

Review of Conditions

**IN CANADA • CUBA
• THE CARIBBEAN AREA
• SOUTH AMERICA**

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*Supplement to the Report of the Proceedings at the
Ninetieth Annual Meeting, January 8, 1959*

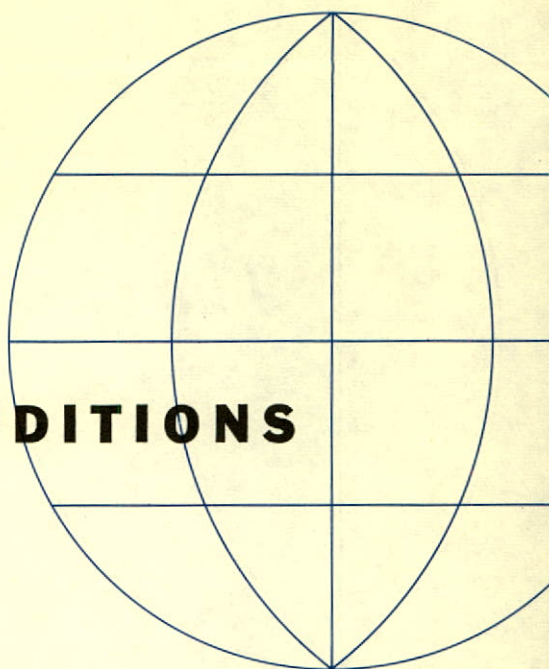
THE ROYAL BANK OF CANADA



The Royal Bank of Canada operates over 935
branches in Canada, and throughout Cuba,
the Caribbean Area and South America.

See detailed maps on pages 16-17 and 50-51.

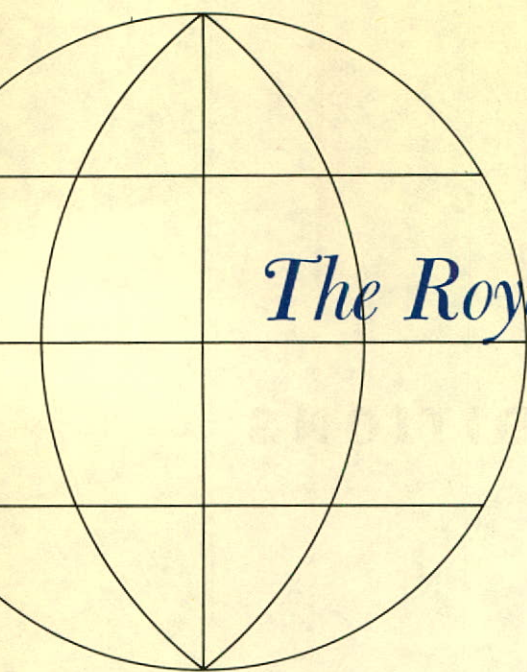
REVIEW OF CONDITIONS



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Supplement to the Report of the
Proceedings at the Ninetieth Annual
Meeting, January 8, 1959.



The Royal Bank of Canada

This booklet contains a review of conditions in Canada and in the countries abroad where The Royal Bank of Canada operates branches. It is supplementary to the Report of the Proceedings at the bank's 90th Annual Meeting which contains the addresses of the Chairman and President, and of the General Manager, dealing with economic and financial conditions in Canada and elsewhere.

There are branches of the Royal Bank in every large Canadian centre of population, and in hundreds of cities and towns from coast to coast, as well as in remote areas of new development. The bank also operates a strong chain of branches throughout Cuba, the Caribbean Area, and South America. Two branches are maintained in London, England and there are offices in Paris and New York.

International in scope and stature, the Royal Bank is the largest bank in Canada, fourth largest in North America and sixth in the world. With assets exceeding 4 billion dollars and branches numbering over 930, it plays an important role in Canada's economic life, and in her trade and commerce with other nations.

REVIEW OF CONDITIONS IN CANADA



Newfoundland

The economy of Newfoundland showed some improvement in 1958 over 1957 despite a rather poor fishery, although there were more men fishing in 1958 than there had been for many years past. Apparently a decline in employment in the forest industry induced many seasonal workers to return to the fisheries.

The overall catch of fish for 1958 to date is well below that for 1957 in both quantity and value. The situation for the cod fishery is complicated by marketing difficulties caused largely by the decision of the Jamaican government to place substantial orders for cod with Iceland. These orders covering the second half of 1958 were lost to Newfoundland because of disagreement over prices. A new contract covering the first six months of 1959 is now under discussion but so far no agreement has been reached.

Very little cod was shipped to Brazil in 1958, but the Federal government has arranged for a sale of 1958 production which is to be shipped early in 1959. Contracts were also signed with Italian buyers, but the quality as well as the quantity of the 1958 catch may make it impossible to fulfill more than two-thirds of these commitments. In fact, the smallness of the cod catch in 1958

will probably mean that all stocks will be gone by early 1959.

Prospects for the fresh-frozen fishery are more promising than for cod. Production for the year is up and stocks are down. Markets in the United States are sound and prices are up slightly.

The forest industry of Newfoundland, based mainly on the operations of two large newsprint plants, has felt the effects of the 1957/58 recession. As a result, logging activities carried out in conjunction with the operation of the newsprint plants were curtailed. Furthermore, one of the mills operated one day a week less than usual. Another development in the industry in 1958 was the signing of an agreement between the Provincial government and a private corporation under which an exploration of the timber available on crown lands on the island and in eastern Labrador is to be carried out. There is some hope that as a result of this exploration new pulp and paper mills will be established in Newfoundland shortly after 1960.

Mining activity in 1958 was only moderately unfavourable. Production of iron ore on Bell Island was curtailed during the year, and shipments from the island were down by a

considerable amount. As a result there are now large stock-piles of ore on the island. However, production of concentrates at Buchans and limestone at Aguathuna remained at normal levels. One of the two flourspar mines at St. Lawrence has now been closed for over a year because of competition from lower-cost imports of flourspar. It is anticipated that an asbestos mine will be opened at Baie Verte on the northeast coast of Newfoundland, sometime in 1959. This is expected to be a large operation involving several companies.

General construction activity in the Province appears to have been less in 1958 than in 1957, judging by the value of construction contracts awarded. Although the number of contracts awarded in the first 10 months of 1958 was more than four times as large as in the corresponding period of 1957, the total value of the contracts awarded was less. However, the number of dwelling units started and completed in the province to date exceeds the number started and completed in the same period of 1957. Tenders are expected to be called soon for construction of the first wharf in connection with the \$12 million development programme for the port of St. John's, which the Federal Government announced early in 1958. In addition, the Federal Government, as part of its programme to increase winter employment, will build about twenty fishing "community stages" in Newfoundland, mainly on the northeast

coast. The sites selected for these community stages will be in areas where income was most seriously reduced by the failure of the 1958 fishery. Each community stage is to consist of a building associated with the public wharf.

In keeping with experience elsewhere, employment in Newfoundland was lower in 1958 than in 1957. The picture was also clouded by some labour disputes during the year. Another development that will greatly affect employment in the province is the scheduled closing of the U.S. military base, Fort Pepperrel. So far only 200 civilians have been laid off but another 1,400 could be affected if plans proceed to close the base completely by the end of 1959.

The Royal Commission, on the revision of the Terms of Union under which Newfoundland became a province in 1949, has recommended that \$8 million be paid to the province by the Federal Government in order to provide for public services at satisfactory standards. The provincial government had hoped to receive \$15 million so that the recommendations of the Royal Commission are not entirely acceptable to the provincial government. In view of this the Federal Government has announced its intentions to reconsider the situation and to date no payment has been made. A satisfactory solution to this problem would do much to help the Newfoundland economy in 1959.

Maritime Provinces

The economy of the Maritime provinces suffered with the rest of the country in having a lower level of activity during 1958 than prevailed in the previous year. Throughout the year the number employed in the three provinces was consistently below that for 1957, and consequently there was more unemployment than usual in the region. In Prince Edward Island, Nova Scotia and New Brunswick the index of industrial production was down more than 4, 5, and 7 per cent respectively compared with corresponding

figures for the previous year. A more detailed examination of the course of economic events in the area during 1958 requires looking at its three main forms of activity: namely, fishing, agriculture, and forestry operations.

The quantity and value of the sea fisheries in Nova Scotia for the first ten months of 1958 were slightly above the figures for a year ago. This is in contrast with the sea fisheries of New Brunswick and Prince Edward Island where so far the quantity of the catch in 1958 is below 1957 while the value is not

significantly different between the two years. The lower figure for New Brunswick was due to a reduced herring catch, whereas in Prince Edward Island reduced catches of both flounders and lobsters brought the total down.

Lobsters are important in the region. (It is estimated that 17,000 men in the three maritime provinces are engaged in trapping lobsters.) Prospects for the new 1958/59 lobster season are that the average price may be above that for the previous season, although competition in the important U.S. market is expected from lobster tails—a type of crawfish being caught in Cuban, South African, and Australian waters in increasing amounts.

A strong demand for fresh and frozen fish prevailed in 1958; and in line with the market trend towards frozen fish products, the opening of modern processing plants continues in the area. In particular, during the course of the year a new cold storage and filleting plant was opened at Beaver Harbour in southwestern New Brunswick. It is reported that the new plant can handle up to a hundred thousand pounds a day; and next year, when additional equipment is installed, capacity of the plant will be increased to 150,000 pounds.

Farm cash income for the first six months of 1958 was above that for the same period of 1957 in all three provinces, but a better appraisal of the agricultural situation in the Maritimes is obtained by considering some of its specific farm products. One important crop in the area is potatoes, the harvest of which in 1958 was only 85 per cent of the 1957 harvest. Although the acreage devoted to potatoes was about the same as in 1957 the yield per acre was down considerably. Results were down most in Nova Scotia, which however accounts for only a small portion of the Maritime crop. In Prince Edward Island the crop is considered a normal one although well below that of 1957 when yields were rather large. However, so far prices have been low and movements to markets have been slow.

The apple crop in the Maritimes is considerably below average. In New Brunswick, the 1958 crop is now placed at 325,000 bushels, 28 per cent less than 1957. The crop

in Nova Scotia is down even more. The current estimate of 1.2 million bushels is 61 per cent less than the 1957 crop, which is considerably under previous expectations. Supplies on hand are very much less than those of last year, and some Annapolis Valley shippers are buying from other areas in order to complete outstanding commitments for certain varieties. With other producing areas reporting good crops, it is not expected that the return per bushel to growers will exceed last year's. Consequently, total income from apples for growers in the Maritimes will most likely be less than from the 1957 crop.

In 1958 tobacco was grown experimentally in the Annapolis Valley for the first time. Results appear to have been successful but it is too early yet to determine whether a tobacco industry will develop to any important extent.

Conditions during 1958 were favourable for the livestock industry and livestock producers in the area appear to have benefited as a result. In Nova Scotia, in particular, the livestock industry seems to be expanding in most areas, especially where the Provincial and Federal governments have provided additional grazing areas through marshland reclamation and community pasturage programmes. A further development that should stimulate the industry is the intention to build an abattoir in Halifax. This will be the first in the province; it is scheduled to open by mid-1959. The operation is expected to help Nova Scotia producers to displace western beef from the local market, which at present is quite large and draws mainly on imports. In addition, it is possible that the Maritimes may develop into an exporter of beef, judging by a shipment of beef cattle made during 1958 from New Brunswick and Nova Scotia to Ontario. Considerable effort is also being put into developing hog production in Nova Scotia. The provincial government has a programme underway designed to expand hog production by some 200,000 by 1960.

Conditions for forestry operations in the Maritimes were generally unsatisfactory during 1958. Lumber production by sawmills in the region was below 1957 production. In Nova Scotia, production was off an estimated one-

third and in New Brunswick production is down at present by one-fifth. Although the local market for lumber was good the export market was weak. Competition in the British market from European producers caused some loss of export demand for Maritime production. The outlook depends largely on the state of foreign markets, and while this remains an uncertainty some Maritime operators expect 1959 to be at least as good as 1958 for lumber production.

With the pulp and paper industry producing at below full capacity during the year, the cut of pulpwood in the area as well as elsewhere was down. Thus, in the first nine months of 1958, pulpwood production in New Brunswick was down by more than 40 per cent from the same period of 1957, while in Nova Scotia the reduction was greater than a third. Some observers look for a better pulpwood market in 1959.

Other forms of economic activity in the Maritimes that experienced conditions less than completely favourable during the year were steel production and coal mining. It has been estimated that for most of 1958 steel production at Sydney was only 70 per cent of capacity. However, towards the end of the year two substantial orders for rails were received from India and South Africa. The orders totalled 45,000 net tons, valued at \$5 million, and were won in competition with 25 steel companies located in at least 11 different countries.

The outlook for the coal industry in Nova Scotia does not appear very promising. The coal mines at Springhill, closed since the most recent grave disaster there, are not expected to re-open; however, the mines on Cape Breton were reported to be in full production

during the year. Opening of the St. Lawrence Seaway may help the industry because the major outlet for Maritime coal is the Ontario market. The Federal government has provided increased subventions for shipments to this market, and there is a possibility that more aid in this form will be forthcoming. Thermal power developments in the Maritimes would be another favourable factor but the possibilities for such development now seems remote in view of a recent report that present construction programmes will meet any foreseeable demands over the next five years for power in the Atlantic provinces.

Mining in New Brunswick did not flourish during 1958. A few years ago New Brunswick was on the threshold of one of the biggest mining booms in Canada, but the depressed state of world markets for metals over the past year or so has brought the New Brunswick boom to a temporary halt. However, once a worthwhile demand for metals again appears, mining activity in the province is expected to revive.

Other economic events occurring in 1958 worthy of brief mention relate to the petroleum industry. In New Brunswick an oil refinery is to be erected at East Saint John. The project is a large one, costing \$50 million, and is not scheduled for completion until 1960. Expansion of refinery capacity near Dartmouth, Nova Scotia, was completed during the year, and in Prince Edward Island a large oil company has been actively exploring for oil near Summerside. Two dry wells have been sunk and drilling is continuing at another site.

Thus, although the economy of the Maritimes suffered from unsatisfactory conditions during 1958, it nevertheless showed signs of further development.

Quebec

Like most other regions of Canada, the province of Quebec during 1958 experienced further contractions in many of its major industries, including mining, manufacturing generally, and forestry. However, growth

occurred in the agricultural sector and in the construction of dwellings, office buildings, roads, highways and bridges.

Copper had been the province's leading mineral in 1956, followed by asbestos and iron

ore, but with the falling off in base metal markets in 1957, copper dropped to third place and asbestos and iron ore rose to first and second place, respectively. During the first nine months of 1958, output of asbestos was 20 per cent lower than during the previous similar period, iron ore was down about 30 per cent, but copper was up almost 20 per cent, suggesting that it might regain first place in 1958.

In asbestos, although sales competition was more intense than the year before, prices held steady, and output, cut back during the first half of the year, was rising during the second half. Production for the whole of 1958 was expected to come close to the previous year's level of 1 million tons. Though beset by increased competition, the industry welcomed three new producers in 1958, all of them in the Eastern Townships. Zinc markets remained weak and output for nine months was down about 25 per cent. However, production of gold and silver for nine months was up 3 per cent and 7 per cent respectively.

Iron ore, although it received a setback owing to the economic recession and the sharp decline in steel production, still holds forth increasing promise of becoming Quebec's leading source of mineral value. If market conditions permit, three very large producers will be in full scale operation by the late 1960's. The iron mines in the Quebec-Labrador area near Knob Lake produced a record 13 million tons in 1957, about 60 per cent of Quebec origin, and capacity is expected to rise to over 30 million tons annually within ten years. In the Shelter Bay area, a development is underway that might provide an ultimate capacity as high as 60 million tons annually, with initial production of 8 million tons set for 1960 or 1961. Much farther north on the border of Ungava Bay, a project will be undertaken to develop an eventual capacity of about 10 million tons, with initial output of 2 million tons annually scheduled for the early 1960's. Each of these three major projects will involve an expenditure of \$200 million to \$300 million.

Production of aluminum ingots in the province, after dropping by about 30 per cent

in 1957 owing largely to a four-month strike at Arvida, was showing an increase in 1958, and output for the year was expected to reach approximately the 1956 level of 480,000 tons. Prices of aluminum ingots were reduced by about 8 per cent in April, the first significant change in an upward movement that began about ten years ago. The outlook for 1959 appears to be good, with rising demand for aluminum foil and increasing use of various forms of aluminum by the automobile, canning, and other industries. Expansion currently underway is expected to raise ingot smelting capacity in the province to a total of almost 800,000 tons by the end of 1959.

