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United States Government
MEMORANDUM

TO : Grant G. Hilliker, Consul General DATE: September 19, 1967

FROM : John D. Barfield, Deputy Principal Officer

SUBJECT: Alagoas: An Incipient Success

To:	Actn	Inf	Init
PO		✓	✓
DPO		✓	
POL		✓	
POL/R			
CONS			
ADMIN			
USAID		✓	
USIS		✓	
PC			
FILE			

Objective

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Reading File

I visited all but the least significant of the six states of the Recife consular district shortly after my arrival early this year to determine which, in my judgment, offered the greatest opportunity for constructive U.S. action for the most significant positive results with the least effort. After an interval of several months for research, observation and area familiarization, I returned for a lengthier visit (five days) to test my initial impression in depth. I consider this important because if the war in Vietnam should end, there would probably be a recrudescence of interest in large scale assistance to appropriate developing areas.

Method

I was able to get a good overview of the State of Alagoas by means of an eight hour flight during April in a private plane with Dr. Alcides Braga, Director of the State Development Planning Agency (CODEAL) and Mr. Charles Yancey, USAID contractor on agro-industrial matters. At the same time, initial conversations with the Governor and members of his staff were held to get a preliminary feel for the political climate. The initial impressions were quite positive, the more so because they were in such stark contrast with some impressions formed elsewhere. Following a four month lapse, I returned to Alagoas during the period September 4-8 for an active round of conversations in depth with the most influential elements of the community. The purpose was to test my initial impressions as well as to assess the situation in terms of what, if anything, might be done by the United States to achieve results likely to be in the best interests of Brazil, Alagoas and the United States.

Results

The initial visit was more than sufficient to establish the overwhelming importance of Governor Lamenha Filho in Alagoas.

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This is accentuated by the fact that no serious vocal or discernible opposition to him exists in the State notwithstanding the traumatic conditions of his rise to power. All previous governors back to 1925 have been objects of serious controversy but this one seems to have pacified all significant power constellations.

It was abundantly clear to the reporting officer that an opportunity to talk at length with Governor Lamenha Filho under informal conditions would be imperative if he were looking for a character and program assessment in which some confidence would be placed. USAID Chief of Party Neil Boyle* who is exceptionally well regarded by Alagoans - somehow arranged for the Governor and the President of the State Assembly, Antonio Gomez Barros, to host a shirt sleeves dinner September 6. The results of this extended conversation were most reassuring.

The Governor is a man of slightly more than average height, well formed and ruggedly handsome. He is approximately 48 years old and still has black hair. He radiates self confidence of a type not to be in the least associated with arrogance. He is easy and direct in conversation, displaying more concern for substance than form and listens attentively, occasionally interjecting a question reflecting lively interest. It is clear he is a man of varied and complex interests with a real but controlled zest for living. He is diplomatic and articulate and establishes rapport easily. The most immediate and forceful impression one gets when talking to Lamenha is that here is a realist who knows what he wants and is willing, and even desirous, of embarking on what seems to him the most realistic course with controlled enthusiasm and a high degree of self confidence.

The conversation began with Lamenha saying he had undertaken a program similar to FDR's "fireside chats" throughout Alagoas because his experience indicated that the people would support a reasonable program explained to them in their own terms. He does not inflict on the people in a given area a lot of global problems but talks to them about what is bothering them and asks for suggestions. He described how he did this in Santana recently and completely disarmed a potential source of opposition who concluded by joining him in a joint program for the future. Lamenha attributed this to the recognition on the part of his potential opponent of the fact that the people of the area had been persuaded and would not welcome opposition based on self serving political interests of a personal nature.

*San Francisco State RITA project.

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Then Lamenha, in a manner conveying an impression of sincerity and conviction, returned to a subject he had broached briefly in a previous encounter - development. He emphasized that the 4th Army would not be enough to contain the social forces now building up in the absence of a significant degree of development and the key to development in Alagoas, he said, is people. Every day he realizes the administrative and technical inadequacy not only of the people of his state but of the very people working for him. It is here that the assistance of the United States would be vital and welcome in the development of a state rich with potential.

Turning to Mario Fortes Melro, the young U.S. educated engineer now heading Project ASA, the Governor commented on one of the obstacles he had encountered in clearing the decks for a meaningful developmental action program. He lamented the unprogressive attitude of the Rector of the University of Alagoas which had resulted in an important loss of time in effecting a new mentality in Alagoas. It seems that originally Project Rita was placed under the direction of the University of Alagoas which proved to be an uncongenial ground for growth due to thick incrustations of traditionally-oriented and academically-minded professors in the faculty, particularly at the top. The Governor was simply confirming that through a series of careful and adroit manipulations the people in the state most capable and highly motivated toward realistic development had finally been institutionalized (to be formalized September 16) in Project ASA - an outgrowth of the original Project Rita, the success of which, after serious initial problems, is due in no small degree to the skillful persistence and diplomacy of Chief of Party Neil Boyle.

