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OPERATIONS MEMORANDUM

TO: American Embassy, Rio de Janeiro
 FROM: American Consulate, Salvador
 Info: Recife, USAID Recife, São Paulo
 SUBJECT: ECONOMIC REPORTING: Monthly Economic Review for November 1963
 REF: Our OM dated April 4, 1963

DATE: December 6, 1963

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I. SUMMARY AND GENERAL

The single economic event having the greatest impact on the States of Bahia and Sergipe during the month was the breaking of the drought by heavy and general rains which began falling in some areas on November 9 and which spread throughout the consular district during the following week. Although the outlook for both food and export crops is consequently considerably improved, the rains had the paradoxical effect of aggravating Salvador's already serious meat shortage caused by Governor Lomanto's politically-motivated low price controls (which he now admits have been a complete failure), since with recuperated pastures, farmers are no longer interested in selling cattle at present prices. Retail sales were markedly improved over the previous month, apparently partly due to advance Christmas buying, and industrial development and construction proceeded at a healthy pace. Exports held up well, and increased international cocoa prices were welcomed. The State budget was finally passed by the legislature with a predicted but not overwhelming deficit and a new municipal tax code passing assessments on value of property rather than rent may soon enable the city of Salvador to show black ink on its books.

II. BUSINESS AND INDUSTRY

A. Industrial Development - Several new projects were inaugurated or announced. Sociedade Continental de Fibras (Brasil) Ltd., a portuguese-controlled concern, opened a sisal processing plant with a capacity of 500 tons a month, constructed at a cost of eighty million cruzeiros. A biscuit and cracker factory costing 200 million cruzeiros was similarly inaugurated by the firm Produtos Agua Central S.A., to supply the local market with foodstuffs which have formerly been imported from Rio and S. Paulo, while in Aracaju a German (West) group conferred with the Governor of Sergipe concerning the possible installation of a cement plant in that State, which presently imports the product from Salvador. Several new fishing and fish processing schemes were under consideration, including one with East German supplied equipment (see section VIII), and a new 109 ton freezer locker planned mostly for fish, was opened.

Castor oil processors met and discussed possible ways to increase local castor bean production, which they indicated has for the past three years remained under 40,000 tons as opposed to a desired and normal 70,000 tons, forcing some crushers to close down and others to operate at a reduced capacity.

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B. Sales and Inventories - The sales picture in almost all lines brightened considerably over the previous month, ^{and} actual volume was estimated to be running about 20% ahead of the same month of last year by a local State researcher. The same researcher estimated an increase over October 1963 of 10%, while private Consulate samplings developed the following information on volume (not cruzeiro values): department store - 20% above October, 100% above November '62; electrical equipment and houseware store - 30% above October, 20% above November '62; construction equipment and supplies store - 8% above October, 50% above November '62; office supplies store - 10% below October, 20% above November '62.

In partial explanation of the above sales increase, particularly the heavy increases in retail consumer goods, was a newspaper article published a few days ago which indicated that sales of toys and similar Christmas items were going much stronger than last year, that some merchants had re-ordered for double their anticipated Christmas stocks, and that many others were now expecting to completely sell out of many popular items by December 15.

III. FINANCE

Bank collections and payments on notes due continued to improve. The money market was reported by the local branch of the National City Bank as remaining tight, although slightly easing due to last minute closing of cocoa exchange and normalized collection liquidations following the earlier bank strike. The boneco was reported as below Cr\$10,-.

The 1964 State budget was approved by the legislative assembly, calling for expenses of Cr\$60.931.916,316,20 and receipts of 51.805.696.550,00, for a deficit of Cr\$9.126.219.766,20, which will be financed by borrowing.

IV. TRANSPORTATION AND COMMUNICATIONS -

Considerable publicity was generated by the Cocoa Institute in cooperation with a local transportation company which plans to open a luxury bus run (with toilet, bar, air conditioning, etc.) over the partly unpaved road between Salvador and the cocoa zone cities of Ilheus and Itabuna in December. The financing of the busses was the first local evidence of Ademar de Barros' Aliança Brasileira para o Progresso, and the sponsors repeatedly put the erroneous information in the local papers that Ademar and Ambassador Lincoln Gordon were coming up for the inauguration.

V. MINERALS AND FUELS -

Petrobras announced that during the first eight months of 1963, the Reconcavo fields of Bahia (which account for almost all of Brazil's commercial oil production), production was 3,790,000,000 liters, 411,000,000 more than during the same period last year. Based upon this, Petrobras predicted that Brazil will this year produce approximately 6 billion liters of crude petroleum, or around 45% more than in 1961. Taking off into the wild blue, the Petrobras release

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then predicted a 1966 production of 17,500,000 tons, or enough, they claim, to make Brazil self-sufficient.

