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# OPERATIONS MEMORANDUM

TO: American Embassy, Rio de Janeiro  
 INFO: Amcogen, Recife & São Paulo; USAID/Recife  
 FROM: American Consulate, Salvador *W*  
 SUBJECT: ECONOMIC REPORTING: Monthly Economic Review for January 1964  
 REF:

Date: February 4, 1964

## I. SUMMARY AND GENERAL

Bahia's economy was seriously disturbed during the month of January: first by labor troubles, and then by heavy flooding throughout the southeastern region of the state. While the floods caused extensive property damage, there was hardly any loss of life, and both Brazilians and Americans still disagreed at the end of the month as to whether the situation reached the proportions of an actual disaster. Bahia was further shaken, but not surprised, by scandals in its S&I industry (PETROBRAS) which led to the dismissal of the president and the directors of the corporation. Despite the flood damage, agricultural prospects remained good, with tentative predictions for the cocoa tempero crop optimistic. Aside from operations hampered by the above factors, business and industry maintained a good, but not outstanding, level of activity during the month, with both the public and commercial circles apparently resigned to galloping inflation.

A drop in sales of small ticket consumer ~~goods~~ have been largely explainable by bad weather.

Beginning around the tenth of the month, heavy rains fell over most of the state of Bahia, being particularly concentrated in the southeastern cocoa producing regions. By the 20th, rivers had commenced serious flooding, partially submerging marginal housing in a number of riverside towns. As reports of damage began pouring into Salvador both the state government and USAID started mobilizing emergency shipments of food, medicines and trained personnel, survey trips were conducted, and appeals went out from the state government for Federal, private and international assistance.

Even as of this date, it is still not possible to evaluate accurately the extent of flood damage. Many roads were washed out, some bridges were destroyed, and thousands of simply constructed mud and wicker huts were dissolved by the water. However, almost no lives were lost and the current of flooded

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...vers was apparently slow enough so that structural damage to well-built bridges and buildings seems to have been held to a minimum. In the aftermath of the flood, the only serious disease thus far reported has been an increase in normally endemic malaria in certain areas, although rapid vaccination against typhoid by both state government and US (Peace Corps and USAID) teams may have prevented a possible outbreak. There is some belief that damages may have been deliberately exaggerated in much of the flooded zone in an attempt to modify the old Northeastern boondoggle of industria das secas into an industria das enchentes; this at least is the impression of some SUDENE officials in the state of Bahia, and is shared by a minority of the American observers. One example of the conflicting figures coming from the flood zone was a report by officials of the relatively accessible city of Itabuna that 700 houses were destroyed, while a SUDENE technician on the scene indicated that the correct figure was 200 houses. Similarly, the Governor was informed that prices of foodstuffs in the hard hit coastal city of Belmonte had doubled because of the flood, while a US representative on the scene indicated that they remained stable. Federal assistance was highlighted by a brief visit of President Soultart, who gave 500 million cruzeiros for flood relief and promised an additional one billion. Governor Lomanto began using this money by passing out checks for from one to five million cruzeiros to mayors of some of the hardest hit towns, but a more rational program of relief now seems to be getting under way, with repair of roads getting the largest share, followed by housing, purchase of foodstuffs, and repair of public utilities. US contribution has thus far consisted of rather large scale emergency supplies of foodstuffs, medicines, etc., some of which are being distributed or applied by Peace Corps volunteers.

If present optimistic proposals for long term flood relief measures are carried out, and if the emergency assistance is wisely spent, the January floods will undoubtedly have a long-term beneficial effect on the economy of Bahia.

### III. BUSINESS AND INDUSTRY

a. Industrial Development. On February 1 a flour mill with a capacity of 200 tons of wheat a day was dedicated at Aracaju, Sergipe. Sergipe presently imports most of its flour from Salvador, with a lesser quantity supplied from Recife.

The Companhia Energia Elétrica da Bahia, a Bond and Share subsidiary, began receiving unusually sharp attacks due to its inability to supply electricity on terms which public users, such as the proposed Bahian steel mill and the Department of Water and Sowers, would like to receive. It is anticipated that attacks on this firm, which has recently enjoyed relatively good public

relations, will increase, due to its severe financial straits which effectively prohibit new capital investment for expansion or even maintenance.

Plans were announced for the construction of a cement plant in Aracaju, Sergipe, controlled by leftist industrialist Jose Emirio de Moraes, which will officially open its doors in September of this year. Local representatives of Lone Star Cement's subsidiary, Cimento Aratu, which presently supplies the Sergipe market, were unworried, claiming that operation of a plant for a small and isolated market such as Sergipe would be uneconomical.

b. Sales and Inventories. In contrast to generally good pre-Christmas sales, most of our samplings this month showed disappointing commercial activity. Local sources were inclined to blame this in part on the weather and labor difficulties, and in part on psychological reaction against inflated prices. Particularly hard hit were small ticket consumer items such as carnival supplies, clothing and household utensils. Volume decreases independent of price of from ten to 40% from last January were reported.