Lamenha uttered his regret that Alagoas had not taken steps in time to see that enough of its native sons were in positions of influence in SUDENE which accounts in part for why Alagoas has not participated at an equitable level in the largesse of that agency. At that point, he asked the reporting officer to ask the Embassy to assist him in pointing out to the Ministry of Agriculture the need for greater attention to the agricultural development needs of Alagoas.* It also emerged that Lamenha is quite pleased with the Costa e Silva Government except in its slowness to liberate verbas (appropriations) for various state projects. However, Lamenha stated his willingness to do battle with the SUDENE leadership when a development

*ConGen has no intention of inserting itself into Brazilian Government processes as the Governor suggested.

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program is outlined. Central to such a plan is the need for technically trained people, and his idea is for ASA Chief Melro to visit the United States in the near future to talk with various university and college people to investigate the possibility of an agreement to assist in the development of such personnel. He would then go personally to SUDENE to push for the financing for such an agreement (he is also reportedly willing to help finance such a program from State funds and it should be noted that Cr138,000,000 have already been appropriated for Project ASA to keep it afloat until the next budget). - old cruzeiros 138,000,000, that is.

It is interesting to note that a plan to use Brazilian teachers from the Center/South at the graduate level ran aground on the stubborn resistance of the University of Alagoas which, according to the Secretary of Administration of Alagoas, was predicated in part on the belief of the Rector and his top associates that they would be relegated to positions of lower prestige and influence if they permitted this wave of idealistic pragmatism to establish itself formally within the University's hallowed walls in the form of a graduate department. The Rector even declined to sign a letter prepared for him which would have possibly resulted in his securing a department of graduate industrial engineering at no cost to the University. This refusal did contribute, however, to the Governor's quietly expediting the institutionalization of Project ASA. Now that the Governor has apparently given up on the idea of using the University - for the time being - as a development vehicle, he has not neglected to cut off excessive opposition and criticism from that source. This he has done by appointing the Rector's son to an important post in his government ... Director of the Water and Sewage Department (CASAL). An additional bonus is that the son is not the customary political hack but reveals insight into the problems and a desire to get things done (he invited the reporting officer to take a plane trip to Batalha to see the State financed Bacia Leitera project there after an interesting and detailed explanation of the project).

At this point one might inquire into the Governor's tenure. His mandate ends in 1970 and all are agreed he will likely be able to name his successor. A further indication of his political astuteness is the fact he has not indicated whom he will support, which leaves everyone interested in the job anxious not to incur the Governor's displeasure in the fond hope the finger will be pointed at him. Lamenha's engaging sense of humor was

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revealed by his laughing comment that if he had to entertain all those interested in taking his place he "would have to entertain buffet style because there are not enough seats at the table." The point is that, barring complications on the national level, continuity seems reasonably well assured in the absence of Lamenha's death. During a conversation in which the reporting officer participated someone asked the personal secretary of the Governor whom Lamenha liked as his successor and before the question could be answered one of the contenders, the Legal Advisor to the State Assembly, intervened to say that even if the personal secretary knew he should not say as this would be an important violation of confidence. Perhaps the apparent situation in which all likely candidates are trying to outdo each other for his support is one from which Lamenha correctly feels he can draw the greatest practical results. Although ASA Project Chief Melro's father-in-law Antonio Gomez Barros, President of the State Assembly, is said by some to be the likely nod recipient, this is by no means assured.

The most important subject in Alagoas is development. The Governor seems to have eliminated the usual crises just so he could clear the field for development. This is apparent from the fact that he spends his day talking to persons involved in this activity. The ASA Project now has airconditioned quarters of large size allocated to it and Mario Melro spends a great part of the usual day in conference with the Governor.

