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# OPERATIONS MEMORANDUM

TO: American Embassy, Rio de Janeiro  
Date: October 4, 1963  
FROM: American Consulate, Salvador  
Info: Recife, USAID Recife  
SUBJECT: ECONOMIC SUMMARY: Monthly Economic Review for September, 1963  
REF: Our OM dated April 4, 1963

As apparently in the rest of Brazil, the principal economic developments in Bahia during the month of September were the galloping inflation and even steeper depreciation of the cruzeiro on the parallel market. Governor Antonio Lomanto Junior staged a show of administration progress with a parade through Salvador with horns blowing of dozens of newly acquired state vehicles ranging from water tank trucks to jeeps (all with a bright orange stripe down the side to discourage non-official use), and the continued good management of Bahia State finances by an able and honest Finance Secretary combined with approval by the Legislature of a Bahia State Lottery, the receipts of which are to go to social welfare projects, continued to sweep away some of the darker clouds from the gloomy State financial picture. The Governor, however, by the politically popular action of enforcing a low retail and wholesale controlled price on meat and fish, is heading for a fall by driving those products off the market as well as causing the largely State-owned MAPRESA slaughterhouse to incur a reported loss of a million cruzeiros a day. Exports of Bahia's agricultural production are generally going well, although lower grades of tobacco, normally bought by Spain, are not selling because of too high a minimum price set by Cacex. Future prospects of harvests of largely food crops in the north-central and São Francisco Valley regions of the interior are apparently being prejudiced, however, by a spreading drought. Exports of Cocoa and tobacco have temporarily eased a rather tight money situation, but banks are reportedly still confining their loans to renewal of maturing short-term discounts for prime clients.

*500 Economic Reporting*

Items:

1. Cocoa - Cocoa exports were held up during part of the month by a labor dispute regarding the percentage of the crop to be exported from Ilheus and from Salvador, causing a short embargo of the product by stevedors in both localities. A temporary solution was found with exporters agreeing to ship 50% of the crop from Ilheus on an experimental basis. We are informed that the exporters' willingness to take this step was based on a recent surprising move by the stevedors of that port to stop insisting on inflated work crews, stop delaying normal loading until overtime hours, and to generally give a day's work for a day's pay, thereby drastically

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reducing the costs of loading so as to make Ilheus competitive with Salvador (where stevedores work with traditional boondoggling) despite Ilheus' three loading operations. No one knows, of course, how long this rational conduct will continue.

As of the end of August, Cocoa sales amounted to 705,000 bags, of which 501,000 were in beans and the remainder in products. The temporão crop estimates are now between 750,000 and 780,000 bags, but local sources predict a main crop harvest of about 1,250,000 bags at the present time.

2. Other Agriculture - As mentioned above, low grades of Arapiraca and Sertão leaf tobacco are not selling because of an unrealistically high minimum export price by Cacex. Because of this, an estimated 150,000 bales of these grades are supposedly in the hands of exporters with no immediate prospect of sale, since Spanish buyers have by now reportedly in large part already bought from other sources. Growers will therefore find little market for these grades of this year's crop.

The continued drought in several localities of the interior of the State and in Western Sergipe is affecting principally food crops for local consumption and cattle pasturage. It is apparently having little overall harmful effect thus far on the State's prospective production of sisal and castor beans, which are also grown in these regions.

3. Petrobras - A storm blew up during the month regarding an alleged decision (denied by the management) to cease work on the Petrochemical complex being constructed near Salvador and move it to the South of the country (see our A-19, September 6). Work has practically stopped, and studies of water availability which should have taken place much earlier are now being carried out.

The local Commercial Association later in the month attacked Petrobras for not purchasing a large enough percentage of supplies on the local market. Petrobras replied with a procession of case histories indicating poor quality of locally-supplied merchandise, bad or non-existent servicing, lack of essential items on stock, etc. The oil monopoly is still a bad debtor to several US drilling companies, owing Brantly Drilling, for example, well over a million dollars although having recently made a much smaller advance payment for some future work.

4. French State Engineering firm may establish here. - Andre Rosenthal, a planning engineer with Renault Engineering Company (of the French Government) was in Bahia during the month, conferring with the Bahia State Secretary of Economic Development regarding the possibility of establishing an office here which would do industrial planning projects for the State and local industrial groups, make long-term loans at 6%, assist in planning housing programs, etc. The Secretary believes that something might come of the discussions and preliminary investigations.

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5. Industrialization - Prof. Milton Santos, President of Bahia's Economic Development Commission, announced that, as a result of that organ's studies, Bahia's "industrial employment deficit" rose by 105,000 in the decade of the 1950's. He indicated that 15,100 new positions in industry were created during that time, but that the number of workers who could not be absorbed by agriculture rose by 120,000, leaving the State relatively worse off in this aspect in 1960 than it was ten years before.

6. "Foreign exploitation" of natural resources - Probably as a result of the news regarding the Hanna concessions in Minas Gerais, a publicity campaign was mounted in Bahia against the mining and exportation by an American firm, Pigmina S.A. on the coast south of Salvador, of barite and monazitic sand, without the payment of "royalties" to the State and municipal governments. Since the company has a Federal license, petitions for a cut of the loot were directed to the Federal Government, although righteous editorial indignation was heaped directly to the company as well.

7. East-West activities - Professor Johan-Lorenz Schmidt, Professor of Economic Planning at the East German Humboldt University and President of the German-Latin American Friendship Society (East Germany) delivered a conference under the auspices of the Bahia Economic Planning Commission on "Some aspects of economic planning in the underdeveloped countries". He was prevented from having a larger audience for his ideas at the University by behind-the-scenes activities by the local German consul which successfully frustrated Schmidt's further plans.

Observing geophysical operations of Petrobras at the request of that entity during part of the month was Professor Lev Alexandrovitch Riahinkin, holder of the chair of Operational Geophysics of the Institute of Petrochemistry, Gas, and Petroleum of the Soviet Union.

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