The iron and steel fabrication and industrial machinery industries continued to experience difficulties which began with the business recession in 1957. Fewer new orders have been available and backlogs have been declining. The steel fabrication industry is meeting increased competition from prestressed concrete and from timber, while sales of industrial machinery are subject to inroads by foreign producers.

The difficult times dating from 1950, attributable largely to import competition and the dependence of local producers on the Canadian market continue to plague primary textiles. Recent data are not available on the industry in the province exclusively, but the following remarks about Canada as a whole are likely to be applicable to Quebec, which accounts for more than half the country's output. Before the war the Canadian industry supplied more than 70 per cent of the domestic market, but in 1957 and 1958 the share has been below 50 per cent. Production of wool cloth and of cotton fabrics were both somewhat lower during the first half of 1958 than during the same period of the preceding year, but since imports declined by an even higher proportion, the shares of the domestic market held by Canadian producers rose to 49 per cent from 45 per cent in the case of wool cloth and to 46 per cent from 45 per cent in the case of cotton cloth. The rate of duty on wool fabrics imported under the British Preferential Tariff was raised during the year, the possibility was indicated that the Most

Favoured Nation Tariff rate might soon be increased correspondingly, and the Tariff Board was directed by the Federal Government to enquire into the rates on cotton and other textile fabrics. Production of man-made (formerly known as synthetic) fibres was also down during the first half of 1958, with the industry retaining about 67 per cent of the domestic market compared with 77 per cent five years earlier.

It is estimated that somewhat less timber will be cut during the winter of 1958/59 than during the previous winter, and 30 per cent less than the record amount of 1956/57. Production for nine months was down 23 per cent in the case of pulpwood and 17 per cent in the case of sawn lumber. Pulp and paper mills operated at an average capacity of 85 per cent during the first three quarters of the year, compared with 96 per cent during the same period of the year before.

Agriculture for the most part had a good year. Plenty of warm, rainy weather during the summer hastened crop development, but relatively cool weather and continuing plentiful rain retarded harvesting operations in the fall. Estimates place production of the various grains generally somewhat below levels of the previous year, with the important oats crop down about 9 per cent. Production of vegetables was satisfactory on the whole, with a 20 per cent drop in potato output providing an important exception. Good tobacco and hay crops are reported. Output of each of the three important fruits—apples, strawberries and blueberries—is understood

to be approximately double. Farm cash income for nine months, at \$306 million, was up 10 per cent from the previous corresponding period.

The dollar volume of retail sales during the first ten months of 1957 was 2 per cent higher than during the same period of the previous year, owing largely to price increases. Collections in the province were reported to be somewhat slower in 1958 than the year before.

Quebec's proposed capital expenditures for 1958 were estimated at \$1,981 million or about 2 per cent lower than for the preceding year. Intended expenditures on new construction (included in the foregoing figure) were estimated at \$1,379 million, also down about 2 per cent. However, housing starts for the first ten months of 1958, at over 39,000, were up 35 per cent from a year earlier and 22 per cent from the previous record of some 32,000 for the first ten months of 1956. Although work on the St. Lawrence Seaway is drawing to a close, other important projects that will do much to take up the slack include hydroelectric and iron ore developments, proposed steel mills in the vicinity of Contrecoeur, a privately owned 10-15 million bushel grain storage complex at Baie Comeau, the Nun's Island Bridge at Verdun, and several multi-story buildings in the downtown area of Montreal.

With the economic adjustments of the latest recession apparently for the most part completed, widespread confidence prevails that the economy of Quebec will soon resume its rapid industrial advance.

Ontario

The pace of industrial activity in Ontario picked up slightly during the course of 1958. The year started slowly but a definite improvement was noted after mid-year. As a result many industries may have a performance in 1958 that is at least as good as that of 1957. There will be some exceptions, of course, most notable of which is the important

motor-vehicle industry. Motor-vehicle sales in Canada in the first three quarters of 1958 are down almost 10 per cent from the same period of 1957. Production was lower by almost 20 per cent, domestic producers suffering not only from a fall in total demand but also from increased import competition.

Producers of other consumer durables also

suffered during the course of the year but possibly not to the same extent as motor-vehicle producers. A mitigating factor for most manufacturers of consumer durables is the large number of new houses constructed in 1958, which helps to create a demand for additional household appliances. Housing completions in Canada in 1958 are now forecast to reach a record 145,000, compared with 117,000 in 1957. A large carry-over of unfinished houses into 1959 and a continuation of a large housing programme should help support consumer-durable sales.

The basic steel industry in the province operated at near capacity until a labour strike halted production for over three months. Operations have not yet recovered from the effects of the strike. Refineries and petrochemical plants in the province report a high level of activity, but newsprint production is still below 1957 output although conditions are improving.

The generally lower level of manufacturing activity that prevailed in the province in 1958 was reflected in the amount of industrial employment. In most months of 1958 industrial employment was well below the average for 1957. Labour strikes as well as lessened economic activity have been responsible for this lower employment. With a steady growth in the labour force during the year, unemployment in Ontario in 1958 was much greater than it was in 1957. The problem still remains a serious one.

Government attempts to increase the amount of winter employment may help to alleviate the situation somewhat. Another favourable factor is the increase in construction activity within the province. It is anticipated that construction expenditures in 1958 will be slightly above those made in 1957. So far construction contracts awarded within the province during 1958 have exceeded in both number and value those awarded in 1957. Of longer-term significance is the recent announcement made by the Ontario government that it intends to spend in the next twenty years a total of three billion dollars for highway construction and maintenance.

Conditions in the mining industry of the province were not altogether favourable during the year as both gold mines and base-metal mines encountered adverse conditions. Nevertheless gold production in the first nine months of 1958 was slightly above what it was in the same period of 1957. Uranium production was also above 1957 levels, and two of the uranium mines in the province declared their first dividends in 1958. Nickel production has been hampered by a serious labour strike at Sudbury. A more favourable development has been the arrival of natural gas from Alberta to Toronto which began in October when the final portion of the pipeline constructed for the purpose was opened. Natural gas from Alberta is now also available at various places in northern Ontario.

Forestry operations were at a reduced level in 1958. The cut of logs was down considerably from the 1957 cut, and would have been even lower but for a good demand for veneer and higher-grade hardwood. Lumber production by sawmills in the province was 10 per cent less in the first three-quarters of 1958 than in the same period of 1957. The 1958 cut of pulpwood so far is well below the 1957 cut in the province, but there are some signs that pulpwood production may improve.

Farm cash income in the province during the first half of 1958 was 10 per cent above what it was during the same period of 1957. Generally, crops in the province have been excellent in both yield and quality. Production of most field crops in 1958 appears to have exceeded that for 1957. Fruit crops are also estimated to have been larger in 1958 than in 1957. The 1958 tobacco crop is reported to be well above average in quality and size. The current crop of sugar beets, an important product in the southwestern counties of the province, is reported as excellent.

Some interesting developments in livestock and dairying are worth noting. The business of raising hogs is undergoing a change, with production on a contract basis from feed houses and packers becoming more prominent. There are now reported to be nine artificial cattle breeding stations operating in

Ontario, the first one of which was established at Kitchener. In dairying the trend continues towards milk collection by means of tank trucks, which require farmers to install electrically cooled bulk storage tanks.

How the Ontario economy in general will

fare from now on depends on the strength of the present recovery in business. There are many encouraging signs and thus some basis for hope that economic conditions in the province in 1959 will show some improvement over those of 1958.

Prairie Provinces

A review of economic conditions in the prairie provinces is largely a review of economic conditions for wheat, oil, and gas, not because there are no other forms of economic activity on the prairies but because the three foregoing commodities are so important to the region.

The 1958/59 wheat crop on the prairies was produced under most trying conditions. Prospects were anything but promising in the spring of 1958 because of below average subsoil moisture carried over from 1957, which was not made any better by light snowfall the previous winter in most areas. The hot dry summer produced conditions similar to those of the drought years of the 1930's. Despite these adverse moisture conditions, remarkably enough an average size crop was brought in, which the final figure may show to be only a few million bushels less than the 1957/58 crop. Furthermore, although dry weather restricted the size of the crop, it did contribute to its high quality. It is expected that about 90 per cent of the crop will be of milling grade and that the protein content will be good.

In terms of quality, then, Canadian wheat should be in a good competitive position in world markets, although competition may be tougher in the 1958/59 year for which world wheat production is estimated to be 14 per cent above the previous largest annual figure. But world exports of wheat are also expected to be up a little and there are special considerations which may keep Canadian exports of wheat from falling very far below the 315 million bushels shipped in the 1957/58 crop year. In particular, a support to wheat

exports is expected from extra sales and gift shipments to Colombo plan countries.

With the current crop and the previous one being of average size and with wheat exports being well maintained, the storage situation for Canadian wheat has improved remarkably within the last two years. Some sources of information are even so optimistic as to suggest that perhaps by the end of the crop year in 1959 the wheat carry-over will be small enough to store in commercial elevator facilities.

Farmers' marketings of wheat and other grain on the prairies are proceeding so far in the present crop year at a rate only slightly below that for the same period of the previous year. The estimated amount of deliverable grain on the prairies in the 1958/59 crop year amounts to 730 million bushels; actual marketings of the major grains by prairie farmers in the 1957/58 crop year amounted to 578 million bushels.

In general, agricultural conditions in the prairie provinces appear more favourable than they were a year ago, judging by the preliminary figures on farm cash income which so far in 1958 is running ahead of the 1957 pace in each of the three provinces. Livestock marketings have been a particularly buoyant factor in 1958, especially in Alberta, owing to a strong American demand.

However, in 1958 the petroleum industry on the prairies suffered another year of less than full activity. Overall production of crude oil in the three prairie provinces is expected to be about 10 per cent less than it was in 1957. The decrease is due entirely to lessened production in Alberta which seems likely to provide about 110 million of the 160 million

barrels expected to be produced by prairie wells in 1958. The domestic market for crude oil remained strong during the year, so that the entire loss of production was due to reduced export demand for Alberta crude oil. At the same time that Alberta producers were losing export markets, producers in Saskatchewan and Manitoba were capturing a larger share of the existing export market. Oil exports to foreign markets from these two provinces are expected to be slightly higher in 1958 than in 1957. Indeed, oil production in Saskatchewan is expected to be higher in 1958 than it was in 1957, in contrast to the trend in Alberta. This contrast is largely due to the fact that producers in Saskatchewan are more favourably located for serving the eastern Canadian market than Alberta producers, so that as Saskatchewan production increases it tends to displace Alberta crude in certain markets.

Marketing conditions for natural gas were much more heartening than those for petroleum. Production of natural gas greatly exceeded that in 1957 owing largely to the expansion and completion of natural gas pipelines. The most promising gas discovery of the year was uncovered at Berland River in July. Another important development was the completion of a \$25 million gas processing plant at Pincher Creek. Construction of another gas processing plant in southeastern Saskatchewan was also scheduled to be completed in 1958 and will draw upon gas formerly flared off as waste from more than 600 oil wells. In Manitoba plans have been announced to build a plant for producing aviation gasoline. This will be the second plant of its kind on the prairies, production from which will replace imports from the United States.

In connection with other mining activity there are two items worthy of comment. A favourable item is uranium production in Saskatchewan which is expected to exceed \$50 million in value in 1958, for the first time in any year. A less favourable situation prevails for coal production in Alberta. Production in the first 9 months of 1958 was almost 30 per cent below production in the

same period of 1957. Production for all of 1958 is expected to be less than 3 million tons, which would be the smallest annual tonnage mined since 1911. The coal industry in Alberta is of course suffering from intense competition from petroleum substitutes, such as natural gas, fuel oil, and propane. No immediate improvement in the markets for Alberta coal is seen but there are some hopes for eventual improvement based on expectations of increasing demands for coal from thermal power generation units.

Other developments on the prairies during 1958 which are of great economic interest include possibilities for developing the northern parts of Manitoba, two major projects planned for Saskatchewan, and an irrigation project in Alberta. A survey of Northern Manitoba undertaken by a private research organization reported during the year and recommended several steps for the provincial government to take in the fields of hydro power, transportation, townsite development, mineral exploration, and mapping in order to encourage full development of northern Manitoba. It has been reported that consideration is being given to methods of implementing many of the recommendations made by the study. Already a new highway system is scheduled for the area and a new forest industry, based on a newsprint and pulp operation, may be established in the area within the next two or three years.

Of considerable interest to Saskatchewan was the decision reached during the year to go ahead with the South Saskatchewan River dam. It is estimated that the project, the largest of its kind ever undertaken in Canada, will take anywhere from six to eight years to complete. Another important development in Saskatchewan concerns the establishment of a \$15 million steel plant in Regina. The mill will roll skelp for making pipe and will produce plate and structural steel. Production is not expected to start before 1960.

In Alberta the \$6 million Bow River irrigation project under construction since 1953 was scheduled for completion in late 1958. The development is the fifth largest of 15

irrigation areas in southern Alberta and will serve from 45,000 to 60,000 acres of irrigable land.

Thus, although economic conditions on the

prairies in 1958 were not completely satisfactory, the area continued to show evidence of growth and development which promises considerable improvement for the future.

British Columbia

Less than full activity prevails in the forest and mining industries of British Columbia, but fishing presents a pleasant contrast. Employment in 1958 was generally below the numbers employed in 1957, and retail sales have also failed so far to match those of 1957.

The huge forest industry in the province was plagued during 1958 by a number of strikes and by the most disastrous forest fire season ever recorded in British Columbia. In the course of the year there were over 4 thousand separate fires covering more than a million acres of forest. These fires, along with strikes, curtailed logging operations in the province, and as a result the amount of timber scaled fell off considerably in 1958. However, the stock of logs also dropped, and with prices firming the economic outlook for logging is favourable, especially since the production of lumber by sawmills in British Columbia increased throughout the year. The increase for the first nine months of 1958 was more than 10 per cent over that for the same period last year. Shipments of lumber increased even more, so that stocks on hand at sawmills fell. The high level of house building in Canada and the United States helped to stimulate larger shipments to the Canadian and American markets, and low ocean freight rates helped to increase lumber shipments to the United Kingdom, despite some very severe competition in the market from other producers.

Plywood production is also expected to be greater in 1958 than it was in 1957, with most of the production being sold in Canada. In contrast, pulp and paper mills in the province are reported to be operating at only 85 per cent of capacity, but some improvement is expected in 1959.

In the fishing industry of British Columbia, the quantity of fish landed to date in 1958 is well below the 1957 quantity for the similar period. A very large drop in the herring catch more than offset the increase in the amount of salmon landed. The reduction in the herring catch was due to a strike by fishermen in the winter of 1957/58. If there are no further labour disputes, the herring catch over the 1958/59 season promises to be an exceptionally good one according to early reports.

Although the overall quantity of fish landed is down, the value of the catch for 1958 is well above that of 1957. The reason for this is the great salmon catch, the value of which in 1958 is almost double that of 1957. The canned salmon pack to date is about half a million cases larger than last year's pack, and indeed is larger than the number of cases packed in any of the last five years. Over a million cases of the pack consist of sockeye. About 300,000 of these cases are reserved for the domestic market, the rest being earmarked for sale to the United Kingdom.

The mining industry of British Columbia had a rather poor year in 1958. Import quotas imposed on lead by the United States had an adverse effect, but apparently similar import quotas of zinc are not expected to hurt provincial producers. Exploration activity in general has been fairly widespread, despite the unsatisfactory conditions for mining. In July the provincial act discouraging the export of iron ore from the province was ruled *ultra vires*. Following this ruling several companies began to develop iron ore properties with the intention of exporting to Japan. Large shipments have already been made and such shipments are expected to continue in 1959.

The number of oil and gas wells in the province continued to increase during the year. Sales of natural gas in the province showed a marked increase in 1958 mainly because of new markets opened up by distributors during the year.

Agricultural conditions in the province were generally favourable throughout the year. Generally good weather and a better supply of farm labour were among the favourable factors. Farm cash income in the first nine months of 1958 was almost 4 per cent above what it was in the corresponding period of 1957. Production of most fruits in 1958 is slightly below the 1957 crops but is still considered satisfactory. The large apple crop is good in quality and exports are holding up well, especially to the United States and the United Kingdom. However, the domestic market is a little slow and competition from other producing areas is making its effect felt. The tendency to divert some of the apple crop to processing plants for conversion into juice and cider continued during the year.

A dry summer reduced vegetable yields and affected hay supplies in the Fraser Valley and on Vancouver Island. Consequently these areas are currently importing hay in fairly

large quantities. However, subsequent rains in September and moderate weather in the autumn helped to improve the quality of late-harvested produce.

