a more powerful labor movement. Goulart will probably continue trying to use Communist and pro-Communist forces in both these efforts and is likely thereby to add significantly to Communist strength in Brazil. In these circumstances the military may well continue weighing their chances for a successful coup until Goulart can neutralize their capability for taking action.

BRAZIL'S CONVERTIBLE FOREIGN EXCHANGE RESERVES
As of 28 February 1963

(Millions of US Dollars)

Unpledged Gold	Freely Available US \$	Other Freely Available Curr.	Total Net Reserves
20.8	26.6	5.6	53.0

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