One problem the Governor found when he took up the mantle was a strong resentment on the part of younger professional people based on what they considered the tendency of past governors to discriminate against them in favor of older politicians and businessmen. For example, the President of the Federation of Industries held (and holds) five other important posts including the presidency of the local telephone company. In fact three such persons seemed to hold a monopoly on all the choice posts. Representatives of this group concede, however, that Lamenha is moving slowly to correct this. He has appointed four or five younger men to his cabinet and staff and, when necessary, (as in the Project ASA case where Melro now reports directly to him) has removed certain functions from the more traditional and staid elements. Lamenha is not moving precipitously, however, because he recognizes the power of the traditional group and, in some cases, its ability. Meanwhile, he is assiduously cultivating among all elements a change in attitude designed to effect a receptivity to new, more efficient techniques. He has not been successful as yet

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at the University though he has avoided open conflict and even preserved good will as evident from the comments of the Rector. He has, however, been successful with the sugar industry and with many of the businessmen. For example, the President of the Commercial Association told the reporting officer in excited, emphatic tones that he and people like him had reached the ceiling of their ability in terms of developing Alagoas and in order for important sums of money to be invested there technicians and entrepreneurs of wider horizons would have to be developed. Also, this thought and fact is excellently and accurately expressed in USAID specialist Charles Yancey's report on page 19.

An appropriate question at this point might well be related to what there is in Alagoas to develop and its overall economic potential. A qualified viewpoint on this came from Mr. Alcio Chagas Nogueira, Regional Delegate of the Central Bank of Brazil in Recife who was once Secretary of Finance of Alagoas but is not a native of said state. He told the reporting officer that if Alagoas were correctly developed it could be more important economically in ten years than Pernambuco. The eight hour flight over Alagoas referred to above convinced both the reporting officer and USAID specialist Charles Yancey these were not idle words. Yancey comments as follows:

"Alagoas is the third smallest state of Brazil (only one fifth the size of Ceara), having an area of 10,659 square miles, and a population of 1,563,000 (est). Due, probably, to its long sugar cane monoculture, its general economy is poor and undeveloped, as far as both agriculture and industry are concerned.

"Nevertheless, a careful survey shows that this small state has such a surprising variety of agricultural field and tree crops and potentially abundant supply of resources as to enable a more impressive and concentrated development of commercial crops and agro-industrial plants than anywhere else in Northeast Brazil. (Underlining mine).

"Because of the undeveloped nature of its extremely varied agricultural products, the rich potential of its natural resources, and the willing attitude of its people, the state of Alagoas could be used as a very impressive concentrated, and profit-making demonstration of the socio-economic value of U.S. technology and assistance."

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Governor Lamenza has an action program utilizing the Project ASA staff which he has carefully nurtured to the point of institutionalization. That is to send his emissary (Mario Malro) to the United States to investigate the possibility of a three or four year agreement with a U.S. university or universities to train both the middle level technicians and engineers required to eliminate his development bottleneck and man the projects which have been and will be formulated. Under the agreement - which he intends to make, if necessary, without help - he hopes to secure assistance in establishing teaching facilities to enable the returned technicians and engineers to teach other Alagoans as well as push ahead in the establishment of new agro-industries. When the program is reduced to paper he intends to appear personally at SUDENE to press vigorously for its approval.

Recommendations

The reporting officer strongly recommends that the U.S. support Governor Lamenza in his program, particularly if the war in Vietnam should end, for the following reasons, inter alia:

1. Persuasive political reasons exist for doing everything possible to achieve higher levels of development in the Northeast. Before arriving in Brazil I listened to a long and impassioned presentation on the part of the former Venezuelan Ambassador to Brazil to the effect that the Northeast constitutes the most potentially dangerous area in Latin America in terms of Latin American security. Since arriving, it is apparent that the less privileged segment of society is losing ground economically, particularly in Pernambuco. The Director of SUMOV (Superintendencia Municipal de Obras e Viação) of Maceio told the reporting officer in forceful language how the laborer is an extremely patient and submissive person who does not usually react aggressively to inequities but under present conditions - which he compared unfavorably to those existing before the Revolution - might so react if conditions should become politically propitious or deteriorate too far. He described the almost incredible cruelty of insensitive bosses, mentioning particularly a case that occurred when he, Edson Maia Carlos, was working at the Usina Barreiras (a large sugar mill in Pernambuco) as a mechanical engineer in charge of maintenance of equipment. A worker who was crying bitterly did not want to relate the reason. Knowing this was something seldom done by workers except in real distress he inquired of someone likely to know what the trouble was. It developed that

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the wife of this worker had started serious hemorrhaging but he had been told by the boss that because the two medical visits allowed by the regulations had been used for that morning his wife would not be permitted medical treatment. Maia countermanded the order and sent the doctor to the wife, thus earning the implacable enmity of the boss. Maia says all the worker wants is a minimum of consideration as a human being and enough to eat and all too many people are unwisely giving him neither. He said the problem is much worse in Pernambuco but also exists in Alagoas.

2. A very receptive attitude exists in Alagoas. All the contacts the reporting officer made indicated the desirability of U.S. technical assistance. Money as such was not stressed because they feel that with the technicians they can do the job. They express their willingness to provide part of the required resources on projects which the U.S. will support and their pride in having done a lot already on their own.

