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OPERATIONS MEMORANDUM

TO: Amembassy RIO DE JANEIRO, BRAZIL Date: September 5, 1962

FROM: Amconsul SALVADOR, BAHIA, BRAZIL

SUBJECT: ECONOMIC REPORTING: Economic Summary for August, 1962

REF: CERP-Section C-4

1. Summary
2. Industry and Investment
3. Agricultural Development and Policy
4. Petroleum
5. Transportation
6. Labor
7. Finance
8. East-West Trade

1. Summary

The cruzeiro increased its inflationary spiral, reaching 640 to the dollar selling, 660 buying by the end of the month on the local parallel market. Bank collections improved. The period under review was relatively free of strikes and demonstrations, with the exception of the maritimes strike of the Navegação Bahiana, a local steamship company, which lasted a few days, with the workers demanding a retroactive raise in wages of 40% for the months of April, May and June. Stock and bonds of TEBASA, the new telephone company, have been fully subscribed by almost all banks in the city. A Mesbla branch was opened in Salvador, and the Banco Cidade do Salvador was reopened under the new designation of Banco Comércio e Indústria da Bahia S/A. 44,300 bags of coffee were recently burned by order of the Instituto Brasileiro do Café (Brazilian Coffee Institute). The coffee had been stored in local warehouses and had been purchased from farmers at the rate of 200 cruzeiros per bag. This decision was taken by the Institute partly in order to encourage the improvement of the quality of coffee, the coffee destroyed being of the type know as "café expurgo".

2. Industry and Investments:

(a) Indocelulose S.A., a company that plans to spend the equivalent of US\$2,100,000 in the manufacture of cellulose and paper from bamboo, plans a plant to be

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installed at the Vale do Iguape, in the "município" of Cachoeira, State of Bahia, about 100 kilometers from the city of Salvador. The plant will have a capacity to produce 25 tons of writing and printing paper per day. The Banco do Nordeste has approved a loan of 450 million cruzeiros, which is said to be insufficient, since at least one billion cruzeiros will be needed for this enterprise.

(b) Olpalm S. A., a company that plans to plant 366,660 palm trees in the Vale do Iguape, in the "município" of Cachoeira, State of Bahia, for extracting palm oil, will also install two factories. One is to be located in the Vale do Iguape with a daily production of 130 tons and the other one at Taperoá with a daily minimum production of 10 tons and maximum of 80 tons of oil. The company has received from Africa 100,000 seeds to be planted. The equipment is at the present time at the Bahia docks and was imported from the Dutch firm Gebr. Stork & Co's Apparatenfabriek, N. V., Amsterdam, Holland.

The local firm Euluz S/A is the holding company for the two above-mentioned organizations.

(c) Nazaré Agro-Industrial S. A. (NAISA), a factory for making ceramic goods which was recently built in Nazaré, State of Bahia is reportedly to obtain a loan in the amount of eleven million cruzeiros from the Banco do Nordeste for purchasing new equipment.

(d) The Companhia de Adubos e Máquinas da Bahia (CAMAB), which at present is building a fertilizer factory at Itabuna, in one of the largest cocoa producing regions of the State of Bahia, expects to have it completed sometime this year. They expect to produce 10,000 tons of fertilizers a year in the beginning, to be later increased to 20,000 tons. They will produce fertilizers for cocoa, coconut and rubber trees.

(e) The Companhia Industrial Metalúrgica da Bahia, plans to install a factory for manufacturing enameled goods in this city. 50 million cruzeiros have already been subscribed for such purpose.

(f) A contract for a loan in the amount of 340 thousand dollars between the Banco Interamericano de Desenvolvimento (BID) and the Comissão de Planejamento Econômico (CPE) was signed on August 9, 1962 at the Governor's Palace. The loan will be for the purpose of increasing the preparation of new

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plans in the interest of the industrial and agricultural developments of Bahia. Governor Juracy Magalhaes signed for the State of Bahia; Sr. Ivan Fachinetti for the CPE and Sr. Felipe Herrera for the BID.

(g) According to the weekly news letter no. 29 dated July 19, 1962 of the American Chamber of Commerce for Brazil, a mixed corporation is planning to work on tubewell projects and farm mechanization in Bahia. Camaçari, Gandi and four other communities are already being served by ground water supplies developed by this corporation. The Corporation has the technical assistance of Mr. Carl Koneke in behalf of the United Nations' FAO and is seeking to raise capital in order to cover as much of Bahia State as possible for underground water and farm mechanization services.

(h) According to the Jornal da Bahia issue of August 11, 1962 the "Empresa Moimho de Sergipe S. A." a new wheat mill with a daily production of 200 tons will be installed in the municipality of Barra dos Coqueiros, in the State of Sergipe.