#### IV. FINANCE

A banking contact reported gradual tightening in the local money market with large quantities of exchange being closed by exporters.

State budgets in both Bahia and Sergipe were pushed further into the red during the month by salary increases approved by the Legislatures (and signed into law in Bahia). The Bahia boost gives state employees a monthly increase of 15,000 cruzeiros as well as raising the family allowance. In Sergipe, salaries were increased by 40 to 120%, in a move which has not yet been signed by the Governor. The Secretary of Finance of Sergipe indicated that this increase will cause an expenditure for salaries of state personnel considerably above the total income of the state government.

#### V. TRANSPORTATION AND COMMUNICATIONS

Information released by the Bahia Statistical Department confirmed earlier indications that improved highways and increasingly costly maritime expenses have caused a drop in the use of Bahian port facilities. This decrease was particularly marked in the case of passengers: in 1959, 8,419 passengers arrived by ship in Bahia and 7,145 left; in 1963, only 1,306 arrived while 1,104 departed.

Illustrating the reason why port facilities are not being more widely used was a comical -- but economically harmful -- situation in which at one time during the month five Loide Brasileiro ships

were sitting out in the harbor while docking spaces were almost empty. The reason: Federally controlled Loide Brasileira owed the Bahia Dock Company 60 million cruzeiros which the shipping firm had repeatedly promised to pay with a check ever coming through. The dock company finally refused to allow additional Loide ships to load or unload, thereby extorting a partial payment after an additional delay of about two weeks.

As an unexpected result of the flood, telegraph traffic was interrupted in several parts of Bahia because of large scale theft of telegraph line. It seems that the thieves took advantage of the fact that some lines were down by flood waters to collect several thousand dollars worth of wire, on the assumption that labor crews would be unusually slow in finding the broken points, because of the natural disaster.

## VI. LABOR

For almost a week, Bahia's commerce was seriously affected by a petroleum distributors' strike which included other states of the Northeast. Although supplies got quite low, they were never exhausted to the extent that they appear to have been in Recife, because of the willingness of PETROBRAS (for political reasons) to furnish supplies directly to retailers from its Mataripe refinery. The strike was ended when the local union accepted the general settlement worked out in Recife, whereby workers received an increase of 110% over last June's salaries, as well as other substantial benefits.

Other strikes during the month, all of which have been substantially settled or temporarily postponed, were by vegetable oil workers, metal workers, Social Security Institute workers, maritime workers, bank workers, and cigarette factory workers. PETROBRAS workers held a poorly organized and poorly attended demonstration upon the dismissal of local red hero Jairo Farias from his directorship of PETROBRAS, but failed to follow through on their mutterings of "strike".

In the rural union field, the regional delegate of SUPRA indicated that he anticipates 80 unions to be organized by early February. Most of these still appear to be paper groups with little local organization.

As a sidelight indicating the attractiveness of employment in PETROBRAS, at least three thousand applicants appeared to fill 200 jobs as platform laborers for that state-run enterprise. The jobs paid 50 centos a month.

VI. AGRICULTURE

Despite heavy flooding, there was little indication that agriculture had been seriously damaged in the state of Bahia. The Cocoa Institute president, after a survey of flooded areas, expressed the opinion that cocoa had probably been helped by the heavy rains accompanying the floods, although it was still too early to make any firm predictions regarding the temporary crop. The general outlook for both food and cash crops throughout the state continued exceptionally good.

The Cocoa Institute president issued a statement that his organization is negotiating with the Ministry of Agriculture on a program which would involve a Federal subsidy of 100 million cruzeiros per year in order to promote the cultivation of "white" cocoa in the Recôncavo area. This cocoa has proven exceptionally resistant to pod rot and can best be grown in areas where it does not automatically cross-fertilize with other varieties -- hence the decision to plant it in the region around the Bay of All Saints, rather than in the southern traditional "cocoa zone."

As a possible forerunner of effects of President Goulart's proposal to expropriate unused lands along Federal highways, railways, etc., numerous reports have been received of large scale lumbering and general devastation of lands adjacent to the southern Bahia coastal highway (BR-5), which Governor Lomanto has announced he will expropriate as a part of a still embryonic state land-reform program.

As a result of state government implied approval of an invasion by peasants of a Federal Railway owned farm in Sergipe, agricultural technicians, representing several Federal Demonstration and Research farms in that state, met in Aracaju and called on Army and state officials, attempting to obtain assurances that similar invasions of their farms will be prevented. They claim knowledge of plans for more widespread activities of this nature in the state of Sergipe.

VIII. EASTERN BLOC ECONOMIC ACTIVITIES

The familiar East German Commercial Mission was once again back in Salvador during January, this time under the leadership of Peter Reuter. Negotiations are still in process with Bahia state organizations regarding the possible sale of 600 tractors on a barter basis but the earlier proposals that a subsidiary of the Bahia Navigation Company would purchase 42 fishing boats were now descended to one refrigerated ship with a capacity of 120 tons. Discussions continue with concrete results still doubtful.