3. Alagoas is now involved in considerable self help. The sugar industry has moved much of its growing operation to the table land as recommended by the GERAN report and is bringing four more U.S. technicians to Alagoas at the expense of the organization to advise on sugar operations (American Factors has a small group there now). A water pumping system from the Sao Francisco River has been completed as far as Batalha which will supply water to eight municipalities in the Bacia Leitera where a large dairy products center is contemplated. (Already a powdered milk plant is in operation). Two dredges are hard at work in Maceio providing the fill for the sugar terminal which will introduce conveyor bulk loading and greater dock area for ships.

4. Alagoas appreciates U.S. assistance and anti-Americanism is not discernible among the population. The Governor and other contacts uniformly expressed appreciation for what USAID has done and a receptivity for further assistance. There have been no anti-American demonstrations by students or otherwise in recent years. It would seem appropriate to help such people if help is intended for anyone.

5. Alagoas' relatively small size, rich natural resources and enthusiastic people make it the perfect spot for a showcase demonstration of U.S. effectiveness, something which would serve a useful purpose as a glaring antithesis of Castro's "paradise." Federal Senator Teotonio Brandao Vilela made a special point of

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telling the reporting officer at a luncheon that Alagoas would be a good state for the U.S. to assist to economic maturity because all the indicators are positive. He was very complementary of Governor Lamenha. He also said it would be most helpful if bank interest could be lowered, apparently for the benefit of the President of the Banco da Produção who was sitting next to him. Incidentally, information was forthcoming that BID has agreed to a loan on the basis that the money - which would be loaned directly to entrepreneurs - would be at the rate of 14% instead of the prevailing 24-26%. (In this regard, those in USAID responsible for the selection of Banco da Produção Director Eurides Porongaba for a study grant to the U.S. should be commended as he is obviously a dynamic young banker on the move with the right philosophy).

6. If successful, Alagoas will constitute an example for other states. A large agricultural enterprise involving irrigation could well be established on the Sao Francisco River which could be used as a school of agricultural technique as well as serving as a supply for cheaper food for the hungry Northeast. It is also likely that others would contemplate the wisdom of cooperating with the U.S. in a program which would involve minimum U.S. visibility but maximum results.

7. Alagoas has received relatively little assistance from the U.S. So far, direct assistance totals approx. \$8,566,000 (Dec. 31, 1966). This compares with \$181,100,000 for the Northeast in the same period (not including sugar subsidy and wheat sales). Direct assistance for Brazil totals approximately \$3,000,000,000. As Alagoas Secretary for Planning IB Gatto Falcao good naturedly put it, "The U.S. spends preponderantly more in the Center/South where the need is much less and where \$100,000,000, which would produce dramatic results in Alagoas, scarcely makes a ripple on the surface and goes relatively unappreciated." He admitted, however, that Alagoas is not now in a position to absorb such huge sums but stated a goodly amount could usefully go to creating the human infrastructure of technical skills which would vastly augment the absorptive capacity of the state. Incidentally, Gatto is an M.D. who once saved the life of Governor Lamenha and still performs three operations daily. As a former Secretary of Health he supervised the initial entry of the Peace Corps into the state and now has nothing but praise for it. It is also noted that only approximately 12% of the persons who have gone to the United States for participant training, as listed in the Directory of Returned Participants published April 1966, have been from the Northeast. I understand the ratio is more favorable to the NE currently, however.

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SUGGESTED ACTION PROGRAM

In the event it is decided to give limited or full support to Governor Iamenha's program, the following approach might be considered:

1. Provide a three week travel grant for Mario Melro in order that he may contact appropriate persons at several universities to explore the possibilities for an agreement between Alagoas or an agency thereof and one or more of the universities for technical training. Another reason would be for him to attend the November meeting in Washington of the Partners of the Alliance which will be devoted to industrial opportunities in Latin America. The report of the ASA Project (prepared in English) provides feasibility studies on several projects for which this occasion could be used to look for financing. Also, the very comprehensive and admirable Agro-Industrial Analysis of the State of Alagoas prepared by Charles Yancey for USAID could be most profitably used on this occasion. The analysis would form an integral part of this memorandum were it not too long for convenient reproduction. It is, however, enclosed for attachment to the action copy of this memorandum. For other interested readers it should be procurable through USAID in Washington or Recife.

2. Be prepared to view sympathetically and to assist to the degree possible the program when it emerges approved from SUDENE. The plan would seek to develop creative entrepreneurs, engineers and technicians around specific agro-industrial opportunities. One way or another this is what appears indispensable if progress is to match the opportunity in Alagoas.