The general indicators of economic activity in the province, such as construction, retail trade, and employment were, in the main, lower in 1958 than in 1957, but not by substantial margins. The amount of construction put in place in the province in 1958 will perhaps show the largest year-to-year decline. The forecast is for a reduction of \$200 million, and the value of construction contracts awarded to date bear out the forecast. Retail sales for the first nine months of 1958 were down less than 2 per cent over those for the same period of 1957. For the first few months of the year employment was almost as high as the 1957 figures for the same months, but employment in the summer failed to keep up with 1957. Recently, however, the gap between the 1957 and 1958 figures has narrowed once more.

How the provincial economy fares in 1959 depends to a large extent on the world demand for many of its major products, but some improvement can perhaps be expected.

Yukon Territory and The Northwest Territories

The most noteworthy development in the economies of the Yukon and Northwest Territories in the past year has been the great increase in exploration for oil and natural gas. Indeed, the search for oil and gas that is now under way in the Yukon and in the Mackenzie District of the Northwest Territories is said to represent the greatest oil and gas search, in terms of the area covered, in the world today. Ground parties and aircraft are working over more than 70 million acres between the northern limits of the provinces and the shores of the Arctic Ocean. The area covered by oil exploration permits has doubled within the past year. Four major oil companies were recently successful tenderers in a competition for exploratory oil and gas permits covering 2

million acres in the Yukon and Northwest Territories. The permits are for nine years. Under their terms the companies must spend more than \$750,000 in the first three years of exploration, at least \$2,520,000 in the second three-year period, and \$3,150,000 in the final three years.

In the Yukon itself the area covered by oil and gas exploration permits has increased from 2.2 million in early 1957 to 15.5 million acres at the end of September, 1958. Furthermore, two independent Canadian oil companies have announced their intention to proceed with a major drilling programme within the Yukon. It is expected that within the next five years some \$8 million will be spent in drilling five or more deep test wells in the vicinity of the

Eagle Plain and Peel Plateau Reservations. A further step in the development of the petroleum industry in the Yukon was taken when a Canadian company disclosed in October, 1958, that it would establish a \$1 million refinery at Haines Junction in the Yukon to start operation in 1959. The refinery is to consist of a products treating and separation plant, capable of handling a through-put of 3,000 barrels of oil daily. Its output will consist of stove, diesel, and bunker fuels and several grades of asphalt. These products will be distributed in the Yukon and Alaska.

In the Northwest Territories increased exploration for oil and gas in 1958 reflected the development in the Yukon. This exploration activity was most evident in the north-western part of the Territories, which adjoins the area of active exploration in the Yukon. At the beginning of 1957, about 10 million acres were covered by oil and gas exploration permits in the Mackenzie Valley, and since then up until the end of September, 1958, more than 40 million additional acres were added to those already covered by permits.

Mining activity and production have been declining slightly in the Yukon and Northwest Territories, but it is too early to say yet how 1958 mineral production compared with 1957. However, gold production in the Northwest Territories for 1958 to date has been ahead of 1957 production for the corresponding period. In the Yukon just the opposite situation prevails, although 1958 production so far is not much below 1957 levels. There has been some exploration activity for gold and asbestos in some areas of the Yukon, and exploration for various metals has also been carried out in the Northwest Territories. In the Coppermine River area, several large companies have been carrying out limited exploration programmes for copper, nickel, and zinc; and prospecting and staking of claims, mainly for iron ore, have continued on Baffin Island.

Fur trapping, an important economic activity in the area, continues to suffer as a result of competition from lower priced synthetic furs. This competition is expected to become even more intense as improvements in synthetic fibres and fabrics continue to be made.

Commercial fishing, of some importance to the Northwest Territories, was less prosperous in the 1957/58 season than in the previous one. Both landings and values show a year-to-year decrease. The catch of the commercial fisheries on Great Slave Lake, which is operated on an annual quota set by the Department of Fisheries, sold for about \$200,000 less than the 1956/57 catch, valued at almost \$1.5 millions.

Certain government policies and developments in the field of transportation formulated in 1958 are expected to be a great aid to the economic progress of the northern areas of Canada. Railway connections are to be extended to the south shore of Great Slave Lake. This will establish a railhead some 400 miles further north than the present railheads. The Dominion government also plans to spend some \$100 millions for the construction of new roads to stimulate mineral exploration and development in the Yukon and Northwest Territories. In addition, the Dominion government has announced a "roads to resources" programme under which it will share with the provinces one-half the cost of building roads into underdeveloped areas. This programme, extending over the next five years and involving an estimated \$150 millions, will not only encourage development in the northern areas of existing provinces but will also provide important highway links for the highway systems of the territories. Since lack of transportation has always been one of the major obstacles to the further development of the north, the foregoing measure should do much to improve the economic position of the Yukon and Northwest Territories.

REVIEW OF CONDITIONS IN THE CARIBBEAN AREA



Cuba

With good demand prevailing for most of Cuba's products, the country enjoyed another prosperous year in 1958, although the economy was affected to a certain extent by the activities of revolutionary forces which have been operating, mostly in Oriente Province, since late 1956. The authorities took special measures to protect the sugar crop, which is so vital to the economy, and the great bulk of it was harvested successfully and sold at satisfactory prices.

The 1958 sugar crop, initially set by Government Decree at 5.5 million Spanish long tons, was subsequently fixed at 5.6 million in May. Production exceeded the latter figure slightly and surpassed the previous year's output of 5.5 million by over 100,000 Spanish long tons. Exports of sugar from January 1st to November 15th totalled 5 million Spanish long tons, equal to the high level achieved during the same period of the year before. Prices showed divergent trends. Expressed in each case as an average for the first ten months of the year, the United States price rose to 5.40 cents a pound in 1958 from 5.32 cents the preceding year, while the World Market price fell to 3.49 cents from 5.42 cents. Actually the over-all price situation was considered to be more favourable than

might be inferred. The World Market price, although down from 1957 when it was unusually high owing to the Suez crisis and other factors, was at a normal average level in 1958 and was, in fact, at a higher average level than during the first ten months of 1956. Secondly, an increased portion of Cuba's sugar was exported in 1958 to the United States, where prices were higher than the year before and tending to rise moderately. It was expected that the carryover to the next crop would be only nominal and therefore a favourable factor in the 1959 situation. Production of blackstrap molasses in 1958 was almost 9% lower than in the previous year, but more than 10% higher than in 1956.

Tobacco is Cuba's second leading crop, and the manufacture of tobacco products has been one of the country's most stable industries over a long period of time. While export values of tobacco and products are minor in comparison with those of sugar, they have risen steadily and to substantial levels. During the twelve-month period ended August 31, 1958, export values of tobacco and products reached a total of \$50.2 million, for an increase of 6% over the similar period a year earlier. The 1958 crop was above average in quantity but, owing mainly to

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Branches in the Caribbean Area

This map shows the location of the many branches of The Royal Bank of Canada in the Caribbean area, where we have been established since 1899.

For map showing location of Royal Bank branches
in South America, see pages 50-51.



unseasonal weather, below normal in quality. Prices paid to farmers were lower than the year before and stocks were somewhat slow in moving from the farms. Shade-grown tobacco, which is grown primarily for the production of high-grade wrappers, suffered from disease and a shortage of wrappers is anticipated. Tobacco prospects for 1959 are judged to be good, weather permitting, in view of continuing strong demand for such products.

Rice is a comparatively new crop to Cuba, but with farmers steadily learning more about the preparation of land, irrigation and the use of insecticides, losses of the kind incurred in some earlier years should be increasingly avoided as time goes on. Local production is now capable of supplying about half the country's requirements. For the twelve months to July 31, 1959, local production is estimated to reach about 4 million cwt., compared with imports of approximately 4.2 million cwt., entirely from the United States. Apart from past and prospective savings of foreign exchange (rice imports were valued at over \$37 million in 1957), the outstanding benefit of growing rice in Cuba is that most of it is cultivated, with the help of irrigation, on lands until recently considered worthless or marginal. Prices to growers during 1958 were firm at around \$7 per cwt. unhulled and \$10 for the better qualities, and on the whole yielded a good return.

Conditions in the cattle industry were for the most part satisfactory, with plentiful rainfall, rising demand, and ample supplies of fat stock. However, the movement of animals was hampered by the revolutionary activities, especially in Oriente Province. Ranchers displayed some reluctance to increase their herds and there was a consequent softening of markets for young stock. However, prices for cattle were generally good. In recent years, with the co-operation of the Department of Agriculture, much more attention than previously has been given to scientific breeding and improvement of strains, and livestock shows are now a regular feature throughout the country. By Presidential Decree signed in September, Cuban cattlemen were authorized to export high-quality beef up to 400 head a month.

The 1957/58 coffee crop amounted to approximately 950,000 cwt. representing an increase of almost 20% from the previous year. Stocks on hand towards the end of 1958 were considered about normal. Estimates for the 1958/59 crop varied widely. The crop matured well but some damage was reported to have resulted from two cyclones in September and October and a conservative estimate of the crop would be around 900,000 cwt. Legislation allocates 60% of production for local consumption and 40% for exports comprising both natural and washed coffee. Exports in 1957 were valued at \$12.5 million and were running at equal values for corresponding periods of 1958.

Nickel continued as Cuba's leading mineral export, followed by copper, manganese and chrome. Total value of mineral exports in 1957 was \$37.4 million, with nickel accounting for 61% and copper for 23%. Exports of minerals from Cuba generally have risen steadily, but were down somewhat during the first half of 1958, both in volume and value, mainly as a result of weakened demand in the United States. The Moa Bay Mining Company, a subsidiary of Freeport Sulphur Company of New York, has spent some \$30 million (of an estimated \$75 million) in the construction of a plant to produce nickel and cobalt extracts, to be refined in the United States. The plant was expected to be in production by the summer of 1959. Maximum annual capacity is estimated at 25,000 tons of nickel and 2,200 tons of cobalt. This would make Cuba the second largest producer of cobalt in the Western World and the leading producer in the Western Hemisphere.

The search for oil continues and it was estimated that some \$40 million to \$50 million had been spent on exploration, with insubstantial results so far as can be ascertained. Production of crude oil is now about 400,000 barrels a year, which is an insignificant proportion of local needs. The President of the Banco Nacional de Cuba, the central bank, announced that Belgian interests were ready to invest from \$20 million to \$30 million in Cuba to process oil from mineral asphalt and would grant Cuba the right to buy out the Belgian investment if desired.

American and British subsidiaries have increased their refining capacity in Cuba to about 86,000 barrels daily and made a substantial contribution to the economy. A Cuban company was reported planning to invest \$25 million to establish a plant for refining oil from Venezuela, the new refinery to have a capacity of 18,000 barrels daily, 75% of which would be exported. The company's application was awaiting approval of the Finance Ministry.

The tourist trade went through distinctly favourable and unfavourable periods. Four new hotels were opened and the winter season got off to a good start. However, as the political situation grew more uncertain, the flow of tourists declined greatly and hotels and other businesses catering to tourists suffered considerably. The city of Havana now has hotel accommodation for 7,500 persons.

General business activity was maintained at quite a high level during the first few months of the year, but a falling-off has been evident for some time. Conditions in the automobile industry were reasonably good. The small European car continued to increase in popularity and accounted for about 35% of new registrations. A new and developing feature was the establishment of factories for local assembling of semi-knocked-down units. The textile industry encountered difficult times from about April onward, with sales having fallen off. Collections were satisfactory in Havana, but slow in the interior. Public works were well maintained in and around Havana but fell off noticeably in the provinces. Construction activity was at a fairly high level, but somewhat below that of the previous year. Because of reduced activity in public works and construction generally, machinery and construction equipment sales experienced a setback. The demand for agricultural equipment, on the other hand, was well maintained in most districts. The labour situation was quiet for the most part.

Facilities for production of electric power increased steadily and consumption during the first eight months of 1958 rose 13% over the previous similar period. The Cuban Telephone Company is engaged in a \$68 million expan-

sion and modernization programme to be completed by the end of 1960.

There was lively official interest in the creation of a Cuban merchant fleet and shipbuilding facilities. Six ships were being built in the United Kingdom and Japan for the Cuban Foreign Trade Bank and an \$11 million dry-dock was being constructed in Havana Bay. A contract was signed with a British group for the construction and operation of an \$86 million shipbuilding and repair centre at the port of Mariel. The yard was expected to be able eventually to produce 125,000 tons of shipping a year. Its task will be first the building of a fishing fleet and later ships of up to 14,000 deadweight tons, among them a fleet of twenty-five 5,000 ton vessels to carry Cuban sugar exports. Known as Mariel Shipyards Limited, the new company has an initial capitalization of \$20 million, to which local interests are to subscribe 75% and the British group 25%, with additional capital to be raised later. The Cuban Foreign Trade Bank also purchased eight vessels of the Canadian National Steamship Company, these to be operated under the Cuban flag and to provide freight and passenger service between Canada, Cuba and The West Indies.

Of particular interest to foreign firms was a new decree which permits control from offices in Cuba of transactions originating and consummated outside Cuba, and grants freedom from taxes on profits, dividends, capital, excess profits and from the 2% Public Works Tax, on funds originating from such business. The decree emphasizes the advantages and facilities available in Cuba to international trade: geographical position, excellence of communication services, and parity between the Cuban peso and the United States dollar.

Important technological advances have been made in the use of bagasse, a fibre residue from sugar cane. The making of newsprint out of bagasse was developing and some of Havana's newspapers are being printed on bagasse paper, which is of satisfactory quality. The producing company, Técnica Cubana S.A. was expected to be able to supply the requirements of all local newspapers by the end of 1958, thereby effect-

ing for the country a saving of around \$6 million annually in foreign exchange. A bagasse hardboard plant, representing an investment of some \$2.5 million, went into operation and initial production was estimated at 18 million square feet annually or a value of \$4 million. Several more plants were being organized for the exploitation of bagasse. A wide range of uses has been proposed for this product, including: as a food for animals, in the making of textiles, as a filler in paint compounds (after the bagasse has been reduced to a fine powder), as a moulding sand in foundries and as an ingredient for cattle feed.

Cuba and the United States were reported to have signed a 20 year nuclear power agreement in Washington for the purchase or lease by Cuba of 700 kilograms of uranium 235. Meanwhile plans to erect Cuba's first nuclear power plant proceeded with an agreement in principle between BANDES (Economic and Social Development Bank) and British and United States engineering

firms. The projected plant is to be financed by an issue of BANDES bonds amounting to \$6.5 million, and is expected to begin operations in 1961.

Overall export and import figures were not available, but indications were that Cuba, which consistently over many years has achieved a favourable balance of trade, was continuing to do so.

The Government fiscal year ended June 30, 1958, and receipts of \$391.1 million considerably exceeded the budgeted estimate of \$347.3 million. Disbursements totalled \$389.6 million. Exact figures for the current year were not available but figures submitted to Congress in April were based on estimated income of \$347.3 million. Since April, 1957, income and expenditures have been controlled by quarterly decrees issued under special emergency powers.

At June 30, 1958, of a total of \$1,082 million authorized, the Public Debt stood at \$870.6 million, compared with \$810.4 million the previous year.

The West Indies British Guiana, British Honduras, Bahamas

In recent years, special efforts to foster manufacturing, particularly in Jamaica, Trinidad, British Guiana and Barbados, have met with some success and there has been expansion of oil production in Trinidad and bauxite production in Jamaica and, until 1958, in British Guiana. Nevertheless the mainstay of the islands (except the Bahamas) and British Guiana is still the sugar industry which provides a large proportion of total employment and revenue. Production of sugar in the area was on the whole satisfactory in 1958, notwithstanding adverse weather conditions in most regions and labour difficulties in some. Under the Commonwealth Sugar Agreement, which has been extended to 1966, the various units enjoy an assured market for the bulk of their sugar production. Quotas are allocated and prices fixed each year, the price for the 1958 crop being W1\$210.40 per ton c.i.f., about 4% higher than the year before. Produc-

tion in 1958 is estimated at 1,050,000 tons, or 7% lower than in the preceding year. There will be no carryover from the last crop, and growing conditions for the current one are reported to be favourable. In 1958, sugar production rose in British Guiana and Trinidad, but fell in Jamaica and Barbados.

Shipments of bananas from Jamaica during the first ten months of 1958 totalled 8.1 million stems, compared with 9.9 million during the same period a year earlier, the decline being due to extensive drought and some disease. Several of the larger estates are reported to have replaced banana cultivation on considerable acreage by sugar cane which has become the more profitable crop. It is hoped that success in experiments, now in advanced stages, will lay the foundation for the recovery of the banana industry. Production of bananas in 1958 continued to rise in Dominica and Grenada, but levelled off in Trinidad.