(1) The Comissão de Planejamento do Estado (State Planning Commission) has prepared a preliminary sketch or plan for the organization of a powerful company entitled Companhia de Investimentos de Desenvolvimento Econômico e Social-IDESCO (Economic and Social Development Company of Investments). (A complete description of this company was given to Ambassador Gordon on his recent visit here.) The company is working to obtain large loans from international credit entities and has reportedly subscribed much of its necessary private capital from Euvaldo Luz, Ivan Fachinetti, and a number of other local businessmen and officials interested in supporting and encouraging private industrial and related development. It intends to participate in the process of economical and social development in the entire northeastern region, since IDESCO is not limited to the State of Bahia as its field of action. The head office of this organization will be in this city and it will have branch agencies where its presence is required. In order to contribute to the economical and social development of the country the IDESCO will give priority to the undeveloped zones of the economy, contracting on the following:

- a) use and increase of the savings of the public;
- b) creation of employment, extending the labor market and improving hand labor;
- c) creation, modernization and expansion of enterprises;
- d) stimulation and strengthening of the rural activities;

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- of local economies and their integration, in the state, regional and national economies;
- e) exploitation local raw materials and better attention to existing and potential markets;
 - f) improvement of social conditions in the zones of the country where the IDESCO acts, giving special attention to the poorest class;
 - g) formation and improvement of new enterprises training their directors;
 - h) democratization of capital and of the distribution of the riches produced by it.

3. Agricultural Development and Policy :

a) Cocoa Beans: The Bahia cocoa mid-crop that runs from May to September is now estimated at between 400,000 and 600,000 bags of 60 kilograms each, while the 1962-63 crop that runs from May 1962 to April 1963 is estimated at between 1,500,000 and 2,000,000 bags. It is feared that the cold weather which is prevailing now in the cocoa zone may cause some damage to the blossoms of the main crop. The mid-crop cocoa is slowly moving to port. Figures just released by the Bahia Cocoa Trade Commission reveal that up to July 31, 1962, 105,697 bags were sold to foreign countries (Excluding United States) and that cocoa by-products equivalent to 149,246 bags have been sold to all foreign markets. A few days ago about 20,000 bags of cocoa beans were sold to the United States. Sales of cocoa beans are few, as the minimum export price of 19 cents per pound FOB Ilhéus established by CACEX has been about 100 points above New York and London terminal prices.

b) Castorseed : The small castorseed crop estimated at 50,000 metric tons is now being harvested. It is reported that the large crushers find a good part of the crop cornered by their smaller competitors, who during the past few weeks made bids based on an anticipated Cr\$400.00 per dollar exchange rate. With this rate now a reality, it remains to be seen whether the farmers will honor these sales agreements. World market prices continue firm at 13.50 cents per pound, C&F, New York.

c) Tobacco Leaf: This year's tobacco leaf crop should be placed abroad by November, when the next harvest of better grades will begin. A large Arapiraca (Alagoas), crop is now being harvested. Perfect weather during the past month leads exporters to expect a good crop should the weather hold through the crucial months of September and October. It is estimated that 20% - more or less US\$3,000,000 - of the foreign exchange generated by this year's crop is yet to be closed.

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(d) Sisal Fiber: A large percentage of recent exports have been taken by iron curtain countries. Western market still affected by high stevedore costs.

(e) Piçava Fiber: The domestic market, though slackening, is still able to consume supplies at above the minimum export rate of Cr\$1,350.00 per arroba of 15 kilograms each - tipo especial. Cacex is expected to readjust export prices.

* (Source of items (b), (c), (d) and (e) - National City Bank, Salvador Branch).

4. Petroleum:

The local press reports that the first order of paraffin wax produced by the local Mataripe refinery was delivered to the local textile mill named Companhia Progresso União Fabril which amounted to 30 tons. This press release had the additional purpose of informing the public about the new policy adopted by the Petrobrás in selling their products directly to users.

A number of Petrobrás foreign personnel have not been receiving their paychecks regularly, with delays of up to two months. Additionally, the air is full of rumors of pending large-scale contracts cancellations.

5. Transportation:

The local newspaper A Tarde in its issue of August 24, 1962 has reported that divers have arrived at Ilhéus for the purpose of attempting to save the machinery and equipment for building the new Ilhéus port which was transported by the Brazilian ship "Ludmar" (see Economic Summary for July, 1962) and wrecked at the entrance of the port of Ilhéus on June 28th.

6. Labor:

Employees of the Viação do São Francisco, a steamship company owned and operated by the Bahia State Government have made a complaint to the local authorities for not having received their wages for five months.

7. Finance:

(a) According to the State Internal Revenue Department Cr\$1,931,735,614.00 were collected during the first eight months of 1962 (up to August 25, 1962) which constitutes an

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increase of Cr\$512,106,683.00 over the same period of 1961.

(b) The Bahia State budget proposal for 1963 was submitted to the Governor of the State for approval. The expenditures will amount to Cr\$20,380,110,172.10 and the receipts at Cr\$20,379,275,500.00, showing a deficit of Cr\$834,672.10.

8. East-West Trade:

Exports to Soviet Bloc countries during the month of August 1962 were as follows: To Poland: 1,286 metric tons of cocoa beans, 1,509 tons of magnesite, 478 tons of sisal fiber and 21 tons of skins; To Yugoslavia: 300 tons of sisal fiber; To Latvia (Soviet Union): 358 tons of sisal fiber

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