3. Efforts should be made to retain the services of Neil Boyle either as a consultant to Project ASA in Maceio or as a member of the faculty at the university that would be selected to coordinate the U.S. part of the program. He has demonstrated great skill and political insight in his development of the program in Maceio and this should not be lost. The original RITA project substantially lost two and one half years because no significant effort was made to understand the political context in which the experiment would be attempted. Thus, as the hapless victim of an intramural political battle which he did not understand, the first chief of party of the RITA project found himself persona non grata and the Project itself the object of a protest demonstration which was based

on a more sophisticated base than simple anti-Americanism. Boyle speaks Portuguese well and is accepted as a member of the family by Brazilians. During the visit of the reporting officer to Maceio, a delegation from Rio Grande do Norte's RITA Project consulted with Project ASA staff members with a view to learning about ASA's successful institutionalization which it wishes to emulate, a mark of success.

I realize that a decision has been made to cut back on university agreements. I assume this means such agreements negotiated and financed directly with USAID. The proposed one would be between an agency of the State of Alagoas and a university or universities (or any institution that can do the job). Thus, USAID would simply be asked to help in a project which Alagoas intends to carry forward in any event. (It has already employed a former U.S. compensated technician for Project ASA and could conceivably do the same for Mr. Boyle when his present contract expires in December).

I suggest that in the future when enterprises involving almost a half million dollars are being contemplated for a region that someone experienced in political assessment in Latin America be sent there for a week or two to determine what the best approach would be or if, in fact, the situation even justifies the operation being considered. Had this been done in Alagoas originally by a competent political observer it is likely that much money and time could have been saved. It is my judgment that, given the political situation at the time the RITA Project was instituted in Alagoas, it has been a signal success. It has now been incorporated by the Government into the developmental process with great prestige and this is due in great part to the rapport which Neil Boyle has established throughout the Alagoan community.

A primary reason for sending Mario Melro to the U.S. would be to avoid misunderstandings such as existed in the past by threshing out problems on the basis of personal give-and-take with the officials of the various universities. Judiciously executed this could be a program which could contribute significantly to Brazilian development and U.S.-Brazilian understanding.

4. In the event a decision is made to extend large scale assistance to Alagoas while present political conditions obtain, the U.S. should consider doing this in the least visible manner possible.

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The introduction of credits to entrepreneurs at as low an interest rate as possible is one way, preferably through the BID. (This is, commendably, already being done but could be increased if desired.) Defraying the cost of technical assistance is another, particularly educational opportunities for Brazilians who are selected to be permanent technicians at whatever industries are being planned. In this way, education can be concurrent with construction. These are merely two ways, among many, that meaningful assistance can be provided with low visibility.

Attachment: Memoranda of Conversations

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MEMORANDA OF CONVERSATION
September 4-8

Carlos Lira, sugar mill owner, fertilizer importer tobacco grower, palace philosopher and reportedly the richest individual in Alagoas

(Note - Mr. Neil Boyle participated in most of the following conversations)

Lira said Evaldo Inojosa, President of the IAA, had recently pulled a coup by negotiating the sale of 310,000 tons of sugar during the Middle East crisis. As the going price on the world market is \$50 a ton this represents a \$6,000,000 bonanza. He sold at just the right moment before a decline set in.

Subject stated that Expo 67 in Canada made a better impression on him than the New York World's Fair. He said he was particularly impressed by the Communist Central European countries' exhibits which reflected a great desire to compete with the Western countries.

Lira said he is putting up a triple phosphate plant in the middle of the state which will have a 300 mile market radius and will be partially financed by French and American interests.

The Vice President of General Cigar will visit September 18 (other sources told me later that Lira's astuteness was sufficient to break the Bahia monopoly on tobacco exports and Lira has made a killing on his sales negotiated at just the right time. His tobacco is used in White Owls and Murillo cigars.)

According to Lira there will be very little support for GERAN in Alagoas. Some land reform in the agreste is indicated but not on the litoral or the Sertão. He said turning over land in two hectare lots to people would not be efficient because the uneducated recipients would not use it well. He implied at this point that he was the brain power behind Inojosa's philosophy and his break with Lacerda.

Lira commented on an apartment system called "The Habitat" which he saw at Expo 67 which provides complete privacy but is open to the sun and has a garden, etc. It is erected by a huge crane from prefabricated parts and would be quite useful in Alagoas if put up in the 125 unit groups necessary to justify use of the crane and achieve lowest cost.

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Lira said he purchased his sugar mill of 6 kilometers square on table land and lost no time in mechanizing same. He said he can compete with Sao Paulo producers without any trouble as they do not have the land he does. He has also changed the Middle Ages system common in N.E. mills by dividing up the various functions under section chiefs. This avoids exploitation of the workers, he says.