Rice production in British Guiana amounted to approximately 69,500 tons in 1957/58, declining from the previous year by about 10,000 tons, owing to severe drought conditions. The 1958/59 crop was planted under ideal conditions and is expected to yield some 91,000 tons. Cocoa production in Trinidad rose by about 11% in 1957/58, to approximately 18.1 million pounds, and the next crop is expected to increase to around 22 million pounds. It is reported that the present "Cocoa Pool" is to be abolished in August, 1959, and a Cocoa Industry Board set up to replace the Cocoa Exporters Committee. In Grenada the cocoa rehabilitation scheme is progressing satisfactorily. Volume of cocoa exports during the first nine months of the year was 4% higher than a year earlier, and prices were up as well. Production of cotton dropped sharply in Montserrat as a result of adverse weather conditions and labour difficulties, but more than doubled in Antigua. A good crop is expected in Montserrat in 1958/59, but reduced ones in St. Kitts, Nevis and Antigua owing to smaller acreage planted and to unfavourable growing conditions.

British Guiana is one of the largest producers of bauxite in the world, but exports of bauxite during most of 1958 were running well below levels of the previous similar period and for the year as a whole are estimated at just over 1 million tons, compared with approximately 2 million for the preceding year. The substantial decline is a result of the general slackening of world demand for aluminum. The recession in the industry also affected construction of the new WI\$60 million alumina plant at Mackenzie, which will now take 4 instead of 2½ years to complete. Although production of bauxite continued to increase in Jamaica, construction of the Ewarton alumina plant has been retarded and the date of completion extended from 1958 to the following year. Exports of gold from British Guiana during the first six months of 1958 amounted to 6,718 ounces, approximately double those of the same period a year previously. Large scale underwater explorations in British Guiana have disclosed rich deposits of diamonds in the river beds of the Mazaruni District.

Oil continues to be the leading source of strength in the economy of Trinidad. Crude oil production during 1958 has been averaging 100,000 barrels daily, compared with 93,000 barrels daily the year before. Exploration continues and is yielding encouraging results. It is reported that the Government proposes in future to put all oil lands up for competitive bidding with production to be on a 50-50 royalty basis. The three refineries in Trinidad were processing about 50% more oil than was being produced locally. The Government recently approved a WI\$32 million investment by one of the companies to expand refinery operations. Exploration continues in Barbados and British Honduras, but without oil discoveries thus far. However, gas has been found in Barbados and is being supplied to the Government for domestic and industrial purposes.

The tourist industry has shown further growth with new records achieved in Jamaica and Barbados, and there was continued expansion of hotel capacity. A good year was also enjoyed by Antigua and Grenada. In Nassau, however, a general strike, together with unfavourable weather, produced a setback for tourism and the varied commerce related to it, but merchants are looking forward to a successful 1958/59 winter season.

The establishment of new industries in Jamaica, British Guiana and Trinidad continues to be encouraged, and in Trinidad, an Industrial Development Corporation is being set up to provide loan capital for prospective investors. Construction was begun of a new WI\$19 million fertilizer plant in southern Trinidad and a United Kingdom group is investigating the possibilities of establishing a WI\$30 million paper mill in the central part of the island. In Jamaica a number of firms were given approval during the year to manufacture various products under the Industrial Incentives Legislation.

Reports indicate that the finances of the Governments of the various territories and colonies are satisfactory, although certain of the smaller units continue to receive grants-in-aid from the British Government to make up budgetary deficits. In Jamaica plans for the establishment of a Central Bank and a

Development Finance Corporation were the principal features of the 1958/59 budget, which anticipates expenditures approximately 13% higher than the year before. In July the Government floated a £4.2 million loan on the London market and is reported planning to float an additional loan on the American market. Budgetary expenditures generally have been rising in the other units of the area under review. The Government of British Guiana made arrangements to borrow £5.5 million from the United Kingdom Government to help implement a five-year development plan.

The most important development in the area was the establishment of the federation of The West Indies, comprising Jamaica, Trinidad, Barbados and the Windward and

Leeward Islands. Federation came into being on January 3, 1958 and became fully effective on April 22, 1958, with the inauguration of the Parliament of The West Indies. On November 25th The West Indies 1959 budget was presented in the House of Representatives, providing for expenditures of approximately WI\$10.7 million and an estimated surplus of about WI\$1.1 million. British Guiana still has under consideration the question of whether or not to join the federation.

Canada has presented as a gift to the new federation a ship for inter-island trade and has agreed to provide economic aid to the extent of Can\$10 million over the next five years, out of which will come the cost of a second ship.

Dominican Republic

The Dominican Republic during 1958 continued to enjoy economic prosperity and political stability, without significant difficulties in any important sector. Gold and foreign exchange reserves, although down slightly from a year earlier, were substantial relative to the size of the economy, the peso continued on a par with the U.S. dollar, and a favourable balance of trade was achieved once again. The Dominican Republic is one of the few countries without a large number of import controls and foreign exchange regulations, import permits being required only in the case of fruit and vegetable products and a few other items.

During the first six months of 1958, exports of \$79.2 million were 16% lower than during the same period of the previous year and imports of \$57 million were up 3%. Although exports were down from the year before, when they were at an exceptionally high level owing mainly to high sugar prices in the world market, they were still well above average and, for example, \$12 million higher than during the first half of 1956. The favourable trade balance of the first six months of 1958 amounted to \$22.2 million, compared with \$39.2 million a year earlier.

Sugar remains of paramount importance, accounting in 1957 for \$94 million or 58% of exchange earnings. Owing to extremely dry weather at the beginning of 1958, exports of sugar during the first four months were down 23% in volume from the previous similar period but with lower 1958 prices, down 46% in value. Conditions have since improved and production for 1958 is estimated at 877,000 metric tons, only 10,000 less than the year before. For 1959, producers are reported to be going all out to reach a production target of 1 million tons.

The second most important exchange earner is coffee, which in 1957, a poor year for that commodity, brought in only \$25 million or 16% of total exchange receipts. Although production of 414,000 bags in 1958 was double that of the previous year, export prices were depressed and sales during the crop year ended May 31, 1958 were only \$7 million higher than during the preceding year. Expectations are that the 1959 crop will be little more than 300,000 bags, but that the quality will be better.

In contrast to coffee, cocoa prices during the greater part of 1958 were considerably higher than during the previous year, so that, for the first four months of 1958 exports of

cocoa and chocolate at \$10.9 million overtook exports of coffee at \$10.6 million. The 1958 cocoa crop year ended August 31st and production of 32 million kilos was slightly lower than that of the preceding year, but sales totalling \$24 million were 60% higher. The 1959 crop promises to be of good size and quality, but prices are expected to fall back to 1957 levels.

Tobacco remains fourth in importance as an export crop and, despite poor weather conditions, exports doubled in both quality and value during the first four months of 1958 as compared with the same period a year earlier.

The cultivation of bananas continues to expand, and exports during the first nine months of 1958 amounted to approximately 2.7 million stems as against 2.1 million during the whole of 1957. High winds in October destroyed about 800,000 banana trees in the southwest, but plantations are expected to be back in full production in 1959.

Production of corn, peanuts and rice takes care of local requirements, and there is some export of corn, mainly to Puerto Rico. The cultivation of sisal and cotton continues to receive official encouragement. Sisal production is estimated at 10 million pounds for 1958 and 14 million pounds for 1959, of which 5 million should be available for export. The cotton crop, utilized locally, is estimated at 200,000 quintals for 1958 and a target of 1 million quintals has been set for the following year. The improvement of livestock breeding strains continues to receive special attention. In 1957, exports of live cattle at \$566,000 were double those of the year before, and during the first four months of 1958 kept up with previous year's figures, while exports of fresh meat for the same months showed a large increase, being valued at \$207,000 compared with \$49,000.

Exploration and development of mineral resources continued throughout 1958, although the search for oil and nickel in commercial quantities has apparently met with little success so far. Salt and gypsum are being produced in steadily increasing volume. Exports of salt amounted to 13,000 tons during the first eight months of 1958 and are

expected to reach 100,000 tons for the whole of 1959. Gypsum exports, at 46,000 tons for eight months, are expected to reach an annual rate of 1 million in 1959. Shipments of bauxite are scheduled to start in January 1959, and a preliminary target of 500,000 tons has been set for the first year.

The country's fish catch has been rising steadily from year to year. A large increase during the first half of 1958 is considered likely to stimulate the interest of potential foreign investors who have from time to time expressed an interest in building modern freezing and canning plants in the Dominican Republic.

Tourist entries during the first eight months of 1958 totalled about 28,000, compared with 31,000 during the previous similar period, and the large tourist hotels were operating well below capacity.

General industrial development has been steady over the past year. New enterprises planned or starting include a factory to produce kraft paper, a new ice plant, and a \$500,000 wood-treatment plant expected to be able to supply all the treated telephone poles required for the country's electrification programme. A recent official release stated that over \$100 million will be spent on public buildings and civic improvements over the next four years; this is believed to be additional to existing projects. The Government is carrying out investigations concerning the Tavera multi-purpose dam and power project. A Canadian company has completed the first stage of the engineering studies, a Dominican firm is rounding out the gathering of data, and it is estimated that construction will involve some \$17 million to \$20 million.

Government budgetary revenues for 1958 were estimated at \$150.3 million and expenditures at \$147.1 million, both of these figures representing a small reduction from those of the year before. Estimates for 1959 place revenues at approximately \$152.5 million and expenditures at \$151.4 million. Total foreign exchange reserves of the central bank and the commercial banks amounted to \$34.9 million at July 31, 1958, or \$6.7 million less than a year earlier. Prudent minimum holdings have been calculated at \$29.1 million.

Haiti

The political unrest which has plagued the Republic of Haiti during the past two years has had a depressing effect on the economy and developed at a time when the country was still struggling to recover from the setback resulting from the disastrous hurricane of 1954. Internal, external and tourist trades have been considerably below normal levels. However, the currency has remained stable. Negotiations, which have been going on periodically for some time with the World Bank, the International Monetary Fund and the Export-Import Bank to obtain loans for urgent public works and rehabilitation programmes, are continuing.

Both exports and imports dropped sharply during the fiscal year ended September 30, 1957, the latest date for which official statistics are available. Exports fell by 29% to 164.7 million gourdes and imports by 19% to 189.6 million gourdes. The balance-of-payments deficit for the year rose to 24.9 million gourdes from 2.7 million gourdes the year before.

The value of coffee exports during the year ended September 30, 1957, at 101.3 million gourdes, was down almost 40% from the previous year, and of total exchange earnings, the share derived from coffee exports dropped to 62% from 72%. The 1956/57 coffee crop, amounting to less than 300,000 bags of 60 kilos, was considerably below average. On the other hand, the 1957/58 crop of 554,000 bags was one of the largest ever produced. The current crop is estimated to be once again under 300,000 bags. Current demand for coffee is said to be satisfactory but prices have declined and now range from US\$37 to US\$46 per 50 kilos, compared with US\$45 to US\$47 a year ago.

Exports of sisal and sugar, the second and third most important sources of exchange, changed little during the year ended September 30, 1957. Imports in most of the leading categories, such as textiles, food products, and motor vehicles, machinery and appliances, were down substantially. An important exception was flour, imports of which rose

moderately. However, the import of flour was discontinued as of September, 1958, through the imposition of a prohibitive duty. A US\$5 million flour mill, which was completed by American interests early in 1957, began operations in July, 1958. The first output of flour put on sale was reported to be of good quality. All stocks of imported flour were expected to be depleted by the end of 1958. Annual production of the mill is estimated at 500,000 bags of 200 pounds each, approximately half of which will take care of local demand. An attempt is being made to sell the remaining half to other islands in the Caribbean area.

Banana production, while still only a minor source of exchange earnings, is on the increase. A 15-year contract was signed in April, 1958, between the Haitian Government and a United States company for the cultivation of bananas in the northern part of Haiti, and it is anticipated that exports of bananas from this area will reach substantial proportions in about one or two years.

A US\$15 million plant was completed in January, 1957, for the mining and processing of bauxite. While annual production capacity is estimated at 700,000 to 900,000 tons, it is believed that only about 400,000 tons were exported in 1957.

Canadian interests were granted a 25-year concession some three years ago for the mining of lignite and copper. Preliminary exploration work was completed in 1957, with satisfactory results, and the opening of underground shafts is well advanced. Progress is being made in the erection of a concentrator mill and a pier, which are expected to be completed during the latter part of 1959, at which time the company expects to be in a position to commence mining and export operations. Officials of the company believe that their enterprise will be Haiti's largest industry.

The Artibonite Valley project is advancing. The objectives of the project are to make possible extensive irrigation and soil con-

servation in the Artibonite Valley and to provide electric power for industry. A part of this scheme, construction of the Peligre Dam, was started in 1951 and completed in 1956.

Haiti traditionally has followed a liberal

import and exchange policy. While it is reported that every effort will be made to maintain that policy, doing so may prove to be quite difficult unless outside help is obtained.

Puerto Rico

The remarkable economic advance which has been characteristic of Puerto Rico since its world famous "Operation Bootstrap" got underway over ten years ago continued during fiscal year 1958 (ended June 30th), despite the recession in the United States. Gross national product rose by almost 7%, 4% in real terms and 3% because of price increases. Investment in plant and equipment increased by 6% and construction by 9%. Gains over the previous year were reported in virtually all sectors of the economy other than sugar cultivation and certain manufacturing industries. Manufacturing as a whole continued to grow rapidly and generated a net income of US\$231 million, for an increase of 8% over the preceding year.

In the sphere of external trade, Puerto Rico's merchandise deficit during fiscal 1958 rose to US\$260 million from US\$254 million the year before. Actually, exports increased by a higher percentage than imports, but from a lower level and by a slightly smaller amount. Exports increased by 5% to US\$497 million and imports by 4% to US\$757 million. The rise in exports was largely due to output being augmented by new firms and to an increase in shipments of refined petroleum products: this was partially offset by a drop in sugar sales. In regard to imports, gains were recorded by textiles, non-metallic minerals and miscellaneous goods; losses by foods, beverages, metals and machinery. The bulk of Puerto Rico's trade is conducted with the United States mainland, but during the past year a substantial increase in imports from other countries occurred and was regarded as a significant development. In fiscal 1958, imports from countries other than the United States represented 15% of the total, compared with 10% the year before. European automo-

biles accounted for the largest part of the change and came to account for 41% of total cars imported. Exports to foreign countries, normally much lower than imports, rose only moderately in fiscal 1958, to 4.2% of total exports.

In view of the fact that over half the goods manufactured in Puerto Rico are exported to the mainland, it was to be expected that the island's manufacturing industry would be affected by the recession in the United States. The increase of 8% in income generated by manufacturing was therefore considered impressive. The apparel industry, the largest manufacturing industry in Puerto Rico, expanded by only 5%, the relative smallness of this increase being due to market conditions on the mainland and to the decline which the island's home needlework industry has been undergoing for a number of years.

The tobacco manufacturing industry expanded considerably. Cigar output recorded especially large gains, and 131 million cigars valued at US\$10.2 million were shipped to the United States, representing an increase over the previous year of more than 30%, both in volume and in value.

While the oil refining industry was able to double its output, it was reported as having failed to operate profitably or at full capacity, owing mainly to local production difficulties and to the condition of world oversupply which had developed.

A gain of 18% was reported in the relatively new industries of metal working and machinery.

Practically the entire growth in manufacturing can be attributed to the plants promoted under the Economic Development Programme, and the record in this respect for fiscal 1958 can be regarded as favourable after

allowance has again been made for the effects of the recession in the United States. There were 111 new plants promoted, compared with 149 the year before; 96 plants actually commenced operations in the later period, compared with 95 in the earlier one. During fiscal 1958 there were 29 closings, leaving a net increase of 67 plants for the year. A total of 501 plants promoted under the Economic Development Programme were in operation at June 30, 1958.

For the second time in 24 years Puerto Rico was unable to fill its allotment of sugar for the mainland market. The island's total output of 934,180 tons (raw value), down 6% from 1957, was the lowest in many years. The main responsibility for the reduction was ascribed to unfavourable weather experienced during almost the entire crop period. A moderate decline in average price further reduced the market value of the crop. The number of mills in operation decreased to 30, from 32 the year before. Efforts to mechanize cane agriculture continued and reductions were reported in cost per ton of cane harvested. The poor 1958 crop was estimated to have meant a loss in income to the island of over US\$40 million. While the outlook for 1959 was judged to be much brighter, with a crop estimated at 1.2 million tons or 28% larger than the year before, it was felt that Puerto Rico would still not be able to meet its export quota and that the sugar industry was facing a minor crisis. Many independent growers have abandoned the cultivation of sugar cane to seek a living in other occupations, complaining that problems related to costs of production and poor returns make it impossible for them to operate on a satisfactory basis. They claim that the poor soil condition which has resulted from erosion and repeated cultivation is creating a need for still more commercial fertilizer, despite the relatively large amounts already being used.

