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commercial banks - currently restricted by inflation to very short-term receivables financing - to include medium-term working capital and even investment financing. They could both increase the supply of such credit to the private sector and reduce its cost. (UNCLASSIFIED)

9. Leftists Stall CONTEC Affiliation with IFCCTE

With the tacit cooperation of National Bankworker's Confederation (CONTEC) president Ruy Armando Brito, leftist-Communist former CGT supporters succeeded in shelving discussion of CONTEC's proposed affiliation with the International Federation of Commercial, Clerical, and Technical Employees (IFCCTE) during last week's Recife Congress. (See WEEKA 29) (LIMITED OFFICIAL USE)

10. Wage Decree Provokes Resentment in Labor Circles

Decree Law 15, issued on August 3 by the GOB, bars all wage adjustments above the GOB formula, eliminating any remaining union negotiative functions. Using government figures, the annual increase for the typical worker whose contract is renewed in August 1966 will be 28%, compared with a rise of 40-50% in the cost of living during the past year. (UNCLASSIFIED)

COMMENT: Unionists are shocked by the severe inflexibility of the decree, which excludes even voluntary interim wage adjustments, bonuses, or upgrading. Pointed to as symbolic of the policy's unfairness was the escape clause for employers who allege inability to pay wage increases and the GOB failure to accompany its wage freeze with really effective controls on credit and prices. The business reaction was almost entirely positive. (UNCLASSIFIED)

MILITARY

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11. Brazilian Navy CNO Requests Retirement

Unexpectedly, Admiral of the Squadron Arnaldo Toscano, Chief of Staff of the Brazilian Navy (equivalent to U.S. Navy CNO) requested retirement August 1. The request will probably be approved and become effective within 10 days. (CONFIDENTIAL)

COMMENT: A large number of retirement requests were submitted August 1, the last day to retire under provisions of the old retirement law which grants retirement promotion to the next higher grade with pay, or two higher grades with pay, depending upon number of years of service. This may have entered into Toscano's decision to retire, but surely is not the full story. Other factors are probably: 1) the service fight developing on formation of a Department of Defense, 2) the Presidential decision prohibiting Brazilian Navy participation in the Fifth Inter-

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American Naval Conference at Caracas (item 12), 3) that the normal tour of the CNO is 1-1/2 to 2 years and Toscano does not desire to step down to a lesser job. (CONFIDENTIAL)

12. Brazilian Navy Will Not Participate in Caracas Conference

President Castello Branco will not permit Brazilian Navy participation in the Fifth Inter-American Naval Conference because of the Venezuelan President's "systematic hostility towards Brazil." (CONFIDENTIAL)

COMMENT: This action is no doubt a disappointment to the Brazilian Navy, which considers itself a major partner in the defense of the Atlantic. (CONFIDENTIAL)

ALLIANCE FOR PROGRESS

13. Second AID Loan to the National Water Fund

On August 4 a loan agreement to increase the resources of the National Water Supply Loan Fund by Cr\$2 billion was signed by USAID Director Stuart Van Dyke. Initial funds of Cr\$6 billion were provided by USAID at the time the Water Fund was established in April 1965. Since then Cr\$22.5 billion in loans have been made to eleven cities and one state. Cities requesting financing must contribute one-third of the total cost. The long range objective of the water loan program is to create the institutional capacity to administer self-supporting municipal water systems. (UNCLASSIFIED)

14. AID Loan for Electric Power in Espirito Santo

USAID announced a \$13.3 million loan to the Central Brazilian Electric Energy Company to increase the electric energy production of the state of Espirito Santo. The hydro-electric station which will be built at Mascarenhas on the lower Doce River will produce 115 thousand kilowatts. When completed, the installation will almost double the existing generating capacity in the state.

The USAID loan will permit the Brazilian company to finance the dollar costs of three generating units, as well as transmission and distribution systems, equipment and technical services. The total investment in the hydro-electric installation, sub-stations and transmission facilities will be \$49 million. Increased energy production should begin in 1971. (UNCLASSIFIED)

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