He stated that he had financially supported Maceio Mayor Divaldo Suruaguy despite talk he was somewhat radical. Lira confided in hushed tones that he thought this was partially affected to attract the workers favorably and Suruaguy would not really resort to any radical policies.

2. Carlos Fortes Melro - brother of Mario Melro, Chief of Project ASA and Director, DER of Alagoas

Melro said the segments of highway which have the highest priority are AL-202 (Arapiraca-Batalha), BR-104 to the frontier and AL-102 (Pinedo-Jungueiro).

They have conducted tests of traffic each six months for the past 18 months and have noted a considerable increase.

Current planning calls for completion of paving on BR-101 in 1969. As this is the principal north-south road the importance of completing it fully is not lost on them. This will mean roughly 295^{km} of paving.

Melro expressed appreciation for the equipment USAID had made available for BR-104 around Uniao dos Palmares which was for maintenance. He was concerned, however, because other equipment is languishing in New York which should be shipped. He understands that one Mr. Fontana of SUDENE, Division of Transport could put a fire under this project if he just would. Anything USAID could do to expedite same would be appreciated. He spoke of a USAID contribution of 3.2 billion old cruzeiros as part of a six state convenio of December, 1964. One thing bothering him was the failure to secure enough money for operations which means that the equipment goes without use much of the time and also the state has enough equipment to service a larger operation if money could be found.

He spoke of the prospect of a \$25,000,000 loan from BID for the completion of BR-101 from Fortaleza and said this would be good. He regretted the loss of an AID road man recently but said they were expecting another one. He also commented favorably on a recent visit by Mr. Cummins of USAID.

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One point he mentioned is that USAID has very kindly made available a verba but it is to be delivered after the work in question is completed. They hope this can be changed so that it can be delivered in installments. His brother Mario also mentioned this at the request of the Governor in a visit to the Consulate on September 15.

3. IB Gatto Falcao, Secretary of Planning

Gatto said he negotiated the first agreement with the Peace Corps in Alagoas when he was Secretary of State for Health and that he has been quite pleased with the volunteers and their work.

U.S. personnel in Brazil, he said, should get out and make mistakes with the people and should demonstrate a give and take attitude which makes demands on the Brazilians too. In addition to their good will, the Americans should bring a little "malicia" to bear on the problems.

Gatto says his office is the coordination point of the Cabinet, particularly matters of economic, social and financial interest.

Of great importance to the State is diversification, he said. Sugar represents approximately 49% of gross income and it is important to cut this percentage down by raising income in other sectors, particularly rice. He hopes to raise production from 500,000 sacks of 60 kilos each to 2,000,000 of the same size. To this end the budget for agriculture for 1968 will be 3,600,000,000 old cruzeiros. He showed me a photometric study made of the principal area where the cultivation of rice is to be increased. A minimal capital investment will be required. Owners of the land will permit colonization and give the income from half of the crop to those who produce it. This will necessitate a water control system, particularly in the valley of Marituba. He calculates that 350,000,000 old cruzeiros will suffice for the preparations for the project. Technical assistance from the U.S. would be appreciated. He feels that 2 or 3 years should suffice to reach the objective of 2,000,000 sacks of rice which he thinks will be twice as profitable as sugar per sack of equal weight.

Gatto informed us that representatives from Poland had visited him the same day to attempt to sell cement to Alagoas. They claimed they could sell it cheaper than Alagoas could make it. This experience had demonstrated to him yet again the acute need Alagoas has for a scientific institute as it was necessary

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to send the sample of cement to Recife for analysis. This is also true of medical samples, something Gatto is quite conscious of as a practicing surgeon. He related that SUDENE had that very day liberated 150,000,000 cruzeiros to begin work on a scientific institute (he did not stipulate where so it might well be the technical institute I understand is being considered for the Northeast.)

An interesting point proffered by Gatto was the assurance that 40% of the state is now covered by water service and this, until now, has been an entirely state-financed operation. He did not state the size of the communities he included in this determination. The agricultural program for 1968 also envisions the purchase of eight DC6 tractors, 2 DC8 tractors, 10 bulldozers and two motor scrapers.

Another project Alagoas is much interested in, he said, is the establishment of a large Central de Abastecimento (supply) near the water in downtown Maceio. He showed me the plans which had been prepared by Mario Melro, Chief, Project ASA. He had just that day received a cable (which he showed me) from Sao Paulo saying that a technician would be sent immediately to help in the creation of the center. Gatto said the purpose is to eliminate the middle man as much as possible so that consumers can buy the most necessary items cheaper. (There is already one in operation in Maceio which I saw that resembles a state market operation. Not much was going on at the time, however, perhaps due to its poor location and the time.)