Coffee production was estimated to have more than doubled in 1957/58 and thereby to have provided the outstanding development in the agricultural sector. Output rose to 350,000 cwt. from 155,000 cwt. and corresponding value to US\$20.5 million from US\$9.9 million. An important stimulus was

the action of the Commonwealth Economic Stabilization Administration in setting a minimum price to the grower, of US\$58.50 per cwt. for five years, regardless of fluctuations in the world market. In an effort to stimulate exports to European markets, subsidy payments were increased to US\$20 per cwt. from US\$14. The preliminary estimate for the 1958/59 crop indicates a drop of 34% from that of the previous year. The reduction was expected chiefly because of the very unfavourable weather that has already occurred during the cultivation season, and also because, in accordance with the cyclical pattern of coffee production, it is normal for a poorer crop to follow a good one.

Although the tobacco crop in 1958 was 11% larger than the small one of the year before, 267,000 cwt. compared with 240,000, the fall in average price to US\$27.00 per cwt. from US\$30.84, due chiefly to lower quality, offset the rise in output and the total market value remained unchanged at approximately US\$7.5 million. About 10% of the crop is used locally in the production of cigars and the remaining 90% exported to the mainland, where there is a ready demand for it. The estimate for the 1958/59 crop suggests an increase of approximately 3% to around 275,000 cwt. which, however, would still be below average.

The year 1958 was an exceptionally good one for the production and sale of pineapples. Preliminary estimates place the crop at about 40,000 tons, which would represent a record as well as an increase of 35% over the previous year. Moreover, from January to around mid-November, the average price was 21% higher than the year before, leading to the expectation that total value of the crop would reach a record US\$2.2 million, almost double the value of the preceding crop.

The volume of livestock products—milk, eggs and meat—reached a new high of \$75 million as compared with \$71 million in the preceding year.

The tourist industry in fiscal 1958 enjoyed its best year since the Economic Development Board began its programme in 1948 to make Puerto Rico a tourist centre. Visitors spent over US\$39 million, or almost 40% more than

the year before, and raised tourism to Puerto Rico's third most important industry. An increase of 572 hotel rooms brought the total to 2,200 rooms, and the Department of Tourism announced that, with other parts of the island awakening to the possibilities of the tourist trade, a minimum goal of 5,700 hotel rooms had been set for 1965.

Total construction expenditures in fiscal 1958 amounted to US\$183 million or 9% more than the previous year. Private construction was up 12% to US\$93 million and public construction up 6% to US\$90 million.

The sale of automobiles increased in fiscal 1958, despite higher taxes. Distributors sold 12,630 vehicles or 4% more than the year before. There has been a steady growth in the number and proportion of European cars brought into Puerto Rico, and during the first nine months of calendar 1958, the number reached 3,335 and represented 41% of total cars imported during the period.

Production of electricity by the Puerto Rico Water Resources Authority rose 18% in fiscal 1958, to 1,584 million kilowatt hours, of

which 30% was used by industry. During the year the Authority spent US\$28.5 million on new plants and new transmission and distribution networks, or 13% more than the year before, and a further increase in expenditures of 40%, to US\$40 million, was scheduled for fiscal 1959.

Latest official estimates indicate that the population of Puerto Rico increased 3.2% during fiscal 1958 and totalled 2,355,000 at June 30th. Large-scale emigration to the mainland was suggested as the main reason for the relatively low rate of population increase.

There was every indication that the current fiscal year is likely to be another one of rapid growth for the economy of Puerto Rico, particularly in view of recovery in the United States. It was reported that the number of new plants promoted by the Economic Development Administration during the first four months (July to October inclusive) of the current fiscal year was almost twice as high as during the like period of each of the two previous years.

REVIEW OF CONDITIONS IN SOUTH AMERICA



Argentina

Much the same basic and serious difficulties confronted Argentina in 1958 as in the preceding year: insufficiency of foreign exchange earnings and foreign investment, a large international trade deficit, inadequate transportation facilities, fuel and power deficiencies, a large budgetary deficit, and inflation. However, much greater confidence in the country's future could be widely perceived at home and abroad, in spite of strikes and political uncertainties which developed towards the end of the year.

As decreed by the Provisional Government, elections were held on February 23rd, and after installation on May 1st of a constitutional Government under Dr. Arturo Frondizi, great hopes arose that his policies would achieve some success towards solving the nation's fundamental problems. In his inaugural address, the President of the Republic broadly outlined future Government policy, which may be summarized as follows: (1) strict economies in Government expenditures and the creation of new sources of revenue, by means of borrowing or higher taxation, according to requirements; (2) inflation curbs; (3) drastic but rational curtailment of imports; (4) a vigorous international trade policy—diversification of markets, maintenance of

export values, and optimum development and use of domestic fuel production; (5) guarantees of free competition and various facilities for private enterprise; (6) welcome to foreign private capital for development of fuel and power resources, within the framework of Argentine policy.

Exports during the first nine months of 1958 were valued at US\$721 million, or 2% lower than during the same period of the year before, while imports of US\$918 million were down 5%. The resulting unfavourable trade balance of US\$197 million was smaller than that of US\$230 million for the previous similar period. Actually the narrowing of the deficit was in one sense more favourable than is indicated by figures for whole nine-month periods. Data for the first five months of each year show a much larger trade deficit in 1958 than in the preceding year, US\$91 million compared with US\$49 million; but for the four months June to September, a much smaller deficit in 1958, US\$106 million compared with US\$181 million. However, while the June to September deficit represents a great improvement over the corresponding period a year earlier, this result was achieved by compressing imports below minimum needs, with only a very slight increase

achieved in exports. It would appear that, before a significant increase in exports can be attained, a number of urgent problems will have to be solved in regard to transportation facilities; among these are the rehabilitation of the railway and road systems so that more agricultural and livestock products, the source of 95% of exchange earnings, can be moved to the ports each year. In the short run, therefore, the proposed elimination of the adverse trade balance must rely on continuing import austerity, the effects of which can be reduced only to the extent that local production provides substitutes for imports.

In this regard, by far the greatest possibilities are those held out by the country's large and relatively underdeveloped oil reserves. These reserves are estimated at more than 500 million cubic metres. Argentine oil consumption is running at 225,000 barrels daily, 90,000 or 40% supplied by domestic production and 135,000 or 60% by imports. For the whole of 1958, an adverse trade balance of around US\$300 million is estimated. Oil imports alone are running at an annual rate of about US\$350 million. The complete replacement of oil imports by domestic production might eventually therefore wipe out the entire trade deficit. Moreover, the stimulus of increased supplies of fuel, lubricants and power to the development of production, transportation and exports could make an inestimable contribution to economic growth in comparative freedom from the critical exchange and payments difficulties which have plagued the country.

During 1958 the Government announced an imposing list of agreements with a large number of private foreign groups, representing mainly United States, but also German, French and other interests, for proposed investments in Argentine petroleum development to a total—including "firm" and "preliminary" agreements—of about US\$1,400 million. The whole programme corresponding to this total would be carried out over a period of six to eight years, but would bring local production up to requirements in about three or four years. Of the above sum, firm contracts accounted for US\$300 million by

the first week in December. There were three such contracts signed: in two of the cases, YPF (Yacimientos Petroliferos Fiscales—State Oil-fields Administration) is to retain title to all the oil development and is to pay the foreign investors half the value of the oil produced; in the third, YPF is to retain title to half the oil produced and is to turn over the other half to the foreign company's Argentine affiliate.

Of the preliminary agreements, the most important was a package arrangement with the "United States Group" involving US\$800 million for a programme to increase the number of producing wells in Argentina from 600 to 4,000 over a period of six years. This would include: US\$50 million for acquisition of machinery, parts and materials needed by YPF; US\$300 million for drilling of wells; US\$225 million for construction of a gas pipeline from the fields to Buenos Aires; US\$90 million in the form of oil and oil products to be supplied to Argentina over the three or four years during which the gap between production and consumption is not yet closed; US\$95 million for auxiliary work such as roads, communications and other complementary construction; US\$30 million for miscellaneous unforeseen developments; and US\$5 million for construction of an oil-well equipment plant in Argentina. Other arrangements under negotiation involved US\$150 million from a German firm, US\$70 million from a French group, and US\$20 million from a Franco-American group. The Government also announced a contract with the Soviet Union for 1 million tons of oil in exchange mainly for Argentine primary products, and reported Soviet offers of additional oil and a US\$100 million credit for development of Argentina's petroleum industry.

November and early December saw a period of political uncertainty. The Government declared a state of siege for 30 days from November 11th, following a brief strike of oil workers, ostensibly in protest against some of the terms of certain of the oil agreements. Other threatened strikes in the industry were called off. The Government announced December 12th as the date set for

signature of a firm contract with the "United States Group".

Two million tons of coal for the Argentine State Railways were purchased from Poland, with delivery scheduled to start during the last quarter of 1958 and to continue until 1961. Another 250,000 tons of coal were bought from Chile. A decree issued in August established a new autonomous State Coal Department (YCF) to take over all matters concerned with the exploration, development and marketing of solid fuels and their by-products. The new organization signed an agreement with a French consortium to intensify development of the Rio Turbio coalfields. The French concern will provide credit facilities initially worth US\$42 million, repayable over a period of 8 years, for the purchase of equipment for mining, railways, port facilities and, later, coal ships. The loan is to be repaid in French francs. It was estimated that as a result of this agreement annual production of the Rio Turbio coalfields would be increased from the current level of 200,000 tons to almost 3 million tons.

The petro-chemical and carbo-chemical industries are still very small in Argentina, but were expected to grow rapidly along with implementation of the new petroleum and coal programmes.

Argentina's total power generating capacity of some 2.6 million kw. is estimated to be about 750,000 kw. short of the more than 3.3 million kw. currently needed. It is estimated that total requirements will reach between 5 million and 6 million kw. by 1966. The foundation stone was laid in March for the building of a new 600,000 kw. thermo-electric plant which is expected almost to double the power supply in greater Buenos Aires. The plant contract was signed with a British consortium in November 1957, and work is expected to be completed in 1962 at a cost of about 5,700 million pesos; to this must be added investments in transmission lines which may bring the overall total to 7,500 million pesos. With this new installation, total capacity in the city and suburbs will be about 1.4 million kw. as against consumption requirements of 1.6 million.

Continuing its programme for the renewal of rolling stock, the State Railways signed contracts for the supply of 300 Diesel electric motor coaches worth US\$30.9 million, to be financed by long-term credits. Over 200 of these coaches are to be built locally by an Italian subsidiary and the rest are to be supplied by Hungary. The 300 units in question are in addition to the 371 coaches for which contracts had been placed previously in the United States, France, Canada and Belgium. Other recent announcements of orders or planned purchases involve 280 more locomotives from a group of Italian firms, 141 electric coaches, 440 ballast freight cars and 321 hopper wagons, all from the United States, and several contracts for the purchase of air brakes and spare parts. Arrangements with United States companies were partially financed by the Export-Import Bank. Dutch interests have extended a US\$70 million loan for further purchases of locomotives, coaches and rails. All of these developments taken together mark an important start towards alleviation of the severe transportation problems which repeatedly cause agricultural stocks to pile up in different parts of the country.

Less than 50% of the 1.5 million tons of steel consumed annually is fabricated locally, and imports of iron and steel are running at about US\$200 million a year. Two large development programmes are in progress, the San Nicolas mill, which will have a capacity of 1 million tons, and a somewhat smaller plant at Zapla. Argentina's six largest steel concerns propose in time to pool US\$25 million in resources to build a mill capable of producing another 1 million tons annually.

The tractor industry was declared to be of "national importance" and efforts were renewed to encourage domestic manufacture. It was reported in last year's issue of this publication that a United States firm had offered to set up a plant in Argentina for the manufacture of farm machinery, and that there appeared to be no reason why this kind of arrangement should be confined to one company. The American firm's offer was accepted and 18 other manufacturers in

various countries have submitted similar proposals, some of which have been accepted. Fifteen of these proposals together provide for a total expenditure of US\$35 million and could raise annual tractor output to 40,000 units by 1959 and 60,000 in five years, compared with an estimated 15,000 for 1958. At the outset, 30% to 35% locally produced materials would be used, but this could reach 80% in five years. There is now a severe shortage of tractors in Argentina, with hardly more than 80,000 in the whole country, or slightly more than one for every thousand acres under cultivation. The alleviation of this shortage is an important requirement for the significant development of agriculture.

Argentine agriculture has declined in recent years and it is estimated that farm production must be increased by about 50% if consumption is to be maintained at present levels and exports expanded to equal the average of the postwar years. Little progress can be expected without increased mechanization. Production of wheat in 1957/58 is estimated at 5.8 million tons, or 18% less than the year before. Land now sown to wheat is estimated to be up 5% from the previous year, but still 3% below the average for the past ten years. In other respects, with the exception of zones suffering from insects and lack of precipitation, the wheat and the general crop outlook is regarded as promising. In 1957/58, the oats, barley and rye crops were all smaller than in the preceding year, but it is hoped that 1958/59 will bring some improvement. The important maize crop presented a bright spot, with an increase of almost 80% in 1957/58, to 4.8 million tons. The current sugar crop is developing very well in the province of Tucuman, which produces about 75% of Argentina's sugar, and while production in other areas is expected to be below average, it is estimated that on the whole the sugar crop will be the largest ever harvested in the country.

The wool trade was adversely affected by frequent changes in the "aforos" or portions of exchange to be liquidated through the official market. The value of wool exports during the first half of 1958 was 51% lower

than during the same period of the year before. In July, with accumulated wool stocks estimated at 100,000 tons, or about three times as high as a year earlier, the aforos were abolished and a new system introduced; on September 12th, however, aforos were established once again, but on a basis more liberal in exchange terms and less cumbersome in terms of procedure. Considerable activity developed in the wool market as the second half of the year progressed, with volume of exports and prices rising. The market for hides was also affected during much of the year by changing aforos, with a firming tendency developing later on.

In order to stimulate breeding and an increase in cattle stocks, the Government introduced various far-reaching measures. Effective June 30th, new guaranteed minimum prices were fixed for steers, about 30% above those ruling previously. The Government later liberalized the export of beef, mutton, lamb and sheepskins. At the same time, subsidies to the packing houses, first granted in 1946, were withdrawn. In order to check the rising price of beef in the domestic market, the Government decided to reduce chilled beef shipments to the United Kingdom over a period of six weeks beginning October 1st; up to that time, these exports had been running above levels of the year before.

In December, 1957, when the previously nationalized deposits were returned to the private banks, the latter were requested to be cautious in financing imports. Since then, banks have not been allowed, when financing exchange operations, to grant peso credits in excess of half the f.o.b. value of the imported merchandise. Beginning January 2, 1958, prior deposits had to be made, with few exceptions, before initiating clearance of goods from the customs; these prior deposits, immobilized for a period of 120 days, were set at 20% of the value of merchandise brought in at the official exchange rate and 100% of that brought in at the free market rate. Effective May 2nd, all imports were temporarily suspended, in order to give the new Government time to make a study of the whole critical exchange problem and to devise more effective

measures to solve it. (It was pointed out that the value of import permits granted and not yet utilized exceeded the central bank's foreign currency reserves.) The suspension was soon mitigated in regard to imports from neighbouring countries and in regard to utilization of previously granted exchange permits for industrial replacement machinery, fuel and lubricants. On August 1st the central bank published two lists of importable articles; the lists were short and covered only products and materials most urgently needed by industry.

In December, 1957, the free market quotation ranged from 36.30 to 37.55 pesos to the U.S. dollar. Since then the rate has fluctuated a great deal, but on the whole the peso has depreciated steadily. A brief strengthening occurred after the temporary suspension of all imports as of May 2nd. Pronounced weakening occurred in August after publication of the two import lists and again in October when the Government lifted restrictions on imports of several items, including chemical products and industrial machinery. Speculation increased and the free market peso reached a record low of 74.50 to the U.S. dollar at the end of October. During all this time the official rate for imports and exports remained fixed at 18. The progressive depreciation of the peso is implicit in the shift of both exports and imports from the official to the free exchange market, a trend which has gained momentum over the past year. The proportion of exports effected through the free market was 39% in September, 1958, compared with 21% in the same month of the year before; the proportion of imports was 39% in September, compared with 27% a year earlier. While this trend was in some respects

welcome, the shift in exports reflected inflationary tendencies which made it increasingly unprofitable for exporters to operate through the official market, and the shift in imports made its own contribution to the inflationary spiral by sharply increasing peso costs of imports.