VI. AGRICULTURE

A. Agricultural Development - The Governor's land reform program (see last month's summary) continued slowly, with more small crop loans being granted and with the signature by the Governor of an order disappropriating four farms totalling five thousand terefas between the cities of Salvador and Feira de Santana at a cost of 36 million cruzeiros. The Bank of Brazil will loan (read "give") 150 million cruzeiros to the State for the financing of the installation of an initial 300 families, to be later increased to 700. The new colony is scheduled to be inaugurated on April 7, one year after Governor Leanto took office.

SUDENE on November 20 approved almost two billion cruzeiros for technical and credit assistance to agriculture and livestock production, a considerable portion of which will benefit Bahia (see Recife's A-55 to Department).

Agricultural development by the State of Bahia is planned to be carried out principally by the state-controlled foundation FUNDAGRO, which would like to get funds from the Banco de Fomento do Estado da Bahia, which has applied to USAID for a loan. Taking another tack, which does not exclude the above assistance if it should come through, the Governor hopes to finance FUNDAGRO through a compulsory loan to be collected through a 1% sales tax, while will allow FUNDAGRO to have the constant use of an estimated 4 billion cruzeiros at today's prices. Despite strong pressure from the Governor's office, this loan has bogged down in the State Legislature due to obstructionist tactics and resentment of the Administration's renegeing by the opposition.

B. Crops and Weather - As predicted by Celso Furtado (see Recife's A-50 to Department, dated November 14) and by this Consulate (our OM "Economic Summary" to Rio, dated November 6), the seasonal rains came, beginning November 9, breaking the long drought and almost embarrassing the Governor and other State officials who had been crying for emergency relief to SUDENE, Food for Peace, and other sources of money or foodstuffs. The entire states of Bahia and Sergipe received heavy rainfall, although a few isolated regions which planted immediately following the rains have watched in vain for a follow-up. Prospects for food crops, castor beans, and the cocoa temporão crop (harvested May to October) are therefore considerably improved, and the fires which had been burning in the South of the State were put out.

The Administrative Director of the Cocoa Institute dropped his estimate of the present-under-harvest main crop to 700,000 bags, since the rains came too late to help it, but we believe his estimate is too low. However, the consensus gathered by Mr. Dull in October of 850,000 to 900,000 bags might have to come down a bit. Any reduction significantly hurts Bahia's economy, since 38% of all shipments from the ports of Ilheus and Salvador are cocoa or cocoa products.

Local cocoa sources reacted xenophobically to the failure of the International Cocoa Conference, claiming that this showed that the consuming countries were out only to bleed the producers.

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C. Food Supply -

Last month it looked as though Governor Lomanto might have squeezed out of the political bind of his artificially created beef shortage (see last month's economic summary, Section 4), but the rains convinced cattle raisers to keep their herds away from the slaughterhouse on newly recuperated pastures in the expectation of a further increase in the controlled price, and beef consequently almost disappeared from the local market. The State Government announced a highly-touted plan to sell goat meat in the capital at 380 cruzeiros a kilo, which developed into a ludicrous comedy of errors. The Governor's brother set out to buy 20 of the beasts (Bahia has the largest goat herds in Brazil, but the meat is consumed only in rural areas of the interior), which were somehow lost in transit to the State slaughterhouse, and were found only several days later (after a lookout order had gone out to the State police) peacefully grazing beside a Posto Fiscal at the city limits of Salvador. The slaughterhouse employees, unaccustomed to goats, eventually consummated the slaughter with great difficulties, and the 20 goat carcasses should arrive at the retail outlets of this "meatless" city of 700,000 tomorrow.

Because of the Governor's price controls, the one large private slaughterhouse in the State has been forced out of operation. It will ~~be~~ reportedly be expropriated by the State Government at a cost of 350 million cruzeiros.

VII. EAST-WEST TRADE

An East German Commercial Mission spent a number of days in the State during the month trying to interest authorities in purchasing (at 6% interest, repayable in commodities) 40 coastal fishing boats and 2 deep sea fishing boats of East German manufacture (see our A-40 to the Department dated November 14). The boats would be financed through the State autarchy ECOSAMA, and would be operated by a subsidiary of the Cia. de Navegação Bahiana, a State-owned firm. Negotiations are proceeding, with uncertain results.

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