4. Benedito Hybi Ciruquero, Secretary of Education, State of Alagoas

The Secretary emphasized his finding that metal structures are the best for rural schools. He said that other types have demonstrated they will not hold up well enough under stress. He has arranged for these structures to go into use starting in about 30 days. They will be 12 room units. There are 38 lots ready for building throughout the state which have been donated for the purpose by the communities.

He was most emphatic concerning the extreme usefulness of the 4 S Clubs throughout the State which are similar to the 4H Clubs in the United States. He said they have purchased seed in Sao Paulo for distribution throughout the state and have instructed many agricultural people in appropriate techniques. ANCAR works very closely with the 4 S programs. The real problem all around, he said, is qualified people and not so much is the problem of money.

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With respect to literacy programs he said they were fine if accompanied by vocational education programs. Otherwise, the people terminated the courses with great expectations only to find their hopes dashed and thus they became greater social liabilities than they were when they began.

One reason Alagoas has had problems with the convenio on education is what he considers an excessive requirement on the part of USAID for reports. He said numerous receipts and copies are necessary for everything and this is overdone.

The secondary program is not very successful because when people finish they still don't know how to make a living. He thinks that is eleven years substantially wasted.

5. Dr. Alcides Braga, Director, Alagoas Development Company (CODEAL)

Dr. Braga seemed enthused because SUDENE had approved the Union Carbide Project for an amount almost 10% of the value of all SUDENE projects approved from 1960 to June, 1967, a figure he gave at 1,049,356,828 NCr. He was also encouraged because the rate of SUDENE project approvals seems to be increasing. He said the Union Carbide plant would produce plastic tubes and caustic soda and that it should be operating in three or four years.

Braga indicated his company is in negotiation with Dr. Octavio, General Manager of Allis Chalmers in Brazil to produce several sizes of continuous tread tractors. In a short time they also expect to see plants for cement and railway cars go into operation. Oil exploration is expected to increase considerably as well.

Braga drove to the port area and pointed out the two dredges in operation and the rather significant amount of fill they had placed on the site of the prospective sugar terminal to be conveyor equipped. He spoke of a new tile factory costing 2.4 billion old cruzeiros, a cattlebreeding operation in Palmeiro dos Indios that will run 4.5 billion old cruzeiros and a half billion old cruzeiro prefabricated housing venture.

He mentioned the new building of the Federation of Industries already operating with the luxurious Banco da Produção - occupying four floors and a nice restaurant on top. The skyscraper Bank of Brazil continues to go skyward and should be ready in several months. The Jangada Hotel is expected to break ground by the first of the year.

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6. Fernando Regis do Amaral
Eurides Porangaba - Directors, Banco da Produção

The two directors pointed out they represented the two principal divisions of the Bank - General Credit and Economic Development. The Bank was started in late 1962 and was capitalized by the State of Alagoas in the amount of 51% of its total subscription, (\$Cr100,000,000) with SUDENE and the municipalities supplying the rest. Since then Alagoas has increased its part of the capitalization to \$Cr.5 billion. That it has contributed powerfully to the development of Alagoas is evident from the fact that its balance rose from L.472 billion old cruzeiros in 1963 to 40.638 billion old cruzeiros in 1966 (the luxurious quarters occupied by the bank testify to its prosperity also).

Porangaba stated that the Bank has begun a series of development seminars in the cities of the state and he has been simply amazed at the way they have caught hold. For example, in Palmeira dos Indios recently the meeting was prolonged to more than twice the time contemplated. Another surprising thing is the willingness of the people to pay taxes if they think this will contribute to development. The farmers are becoming enthused because they are helping them to acquire land and finding a market for their products. A recently signed 5 billion old cruzeiro agreement with BID will assist in expediting the land reform aspects of the program. (This may be loan about which I heard that is pegged to 14% interest to entrepreneurial borrowers which is certainly much better than the present 20-24%.)

Porangaba pointed out there are now nine branches of the Bank in Alagoas and plans are afoot to put a branch office in Recife. Until now all of them have engaged in a total of 6900 operations in agriculture and 101 in industry. They emphasized that operations have really begun to blossom under the prevailing political stability. In that regard they pointed out that their operations are not influenced by politics to any significant degree. Their employment policy is based on merit and one of their best clients is Rubens Canuto, leader of the opposition.

A month ago a mixed group of BANDEFE and MIT specialists made a study in Maceio to see what could be done to increase the supply of technicians. Two months ago a USAID bank inspector was in Maceio and stayed two days.