The International Monetary Fund, with which Argentina has been negotiating for a US\$75 million stabilization loan, has recommended, among other things, the unification of the exchange rates. The adoption of this recommendation, which appears distinctly possible, could conceivably mean the end of the country's participation in the Paris Club. Argentina joined the Paris Club of 11 European nations in November, 1957, and thereby entered the multilateral trade and payments system among them. One clause in the Paris Club agreement stipulates that Argentina may not extend substantially the use of the free exchange market. The forthcoming reform of Argentina's exchange system, whether it includes the unification of exchange rates or not, will almost certainly increase substantially the use of the free market. Argentina has also been negotiating with the Export-Import Bank, the United States Treasury, and a group of North American commercial banks for credits involving upwards of US\$250 million.

The national budget for the fiscal year ending October 31, 1959, was presented for approval to Congress in September, 1958, and provides for record ordinary expenditures totalling 64,273 million pesos. Receipts are calculated at 57,042 million, which includes 5,595 million to be obtained from bond sales. A deficit of 7,231 million is envisaged and would be consolidated into the national debt.

Brazil

Although Brazil is still heavily dependent on coffee, which accounts for over 60% of exchange earnings, and although 1958 proved to be a difficult year for coffee, the total picture was considerably brightened by the

fact that industrial growth continued strongly, paced by remarkable expansion in the automotive industry. Total industrial production was increasing at a rate of about 4% annually, with output of capital goods and consumer

durables rising at an even higher rate, but output of consumer goods on the whole changed little and in some cases declined. However, chiefly because of falling revenues from coffee exports, the country faced a widening trade deficit in the latter half of 1958, and had to introduce increasingly severe measures to restrict imports. Shortages developed in many sectors as a result of rapid industrial growth, the inability of supply sources to keep up, the underemphasis on production of consumer goods relative to the emphasis on capital goods, and the curtailment of imports. Inflationary tendencies were much in evidence. Brazil's central problem, aside from the special problem of sustaining revenues from coffee exports, can perhaps be stated as that of mobilizing sufficient capital to develop its vast store of natural resources, to finance its great industrialization possibilities, and at the same time to reduce the attendant dangers of inflationary and balance-of-payments difficulties.

The 1958/59 coffee crop in Brazil the harvesting of which was completed by September 30th last was the largest in 22 years and of very high quality, but occasioned more concern than rejoicing in the country, in view of the fact that world production of coffee was expected to reach a record level while world consumption and, to an even greater extent, world imports of coffee were falling increasingly behind. The disequilibrium between world consumption and production was being aggravated by a drawing down of inventories in consuming countries; stocks of coffee in consuming countries dropped to lower levels than at any time since 1955. World prices began to come under pressure early in 1957, and prices for Brazilian coffee have since then fallen by about one-fourth. With its foreign exchange reserves at an all-time low and its extremely important exchange earnings from coffee exports declining, Brazil has been leading the campaign to achieve stability in the international coffee market, and has joined with fourteen other Latin American countries in an International Coffee Agreement signed in Washington on September 24, 1958.

The new agreement is to last for one year beginning October 1st, 1958. Under its terms, each country is to accumulate a non-exportable reserve quota. The quota for Brazil was set at 40% of all coffee of exportable quality produced during the 1958/59 crop year; for Colombia 15%; and for other countries 5% of the first 300,000 bags and 10% of any excess over that. Subject to authorization by the Agreement's board of directors, the coffee allocated to reserve quotas may be used to cover an increase in domestic consumption in the producing country; to open new markets; to supplement a country's production shortages due to natural factors which reduce the exportable amount below average annual exports during the three preceding years; and in the international market if demand turns out to be greater than was anticipated. World production of exportable coffee in 1958/59 is estimated at 51 million bags or 15% more than in the previous year. Brazil's exportable surplus is estimated at 26 million bags, for an increase of 27%. Exports from Brazil during the first ten months of 1958 totalled 10.4 million bags, down 8% from the previous similar period.

The 1957/58 cotton crop was estimated at 286,000 tons, considerably larger than the exceedingly small one of the previous year, but still below average. Some previous crops have been in excess of 400,000 tons. Domestic consumption of raw cotton was estimated at 240,000 tons, leaving an exportable surplus of 46,000 tons. Whereas cotton usually has been the country's second most important export crop, there was very little export activity during the past year, mainly because the exportable surplus was so small and domestic prices were generally higher than international prices. In the planting of the 1958/59 crop a vigorous attempt was being made to stage a comeback and it was expected that, given favourable weather and proper use of insecticides, output would be about 50% higher than the year before and perhaps once again over 400,000 tons.

The highlight in the sugar industry was the re-entry of Brazil into the International Sugar Agreement with a quota of 550,000 tons or

approximately 9 million bags. Brazil had left the Agreement three years previously, when unable to obtain an increase in its quota. The re-entry news was particularly interesting to the northern zone because the latter's main market, the southern area, has itself been stepping up production. Provided shipping facilities can be improved, the marketing of the northern crop should proceed smoothly. Production for the whole country during 1957/58 reached 44 million bags, approximately 15% more than the previous year. Domestic consumption amounted to 33 million bags and left 11 million as an exportable surplus, slightly more than the quota allotted by the Agreement.

In most areas, favourable conditions for agriculture prevailed and generally higher yields were realized, partly as a result of better cultivation methods and the use of insecticides. However, heavy frosts in the state of Rio Grande do Sul affected about 500,000 hectares of land sown to wheat, and Brazil will therefore have to make additional wheat imports, which will be arranged within the agreement signed with the United States relating to the latter's surplus disposal programme. The northeastern section of Brazil, comprising four or five states, has suffered serious drought since early 1958, to the extent that livestock and vegetation have died on a large scale and there has occurred a population trek to outlying areas. Towns and cities on the borderline of the drought area have become congested with thousands of refugees.

Cattle raising is gaining rapidly in importance, with herds having increased from an estimated 63 million head in 1956 to about 69 million the following year. Hog raising is also starting to assume importance.

The growth of Brazil's motor vehicle industry is becoming truly phenomenal. As late as 1956 almost all the vehicles in the country had either been purchased abroad or had been assembled almost entirely from imported parts. By the latter half of 1958, there were 15 auto and truck manufacturing companies in the country and some 1,200 plants turning out parts. Capital to

establish and expand the industry has come in from the United States, Germany, France, the United Kingdom, Japan, Italy and Sweden. In 1957 local output reached approximately 33,000 units, consisting of over 20,000 trucks, almost 10,000 jeeps and over 3,000 utility vehicles. In 1958 the first nationally produced passenger cars made their appearance. (To be counted as a national product, a vehicle must have at least 65%, by weight, of its parts made locally.) The motor vehicle industry was expanding so rapidly it expected to turn out 67,000 units in 1958, 110,000 in 1959, and 170,000 in 1960, with a national parts ratio in the latter year of 90% to 95% by weight. Moreover, it hoped to export about one-third of 1960 output. There were some indications that the target of 67,000 units might not be reached in 1958; during the first half of the year production amounted to only 23,400 units. However, the possible shortfall was not expected to be substantial. One of the biggest difficulties for the motor vehicle industry in Brazil is the shortage of skilled labour. Employment in the industry was expected to be five times as high in 1960 as it was in 1957. Auto companies were therefore opening training schools to teach everything from blueprint reading to tool and die making, and such new institutions should have a profound influence in spreading technical knowledge and skills through the country, perhaps into other industries as well. Additional shortages encountered by the automotive industry were of such basic industrial materials as steel and rubber.

Brazil's growing steel shortage was causing widespread concern. Consumption was estimated at over 2 million tons for 1958; production was expected to reach approximately 1.5 million tons compared with the previous year's 1.4 million, and to fall about 600,000 tons short of requirements. The Volta Redonda mill produced 800,000 tons of steel ingots in 1957, or over half the total output, and after completion in 1959 of an expansion programme will have capacity for an additional 450,000 tons or a total of 1.25 million. The additional output will temporarily narrow the gap between national production and

requirements. However, the gap was expected to widen after that. Output was anticipated to rise very little between 1960 and 1965 and to remain in the vicinity of 2 million tons, while consumption was estimated to reach 2.5 million in 1960 and 3.5 million in 1965, resulting in a production shortfall of about 500,000 tons by 1960 and 1.5 million tons by 1965. However, the above anticipations in regard to production apparently did not foresee the recent announcement that a United States firm has been awarded a contract for construction of a new steel plant in Brazil. The project, to be located at Piacaguera, is estimated to involve US\$170 million and is to include coal handling facilities, railroad trackage, iron ore and limestone crushing and screening facilities, 53 coke ovens, a blast furnace, and various types of mills. This integrated steel plant is to have an initial annual capacity of 300,000 metric tons, but no date has been indicated for commencement of production.

Brazil's rubber problem is so severe that the Government recently gave rubber goods manufacturers permission to import crude rubber themselves instead of being forced to buy it from the state rubber monopoly long held by the Bank of Amazonas. In 1957 the country's output of 22,000 tons could not cover even half the demand of 48,000 tons, which was not fully satisfied even after the import of 17,000 tons. Owing to the expansion of the auto industry, the deficiency has been increasing rapidly. It was estimated that some 85,000 tons will be needed by 1960. Tire manufacturers have been reduced to part-time operations, resulting in shortages to consumers, and several large tire factories had to close down for brief periods. The production of crude rubber was at one time a flourishing industry in Brazil and provided one of the country's major exports, but output has declined while consumption has risen. The producing area has been concentrated in the Amazon district, but recent experiments with trees, made along the seaboard of Sao Paulo State, are reported to have achieved considerable success, and

many former banana plantations in this area are being converted to rubber production.

There are eight oil refineries operating in Brazil, having a total capacity of 128,000 barrels a day. Expectations are that two new refineries now under construction will almost treble the country's refining capacity. One of the new plants being erected at Caxias in the state of Rio de Janeiro, is to have a capacity of 90,000 barrels daily, the other, at Belo Horizonte in the state of Minas Gerais, a capacity of 120,000 barrels daily. As for crude oil, Petrobras, the Government agency, has been able to boost production greatly over the past five years, to the current rate of around 50,000 barrels daily, which leaves three-fourths of the 200,000 barrels daily consumption to be imported. In annual terms output was expected to rise to 17 million tons in 1958 or 70% above that of the previous year. However, it has become apparent that production from the Bahia oil fields can rise only a little further, to a limit of around 20 million tons annually (unless new reserves are found and developed), which would still leave the country with a need to import from three-fourths to four-fifths of increasing requirements. Under such circumstances, crude oil imports would cost Brazil about US\$250 million annually, most of this having to be paid for in dollars.

Among the various manufacturing industries in which steady and substantial expansion has occurred are abrasives, food processing, wine, rayon yarn, pulp, paper and cardboard, radio and television sets, and many kinds of machinery. A large number of new firms have been established with a mixed investment of Brazilian and foreign capital. The country's textile industry has bounced back from the crisis in which it found itself in 1957. Most of the 3,000 textile producers were reported to have sold their surplus stocks and to be in possession of orders for months ahead. The quality of Brazilian textiles was considered high, as evidenced by exports in 1957 valued at US\$6.5 million, of which over one-third went to the United States despite a world-wide oversupply. The biggest problems of the industry are shortages of modern machinery

and trained technical personnel, but correctional steps are being taken. The import of chemicals and dyes represented the only sizeable drain on exchange reserves caused by the textile industry, and Brazil's growing chemical industry was steadily improving matters in that respect. Demand for cement was reported to be greater than supply as construction of highways, dams, apartments, and office buildings continued strongly. The International Finance Corporation announced in December its agreement to invest US\$1.2 million in an existing Brazilian cement company, for construction and operation of a new plant to be located at Matosinhos, Minas Gerais, and to have an annual production capacity of 200,000 metric tons.

In the mining sphere, the subject of greatest interest was the development of iron ore potentialities. Brazil has the largest iron ore reserves in the world. A recent study by the United States Geological Survey estimated that the volume of ore contained in Brazil's fabulous "Iron Rectangle", located in the state of Minas Gerais, amounts to approximately 32 billion tons, or 37% of total world reserves. Notwithstanding this enormous potential, Brazil is not as yet an important producer or exporter of iron ore. The Government regards as a foremost problem that of establishing the country's position in the world ore market commensurate with the magnitude of domestic reserves, and has drawn up plans to increase iron ore exports from current levels of 3 million tons annually to 6 million tons within two or three years, to 8 or 10 million tons by 1965, and to 20 or 30 million tons annually by sometime in the 1980's.

Manganese production and exports continued to rise. Two new lead plants, with a combined capacity of 20,400 tons, are approaching completion and are expected to enable local production in 1959 to meet domestic requirements. Expansion of two aluminum mills is expected to raise annual output from current levels of around 3,000 tons to 18,800 tons by 1960 and 42,000 tons by 1962.

During the first five months of 1958 Brazil achieved a favourable balance of trade, but with both exports and imports down. Exports valued at US\$484 million were off 10% from the previous similar period, while imports of US\$433 million were off almost 24%, and the favourable balance of trade amounted to US\$51 million. In June, however, an unfavourable monthly balance appeared and the deficit seemed to be widening steadily as the second half progressed, owing chiefly to poor coffee sales. The exchange position weakened during the year until the free-market cruzeiro was selling at an all-time low of 172 to the U.S. dollar in early September. By the end of November, the selling price had strengthened somewhat to 140, but this compares with 92 a year earlier.

Early in 1958 Brazil owed the International Monetary Fund US\$75 million plus charges of about US\$12 million. One-half of this sum was due for repayment in 1958 by way of two instalments, on July 1st and December 31st. Deferment was granted for a three-year period. In August an additional loan of US\$37.5 million was authorized, and brought to the limit the amount which Brazil could borrow from this source. Also in August, the Export-Import Bank and twelve United States commercial banks granted loans to Brazil totalling US\$159 million to meet balance-of-payments difficulties.

The World Bank in October announced a loan of US\$73 million to Brazil. This was the second largest loan ever extended by the World Bank, and was for the first stage of the largest hydroelectric project ever undertaken in Latin America. The power station, to be built at Furnas Rapids on the Rio Grande, 200 miles north of Sao Paulo, will ultimately have a capacity of 1.1 million kw. and will bring an increase of 50% in the power capacity available in central-southern Brazil, the area which contains four-fifths of the country's industry and much of its agricultural activity. The first stage will involve a capacity of 460,000 kw. and is scheduled for completion in 1963. The total cost of the first stage alone is estimated at the equivalent of US\$210 million; the Bank's US\$73 million loan is intended to

cover only the foreign exchange requirements of the first stage.

Demand for bank credit eased for a time around March and April, but revived in August and has continued strong, owing to importers having to replace inventory at higher exchange costs. The Government's Monetary Stabilization Plan, presented to Congress in October, was intended to reduce inflationary pressures during 1959 and to produce reasonable stability, internal and external, by 1960. The main instruments for restraining the increase in money supply would consist of credit ceilings for commercial banks and the Bank of Brazil's individual departments, a Federal budget limited to a deficit of 10 billion cruzeiros, increases in various taxes, and the smallest possible increments in wages and salaries. This programme was declared not to be an emergency plan. On November 18th, however, the President announced emergency measures, effective at once, to serve until Congress voted him powers to put into operation the

broader plan. The emergency measures included the immediate freezing of prices on necessity foods and public services, and small margins for fuel price increases; steps to prevent the stockpiling of food products; no new public works to be started; the reduction of Government inventories to a minimum; and restrictions on Government purchases of most kinds of consumer goods.

On October 3rd elections took place for the Federal Chamber of Deputies, one-third of the Federal Senate, eleven state governors, as well as for many state and municipal assemblies and prefects. The elections were effected in complete order and with the keen participation of most of the electorate, abstention being as low as 5% in some districts.

While Brazil encountered many problems in 1958, a year of international economic recession, there was awareness of the potentialities for rapid growth and of the fact that the country has repeatedly demonstrated its ability to recover from temporary setbacks.

Colombia

Perhaps the most important development in Colombia during 1958 was political in nature. After a lapse of almost ten years, the country returned to a democratic form of government under a plan, conceived by the preceding Military Junta and approved in a plebiscite in December, 1957, whereby for the next 16 years the two principal parties, Liberal and Conservative, will enjoy equal representation in the Government. Nationwide free elections were held in May and Dr. Alberto Lleras Camargo, a Liberal, formally assumed the Presidency in August. A month later the new Government placed before Congress an overall economic and social programme. Many of the policies outlined were already in force, but a principal merit of the programme is that it presents a co-ordinated plan of action. In the economic sphere the three broad objectives of the programme are: to check inflation; to keep

imports down to a level permitted by exports and a fairly rapid discharge of external obligations; and to foster economic development.