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Comment: Porangaba is going to the US on a USAID grant in October. He is certainly an excellent choice it seems to me. Young, enthusiastic, competent and sincere he should really do even better than he has already done in assisting Alagoas to a place in the sun.

7. Dilton Simoes, Director, Companhia de Abastecimento and Saneamento do Estado da Alagoas and son of the Rector, University of Alagoas

Simoes said the company is four years old and is a mixed one, that is the government and private interests are represented. He seemed proud of the record of the company which has already supplied water to 14 cities.

Simoes said USAID is involved through SESPT with a project to pump water from the Sao Francisco River to inland towns. One segment to Batalha is now operating. Another one is being prepared and he would like to request USAID to permit a change of plan, that is to start the project from Sao Braz instead of Portugal de Colego as originally planned. He said technical reasons dictate the desirability of this change and it would not interfere with the effectiveness of the program.

He showed me an exchange of correspondence with USAID showing assistance had been requested for the Project originally but USAID did not think it an economic project at the time because the number of people to be served was too small. However, they have done the first phase completely with their own resources because they want to make the Bacia Leitara a major producer of processed dairy products. CASAL, (the name of his agency) at this time has no programs directly with USAID. They will need some 8 million new cruzeiros to bring service to eight cities they have on the boards. They think this is a part of the investment in infrastructure which will pay off in new industries. In Batalha where they have begun to supply water it sold \$R 0.25 per cubic meter. They have installed 400 and will have 200 more outlets in 40 days.

A recent study in NE Alagoas revealed that 8 of every 14 boys had diseases spread by consumption of impure water. This has affected the supply of labor.

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8. Roberto Gomez Macias, Secretary of Agriculture

Secretary Gomez said an agreement had been reached with SUDENE to assist with cooperatives. He provided no details. He did say, however, that 59 cities in Alagoas are completely without resources for any assistance with agricultural problems.

The minimum price system is now working for beans he said. It is designed for rice, corn and beans but only beans are being bought now. He said the free price is Rr 10.12 per sack of 60 kilos and the support price is Rr 14.58. Actually it is listed at Rr 18.83 but Rr 14.58 is what is actually received after deductions for various things. They don't have any warehouse problem as they have more than enough capacity: Maceio 65,000 sacks, Uniao dos Palmares 60,000 sacks, Uniao dos Indios 60,000 sacks, Pinedo 65,000 sacks and Santana 65,000 sacks. There are also some private warehouses which could be leased. He claims it is an administrative headache but it is working. Past prices which he showed me indicate the government may wind up with a profit for storing the beans because the price is very much lower during the harvesting season, which is now, but shows a considerable rise as time passes. He said he would welcome assistance from USAID, particularly the supplying of technicians.

9. Jose Alves de Oliveira - Secretary for Administration

The Secretary showed me a letter dated August 23 from Mr. James Villalobos USAID indicating training in public administration would not be available at Bahia for public servants from Alagoas under the ISP. Alves said he visited Bahia and Recife six months ago and was assured the training would be available. He said the Governor had written a letter at that time and he thinks he has a letter from USAID saying the course would be offered.

In any case, he understands how problems arise but he read that CONTAP had liberated funds recently and the highest category was for public administration. He hopes the proposed training can be recommended and Alagoas included in this program.

Alves said the Governor considers training in public administration top priority and technical training almost as important.

With respect to technical training and graduate engineering, Alves said there is a traditional element in Alagoas that wishes no change in the status quo and desires to give no opening to youth. The State will not be able to progress unless these forces are overcome and he seemed fairly confident that the more progressive forces will prevail.

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10. Luis Leao, Proprietor of Usina Utinga, Maceio (second largest output in Brazil)

Leao seemed irritated with the members of the sugar cooperative of Alagoas. They had arranged it so he was forced to pay more for sugar cane to supplement his production on the grounds that he bought the most so he should pay the most. Actually, they are just inefficient and absentee owners and are doing this to avoid his taking over more of the market. His sugar is much better and will be even better now that he is putting into operation a new refining process (he showed us the really impressive plant with the new machinery installed). Many of the purchasers approach him privately saying they do not want to buy competitors' sugar at any price because it is inferior and will purchase his over or below the table at a higher price.

He said if Cuban subversion is stepped up that after the first act of terrorism in an area a house should be burned up with everyone in it. That way, he said, the next time something happens the people will turn in the person who did it. This is the only thing such people understand, he said. After all, as he put it, they are simply animals, beasts.

After the Revolution one of the perennial trouble makers did not leave and was shot six times. He did not die but he is no longer at the Usina.

He was quite complimentary of Carlos Lora, a fellow sugar mill owner who is using modern techniques at his mill.

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