Coffee accounts for 75% to 85% of Colombia's exchange earnings. The country is fortunate in the fact that it produces types of coffee that sell at a premium above the standard grades, and in the fact that it has quite consistently been able to produce a crop of high volume as well as high quality. However, while Colombian production for the 1958/59 season is expected to reach a record level, world consumption has not kept pace with increases in world production, and prices have weakened. During the first six months of 1958, the New York price for Colombian coffee fluctuated within a range of approximately 53½ to 57 cents a pound, thereafter declining to 47½ cents by around mid-November.

In this setting, Colombia has joined with fourteen other Latin American countries in the International Coffee Agreement, signed in Washington in September, 1958. (This replaces the Mexico Agreement, signed in Mexico City in October, 1957). The new agreement is to remain in force for one year beginning October 1, 1958, and has the objective of bringing world supply and demand into a relationship that would stabilize prices. Each participating country is to accumulate a reserve quota, which for Colombia has been set at 15%. In Colombia this coffee is purchased from the producers by the National Coffee Federation and retained by them. Exports of coffee from Colombia during the first ten months of 1958 amounted to over 4.4 million bags of 60 kilos each, compared with 3.9 million bags during the same period of the preceding year. It was estimated that, under the new agreement and on the basis of current production, the country would export approximately 5.3 million bags in 1958, compared with 4.8 million bags the year before.

Exporters of all commodities including coffee are required by Colombian regulations to surrender to the central bank the foreign exchange proceeds arising from export sales. The central bank deducts a tax of 15% and pays the balance to the exporter at rates which may be adjusted periodically but which have remained at 6.10 pesos to the U.S. dollar since the system was introduced in April, 1958. The tax portion is earmarked for external debt liquidation and the remaining dollars are sold in the form of exchange certificates at semi-weekly auctions, with the spread between the central bank's buying and selling rates being used to reduce the substantial obligations incurred by the National Coffee Federation in connection with the coffee retention programme. Since the inception of the auction system, the rates for exchange certificates have fluctuated between 6.23 and 7.27 pesos to the U.S. dollar. The certificates may only be acquired for approved imports and certain other specifically authorized operations. Also, for effecting remittance by way of exchange certificates, a 10%

tax payable in dollars purchased on the free market is applied. The free dollar market continues to comprise foreign exchange arising from sources other than exports and is subject to fairly broad fluctuations with rates during the past year varying between 6.25 and 8.10 pesos to the U.S. dollar.

Colombia continued to enjoy a favourable balance of payments during the first seven months of 1958. However, during this period as compared with the same period of the previous year, exports fell by 25% to US\$239 million, imports declined by only 1% to US\$228 million, and the export surplus dropped to US\$11 million from US\$89 million. After achieving a favourable balance of payments for several years, Colombia experienced a deficit in each of the three years 1954-56, before re-attaining a surplus in 1957. In view of the substantial commercial indebtedness build-up during the period 1954-56, it is exceedingly important for the country to avoid an unfavourable balance of payments, and to that end rigid import restrictions are in effect, with only essential imports being permitted. Imports continue to be divided into three categories: those requiring a previous licence; free imports which, however, must be registered with the Exchange Registry Office; and prohibited imports. Importers are required to make prior deposits with the central bank of amounts in pesos equal in most cases to 100% of the value of the import, and such deposits are frozen until 60 days after the merchandise is clear of the customs. It has been intimated that eventually the "previous licence" list will be reduced and will cover only industrial machinery; that the majority of permitted imports will then be included in the free list; that the prohibited list will be maintained and extended as local production rises; and that the present system of prior deposits will be continued.

Although inflationary pressures are still evident in Colombia, they moderated considerably during 1958. The cost of living index, which increased by 75% during the past five years, rose by 7% in the first nine months of 1958, compared with 15% in the previous

corresponding period. Anti-inflationary steps taken by the monetary authorities during 1958 included the raising of legal ratios of cash reserves to deposits which banks are required to maintain from 18% to 23% in the case of sight deposits and 9% to 14% for time deposits. Subsequently, additional regulations were put into effect requiring that for deposits in excess of January 30, 1958 totals, 100% reserves were to be maintained. In addition, rediscount limits of the individual banks with the central bank were reduced and discount rates substantially increased. It is claimed that the exceedingly tight credit situation is receiving constant close study and that controls will be relaxed as soon as it is believed this can safely be done. For the time being, the Government's programme calls for all possible effort to be directed towards the restraint of inflationary tendencies. Borrowing powers of the federal, provincial and municipal governments are to be restricted. A special commission is to be set up to investigate the efficiency of government operations and to make recommendations where necessary. Recognition is given of the fact that strengthening the internal economy by checking inflation is likely to bring additional benefits in the form of increased exports and improved international financial dealings. On the other hand, some of the tight-credit measures which have been taken to cut imports and halt inflation are now limiting the inflow of industrial raw materials and thereby curtailing the operations of existing industries and the expansion which has been such a prominent feature of the postwar years.

The predominant position of coffee tends to obscure the fact that Colombia's manufacturing sector has expanded rapidly and already accounts for a fifth of the national

income. Major branches include food and beverages, textiles, cement, and petroleum. Local production of food and beverages and textiles continued to rise during 1958, with stocks of foreign origin declining and not being replaced, because of import restrictions. Cement production was off slightly owing to the decline in the rate of industrial construction. The "Vallejo Plan" has been put forth as a proposed method of offsetting the effects of import restrictions on industrial expansion. The plan proposes that firms be permitted to import raw materials duty free whenever the finished products are to be exported. It was hoped that exports under this scheme would begin to develop around the end of 1958. During the first nine months of 1958, as compared with the like period of the previous year, production of crude petroleum was up slightly and production of refined products increased considerably. While it is still necessary for Colombia to import refined oil products, the steady increase in domestic refining is gradually making the country self-sufficient in this respect.

At December 31, 1957, Colombia had credits outstanding of US\$71 million with the Export-Import Bank of the United States. In May, 1958, the Bank extended an additional US\$78 million to help Colombia maintain its essential imports, and at the same time a group of United States commercial banks granted a credit of US\$25 million for the same purpose. At June 30, 1958, Colombia had credits outstanding of US\$89.5 million with the World Bank and US\$35 million with the International Monetary Fund. The country, having received extensive co-operation from external lending institutions, continues to make every effort to service its obligations satisfactorily.

Peru

The economy of Peru encountered a number of major problems, including a drop in both exports and imports, a continuing unfavourable balance of trade, and a sharp

decline in foreign exchange reserves. The country's traditional method of keeping imports in line with exports has been to leave exchange and trade relatively free but to

apply restraining measures at the credit level. Although the tight-money approach was retained during 1958 as the basis of official monetary policy, and was supplemented in regard to external trade by higher import tariffs and other restrictions, the over-all accessibility of funds actually rose, owing to a substantial budgetary deficit and an increase in liquidity resulting from the drop in imports and stocks of imported goods. These factors, together with rising wages, contributed to inflationary pressures.

Exports during the first eight months of 1958 amounted to US\$185.2 million, or 10% less than during the like period of the year before, and imports were off 13% to US\$235.3 million. The adverse trade balance for eight months was therefore reduced to US\$50.1 million from US\$63.7 million. There were indications that the monthly deficit was narrowing as the second half of the year progressed; the trade deficit for the month of August alone was only US\$2 million. Further evidence was to be inferred from the relative stability of the Peruvian currency, which was holding fairly steady in spite of the fact that gold and foreign exchange reserves were down to exceedingly low levels.

The basic reasons for the broad decline in external trade were, on the one hand, the prevailing low world prices for the primary commodities which are Peru's major exports, such as cotton, sugar, lead, copper and zinc, and, on the other hand, the necessary restrictive efforts to bring imports down to a level commensurate with the country's ability to pay for them.

Cotton is Peru's leading export product and normally accounts for over 25% of exchange earnings. The year began badly for this trade, with a shrunken market having resulted from the surplus disposal programme of the United States and from the appearance, at substantial discounts, of cotton from other sources. However, after the central bank withdrew its support of the sol in January, stocks began to move more quickly and the carryover from 1957 soon disappeared. Exports during the first eight months of 1958, totalling 1.3 million quintals, were up 13% in volume

from a year earlier, but down somewhat in value in spite of higher quality. Production for 1958 was estimated at 2.3 million quintals or about the same as for the previous year.

Sugar exports, which normally account for around 15% of exchange earnings, were running considerably below levels of the year before. The total for ten months was down 25% to 298,767 tons. Prices fell more than 15% over the twelve months to August, 1958. The decline in the volume of exports was due to local production problems and increased domestic consumption as well as to market limitations. It was expected that the last two months of 1958 would bring some improvement in the rate of sugar exports and that the total for the year might be down only 10% or 15%, to around 440,000 tons, from the previous year's 498,000. Peru recently rejoined the International Sugar Agreement, from which it had retired in 1953. It was reported that the combined export quota of Brazil and Peru under the Agreement is 1 million tons, with Peru eligible for a higher share of the United States market than previously.

The farming areas of southern Peru, which were badly hit by drought the year before, received normal rainfall in 1958 and production of field crops such as potatoes, barley, corn and wheat were reported as satisfactory. Rice production, which had been curtailed owing to a controlled price to growers, received a stimulus in the form of a 25% price increase, and output for 1958 was estimated at 238,000 metric tons or about 6% more than the preceding year. Nevertheless, Peru had to import 45,000 tons in 1958 to meet domestic requirements, and the rice was purchased from the United States under the Public Law 480 plan.

During the year important new farming and livestock areas were brought into use through irrigation projects serving to divert highland waters to the Pacific Plain, and new schemes are in progress or being planned. The sheep and alpaca wool industry had a poor year as prices were about one-third below 1957 levels.

Peru's mining industry had a difficult year owing to the general drop in world prices for

base metals, restricted markets, labour troubles and steadily rising costs in general, particularly freight rates. During the first eight months of 1958 as compared with the same period of the year before, exports of lead were down 26% to US\$13.9 million; of copper, 17% to US\$13.3 million; of iron ore, 22% to US\$12 million; and of zinc, 39% to US\$7.5 million. The mining industry regarded as a severe blow the United States action of imposing import quotas on lead and zinc. These quotas, calculated to equal 80% of a country's average annual lead and zinc exports to the United States over the period 1952-57, represented in 1958 cutbacks in Peruvian exports to the United States of around 57% for lead and 35% for zinc. It was estimated that Peru's exchange earnings would be reduced by approximately US\$7 million annually as a result of the quotas. Large mining companies hoped that by shortening the workweek and increasing stocks they could avoid labour layoffs.

Development of the Acari iron ore deposits began early in 1958 and advanced rapidly, and shipments of iron ore were expected to begin in July, 1959. Iron ore shipments from Marcona to the steel plant at Chimbote began in March, 1958. Production of blister copper at Toquepala was expected to start in December, 1959.

Exploration for petroleum in the Amazon district yielded little beyond a few wells brought in in the Contamana area. While several major companies are continuing their exploration activities in this area, indications were that their budgets were not large. Labour trouble caused several serious work stoppages in the petroleum industry. Local consumption was rapidly approaching domestic production, exports were declining, and it appeared that unless some action were taken to provide improved conditions for the industry, Peru might be faced with the need to import gasoline and other petroleum products in the near future. Exports of crude oil during the first six months of 1958 totalled approximately 2 million barrels, hardly more than half the almost 4 million barrels exported during the same period of the year before.

Manufacturing represents one of the most rapidly advancing sectors of the Peruvian economy and accounts for over 15% of gross national product. As in the case of most countries in early stages of industrial development, the first manufacturing industries to be established were those for the production of consumer goods. At the present time, textiles, beverages and foodstuffs are the leading manufacturing industries, although other relatively important ones include hides and leather, lumber, stone and clay products, glass, paper and paperboard, and light chemicals. The development of these industries provided a base for the introduction of some heavy industry, and Peru now has in operation a number of foundries, cement plants and several establishments producing sulphuric acid and other chemicals. An important step was taken in April, 1958, when the first integrated steel mill went into full production. The country's sheet mill has been in operation since 1957, using imported ingots. The new integrated mill is expected to spur further development, particularly in metalworking. Most of the production of existing manufacturing industries is destined for the domestic market. Exports of manufactured goods are confined to a few items, such as canned and frozen fish, fish meal, sperm oil and lumber. Tourists buy substantial amounts of handicraft articles such as silverware and leatherwork.

Production and exports of fish during the first eight months were at relatively low levels owing to unfavourable conditions in both the domestic and foreign markets.

A loan of US\$6,575,000 to the Port of Callao Authority was announced by the World Bank in September, the funds to be used for enlargement and improvement of port facilities. Expansion being undertaken includes construction of a new pier, installation of mechanical handling equipment, and purchase of two diesel tugs and a suction dredge.

Although foreign exchange reserves were down to the low total of US\$3.5 million, from the high level of US\$41.7 million in 1956, the central bank made no drawings during the

year on the US\$60 million stabilization fund created by the International Monetary Fund, the United States Treasury and private banks. A US\$40 million stabilization credit granted in September by the Export-Import Bank provides a further guarantee of availability of foreign exchange. Peru has run a trade deficit in all but two of the postwar years, but up to and including 1956 the deficit was generally more than offset by imports of private capital. A steady decline in the inflow for development occurred during 1957 and 1958 and was particularly noticeable in the mining and petroleum industries. However, a programme for the preparation of a long-range investment plan and for the encouragement of foreign private participation was presented by the Government in August, 1958.

In January, 1958, after its gold and foreign currency reserves had dwindled, the central bank abandoned its efforts to keep the sol pegged at 19 to the US\$1. The external value of the sol declined moderately, but steadily. On November 13th the central bank announced that it would re-enter the market as a seller of certificate exchange at ruling average daily rates and would, if necessary, utilize US\$30 million of stabilization funds for this purpose. The sol immediately strengthened upon the first offer of certificate dollars at 25.45.

Uruguay

The economy of Uruguay, which for several years has faced increasingly serious problems, in 1958 appeared to enter the most acute crisis in its history. The development involved a large backlog of external and internal debt, sharply reduced exports, imports and domestic production, and rising inflationary pressures. The wool and meat industries, two of the country's major sources of income, continued to encounter especially complex difficulties. Over the past ten years, only four annual export surpluses were attained and the cumulative trade deficit amounted to US\$141 million. Various restric-

Peru was active during the past year in seeking broader markets for her exports, and an agreement signed in October between Peru and Argentina was regarded as the first of a series of Latin American trade and investment agreements. The October treaty is addressed, not only to the encouragement of trade and investment between Peru and Argentina, but also to the establishment of a base for growth of regional multilateral integration of Latin American commerce and payments. The agreement provides for mutual most-favoured-nation treatment between Peru and Argentina in regard to customs duties, taxes, internal regulations, and movements of capital and transport carriers between the two countries. Spokesmen have expressed the hope that total trade between Peru and Argentina will reach approximately US\$40 million annually within two years, and will be balanced. In 1957, trade reached a total value of US\$25.5 million, 74% of which represented Peruvian imports from, and 26% Peruvian exports to, Argentina.

Peru's 1959 budget estimated revenues and expenditures balanced at 6,764 million soles, or 1,404 million higher than for the previous year. The cumulative deficit of 1,300 million soles for the three fiscal years to 1958 has been financed by a special advance from the central bank. Recourse to further deficit financing in 1959 was regarded as likely.

tions were introduced, designed to bring imports down to a level permitted by the need for an export surplus out of which overdue obligations could be met. While indications were that a favourable balance of trade might be achieved in 1958, the significance of this possibility was far outweighed by the negative fact that both exports and imports dropped to exceedingly low levels.

The decline of imports meant an insufficiency of industrial raw materials, new machinery, and imported consumer goods; the lack of raw materials and new equipment curtailed domestic production in some cases;

the shortage of domestic and imported consumer goods, the reduced income from exports, the increased unemployment, and the usual unwillingness of people to accept lower real incomes, all combined to produce growing pressure for increased money wages and social welfare expenditures and for improved exchange benefits to exporters. The result was a quickening spiral of inflation, which in turn aggravated the problem of sustaining the level of exports and permitting a higher level of imports.

With respect to external trade, Uruguay experienced its best year in 1953, when exports rose to a record level of US\$270 million and imports amounted to a satisfactory US\$195 million. In 1957 exports were down to US\$128 million, or less than half the record value, and imports were up to US\$226 million. During the first eight months of 1958 as compared with the same period of the previous year, exports were down 15% to US\$90 million and imports were down almost 60% to US\$66 million. While an export surplus of US\$24 million resulted, it was evident that this favourable trade balance had been achieved at far too low an overall volume of trade.

The highly unfavourable balance of payments which developed in 1957 led the Banco de la Republica abruptly to close the import exchange market on October 17th of that year. In the following month the market was partially re-opened for essential goods and an emergency system was established for the distribution of foreign exchange, authorizing only those imports considered absolutely indispensable. The time limit initially set for the expiration of this system was September 30, 1958, since extended to December 31st and likely, in view of current circumstances, to be extended again. The Banco de la Republica has established import quotas to a total of US\$150 million for 1958. However, since the level of essential imports has risen greatly during the past few years because of the industrial development of the country, with requirements of raw materials and lubricants alone having reached an approximate value of US\$120 million to US\$130 million, total

import demands of the country have become too great to be fixed below the US\$200 million mark. Anything less is bound to curtail the operations and growth of the country's industry, and was doing so in 1958.

The external value of Uruguayan currency depreciated materially during the year, with the free market peso dropping from 21 cents U.S. at the beginning of January to under 9 cents U.S. around mid-November. The market proved strongly susceptible to rumours and violent oscillations. Apart from a few days of intervention by the Banco de la Republica in support of the peso, occurring around the beginning of September, the market was left to function mostly on its own. The controlled market was fed with bills accruing from wool exports, the main source of foreign exchange.

The beginning of 1958 found the wool market stocked with practically the entire 1957/58 wool clip, as producers had declined to sell until accorded improved exchange treatment. The Government eventually acceded partially to their demands in November, 1957, but by that time world prices for wool were declining. It was not until the second half of January that some export movement was registered, mainly by sales to Russia. Thereafter wool showed sporadic movement until August, when producers again withdrew from the market with demands for further improvement in exchange treatment. The Government provided stimulus in several forms: higher official exchange rates; increased percentages of exchange earnings to be paid for at the free rate; a bonus for all shipments for export delivered to the Banco de la Republica prior to the end of 1958; and an extra grant for shipments to hard currency areas.

Total wool exports from the 1957/58 clip amounted to approximately 126 thousand bales, or 10% less than from the preceding one. It was estimated that exports from the 1958/59 clip would probably be down a further 5%, with some 50-60 thousand bales from the latest clip reported already sold around mid-November. Russia for the first time became a direct buyer of wool from

Uruguay and purchased almost 18% of the 1957/58 clip—more than any other country. The Communist-bloc countries as a whole bought over 26% of the clip. Previously Russia did not figure as a buyer, although some purchases were made indirectly through the Netherlands and the United Kingdom.

Uruguay's overall trade with the Communist bloc rose spectacularly. During the first six months of 1958 its exports to this area increased to US\$14.5 million from less than US\$7 million during the same period of the year before and represented about 20% of total exports. Uruguay's imports from the group were up almost 40% from the first half of 1957. Perhaps even more noticeable was the way in which the country's trade with its traditional customers dropped. During the first six months of 1958, exports to the United States fell 53% from a year earlier and exports to Brazil, Holland and Italy were off 95%, 60% and 53% respectively.

These developments were part of a general movement by Uruguay away from liberalism and multilateralism in trade and towards bilateral agreements with countries with which suitable credits, means of payment, and barter deals could be arranged. Trade agreements were signed with Russia and Roumania whereby those countries would supply various products, mainly petroleum, in exchange for Uruguayan domestic goods, chiefly wool. Thus far, Russia has contracted to furnish Uruguay with petroleum and by-products to a value of US\$4.2 million.

The meat-packing industry and the economy in general are still feeling reverberations from the closing down of two packing plants in December, 1957. Up to the time of this event, there were four major packing firms in Uruguay. The Government-assisted National Packing House (*Frigorífico Nacional*) had a virtual monopoly on slaughtering for the domestic market, while two American and one British subsidiary operated mainly to serve the export market. As 1957 progressed, the meat trade experienced increasing difficulties because of diminishing herds and cattle entries, rising operating costs, periodic strikes and weakening world prices. Finally the two

American firms, which had been operating in Uruguay for 40 years, closed down in December, both claiming they had been losing money for several years. The two large plants still functioning have been meeting almost insurmountable difficulties, and for several months some 10,000 meat workers have been unemployed. These two firms have more than enough capacity to handle available livestock; however, in view of the unemployment problem, the Government considered several methods of getting the facilities of the closed plants back into operation and decided to allow the two American firms to transfer their properties to a co-operative company formed by Uruguayan workers, which took over all assets and liabilities. The new company was making efforts to get at least one of the closed plants back into production as soon as possible. The British subsidiary had also threatened to close down, but eventually agreed to stay open in the hope that, with fewer packing houses, there would be scope for greater output and profitability in its own operations. In addition, the establishment of more favourable exchange rates for exports of chilled and canned meats contributed to persuading the British company to continue functioning.

As a result of reduced numbers of cattle made available to the packing plants, and the consequently reduced rate of slaughter, it was expected that meat exports for 1958 would be well below normal and would amount to hardly more than half the officially set exportable surplus of 60,000 tons.

The policy of granting subsidies to wheat and other crops was continued, and the price limits established appeared high enough to provide growers with the incentive to increase production. An agreement was signed for the sale of Uruguayan wheat and flour to Brazil, with Brazil agreeing to purchase up to 230,000 tons of wheat annually during the three years 1958-60. In the event that an inadequate harvest does not permit so high an export volume, at least 80% of Uruguay's exportable surplus will be allotted to Brazil.

Wholesale and retail trade in general were off throughout the year. Consumer resistance to rapidly rising prices was strong and a shift in consumer expenditure to basic food and clothing from less essential articles became necessary because prices rose faster than incomes. Stocks of imported consumer goods were low and variety small. A mounting scarcity of some vital supplies, such as drugs and pharmaceuticals, was evident. Lack of raw materials and new machinery caused several factories to reduce or temporarily cease production, and some important retail firms were forced to lay off staff.

A large steel wharf and trans-shipment station was inaugurated in the Free Zone of Nueva Palmira in September. Warehouses and equipment for discharging manganese ore and other products have been constructed there. All industrial plants installed in any

Free Zone of Uruguay are exempt from payment of taxes for ten years. The Free Zone at Nueva Palmira was established to encourage the development of that port and the port of Colonia, at both of which the water depth permits the docking of deep-draft ships.

In contrast to the tight-money situation which prevailed during the previous year, funds for short-term domestic transactions were plentiful in 1958 as a result of the severe import restrictions, in force since October, 1957, which caused importers to improve their cash positions by preventing them from replacing goods sold.

Uruguay's public debt at October 31, 1958, was 1,445 million pesos, or 10% higher than a year earlier. However, while internal debt rose to 1,356 million pesos from 1,224 million, external debt fell to 89 million pesos from 93 million.

Venezuela

The overthrow of the Pérez Jiménez Government early in 1958 and the subsequent formation of a governing Junta headed by Rear Admiral Wolfgang Larrazábal, in which civilian elements participated, were followed by two abortive attempts to upset the Junta. The period was one of both political and business uncertainty, as many projects of the former Government were made subject to review. The Junta, however, stood firmly by its promise of free elections, and these took place on December 7th, resulting in victory for the Democratic Action Party under the leadership of Dr. Rómulo Betancourt, who had spent many years in exile as a political opponent of the pre-Junta military Government. All three presidential candidates had agreed on certain common objectives they would work towards, regardless of who won the election, through coalition control of the new Congress. Among the common objectives were: more rapid industrial diversification with the aid of foreign capital; long-term growth of agriculture; increased Government revenues from oil.

One of the bright spots in the Venezuelan economy during 1958 was the pickup in oil production which occurred towards the end of the year. During the first three quarters of 1958, output hovered around the daily level of 2.5 million barrels, compared with an average of approximately 2.8 million barrels daily for the whole of 1957 and a peak of just under 3 million barrels daily during the Suez crisis of 1956/57. During the final quarter of 1958, production returned to about 2.8 million barrels daily. The slump in sales earlier in the year was the result of an oversupply of crude and refined products in Europe, the establishment by the United States of oil import restrictions, and the business recession in that country. Although exports of crude to the United States, even towards the end of the year, were still running below levels of a year earlier, shipments of refined products to that country were averaging more than 160,000 barrels daily, up from the 1957 average of just over 60,000 barrels daily, since import curbs in the United States do not apply to refined products. Venezuela is the second largest

producer of crude petroleum in the world. The total area under concession in the country exceeds 16.5 million acres, of which only approximately 5% is estimated to be actually producing, and it is believed that production could comfortably be expanded to about 4.5 million barrels daily in several years if market conditions warrant the increase.

While full details were not yet available, reports received just before going to press indicated that, in a surprise move, the ruling Junta, in advance of the installation of President-elect Betancourt, has introduced income tax changes applicable to 1958 earnings. These tax changes would mean in effect that the oil companies would have to turn over some 60% of profits to the Government, upsetting what has previously been referred to as the 50-50 formula, although the companies have claimed that the old formula worked out to more than 50% in favour of the Government. It also appeared possible that the new Government, when installed, might require that a greater proportion of crude production be refined in Venezuela.

Venezuela's refineries processed about 28% of its crude output in 1958. At mid-year there were 13 refineries in the country with a total throughput capacity of 793,000 barrels of crude per day. Additional facilities planned for completion during the second half of the year were expected to increase total capacity to 874,000 barrels per day.

The utilization of gas is increasing steadily. Proven reserves of gas in Venezuela are estimated at over 32 trillion cubic feet. The re-cycling of gas was somewhat slow in starting, but a sizeable proportion of the gas produced is either being re-injected or used as fuel for industry. The Government is completing the first stage of a huge petrochemical project which will use gas as a raw material.

Although construction of the much discussed \$300 million petrochemical works at Moron, in north-central Venezuela, has slowed down and some reorganization has taken place, nevertheless the first sections have gone into operation. Some of the fertilizer plants produced 12 different grades of fertilizer; the experimental petroleum refinery began limited

production of gasoline; the sodium plant started production of chlorine and caustic soda, and the aromatics plant began processing aromatic naphtha. The whole project will turn out a large variety of products, including insecticides, explosives, solvents, synthetic rubber, and plastics. Another important development was taking place, in western Venezuela, where one of the oil companies completed a liquified-gas plant. An initial run confirmed the fact that it could produce daily about 5,300 barrels of propane, 5,800 barrels of butane, and 6,000 barrels of natural gas. This is the largest liquified-gas plant in Latin America and one of the three largest in the world. It recently accounted for the first export of liquified gas from the country.

Construction is progressing well on the Caroni River hydroelectric project located about 350 miles southeast of Caracas. The first stage, to produce 200,000 kw., was completed towards the end of 1958; facilities for an additional 100,000 kw. are scheduled for completion in 1962. A Government spokesman declared that the total potential of the Caroni River is estimated to be 4 million kw. There are shorter-run definite plans underway, and longer-run less fully worked out plans, for steady development of this potential. However, Venezuela at present is a country without power shortages. With completion of the first stage of the Caroni project, total installed capacity in the country rose to between 900,000 and 1 million kw. Most of the new power capacity of the Caroni River project will be used to operate the national steel plant being built in the area, and additional capacity later on may play an important role in the planned production of aluminum from nearby bauxite deposits.

The ambitious national steel mill under construction at Puerto Ordaz, started under the Pérez Jiménez regime, was first estimated to cost some US\$340 million, but was re-evaluated by the Provisional Government and is now expected to cost considerably more. Start of production was first scheduled for 1959 and then for 1960, but construction is only one-quarter completed and revisions of engineering plans are still unsettled.

Output is estimated at 650,000 to 750,000 tons a year initially and twice that eventually.

Iron ore is Venezuela's most important product after oil. Production for 1958 is estimated at 16.5 million metric tons, compared with 14.4 million the year before. Most of the ore is shipped to the United States. During the first half of 1958, exports of Venezuelan ore to that country were valued at US\$44.7 million, up 13% from the previous similar period. An important domestic market will become available for ore when the national steel mill commences operations.

Coal, manganese, asbestos, nickel, copper pyrite, and bauxite are also mined in the country, but as yet on a relatively small scale.

Agriculture is still a big problem in the economy. "Sowing the oil", or re-investing the oil revenues, so that if the oil reserves become depleted the country will have a strong agricultural and industrial basis on which to build future prosperity, has been the policy of every Venezuelan Government since the war. But while a great deal of advance has been made in highway construction and other public works, and to a lesser extent in industry, progress in agriculture has lagged. Output of coffee and cacao, the country's most important agricultural exports, are being encouraged under a Ministry of Agriculture plan, which includes investment of 46.2 million bolivares for replanting, treating, and generally improving coffee plantations, and 12 million bolivares for developing high quality cacao, training farmers in more effective cultivation methods, and gradually rehabilitating abandoned plantations. In addition, special loans are being granted to those engaged in coffee and cacao cultivation. To encourage meat production, the Provisional Government, through the Agriculture and Livestock Bank, instituted a 660.5 million bolivar five-year plan that calls for establishment of 2,500 ranches, seeding of 180,000 hectares of grazing land, an adequate irrigation system, and substantial purchases of livestock and farm machinery. About 100,000

head of registered cattle are to be imported over the next five years to improve Venezuela's stock. A three-year plan to improve hog breeding was also adopted, to cost 18 million bolivares. These programmes are expected to put an end to the periodic occurrence of meat shortages.

Wheat imports have been rising and flour imports falling, with the growth of flour milling in Venezuela. The six large flour mills in operation bought over US\$1 million in wheat during the first six months of 1958, compared with US\$42,602 worth during the same period of the year before.

For the most part during 1958, industrial activity and wholesale and retail trade were at levels somewhat below average. Stocks of most goods were rather large. The principal factor influencing business was undoubtedly the political uncertainty, and after the December elections, hope arose that 1959 would bring increasing political stability and rising levels of industrial, wholesale and retail activities.

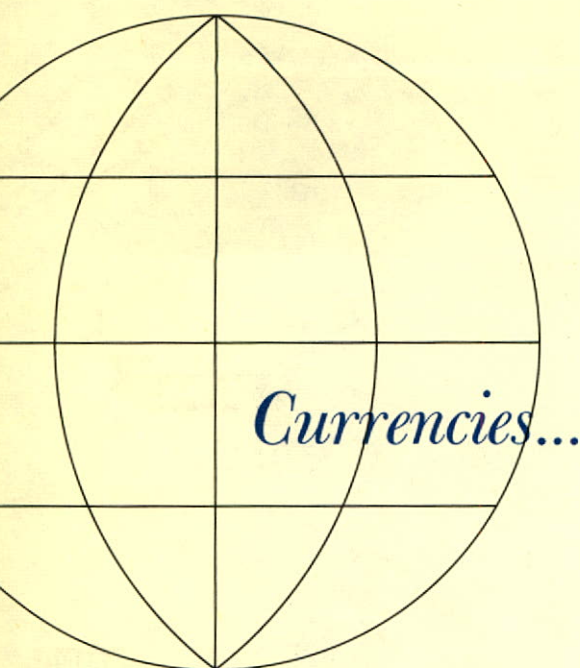
Venezuela has a hard and stable currency, freedom from exchange restrictions and for many years has had comparative freedom from import controls. Under rising pressure from both agriculture and industry for protection against competing imports, the Provisional Government modified the customs tariff classification and increased substantially the duties on commodities such as textiles, eggs, vinegar, tanned hides and skins, shoes, and tires, to rates which in some instances will practically eliminate imports. Other restrictive measures, such as licensing, have been applied to other items, for instance flour.

Almost 60% of the country's imports come from the United States. Petroleum and its derivatives account for over 90% of exports. Exports during 1958 were running slightly below levels of the year before and imports were down substantially, resulting in an even larger favourable balance of trade than usual. Net gold and foreign exchange reserves totalled US\$1,434 million at the end of

August, 1958, compared with US\$1,318 million a year earlier. Gold holdings were 39% higher than notes in circulation.

The Government budget for 1958/59 is the largest initial budget ever approved. It calls for expenditures of 5,818 million bolivares, anticipated revenues of 4,027 million bolivares, and an estimated deficit of 1,791 million. Most of the deficit is expected to be covered by borrowings from local banks and utilization of Government Treasury reserves.

After the overthrow of the Pérez Jiménez regime, a re-assessment of the country's financial position disclosed floating debts of some 1,359 million bolivares left by the old Government. This situation, while by no means of a serious nature, has stimulated efforts to obtain loans from abroad. A preliminary agreement has been signed providing for a two-year US\$225 million loan to Venezuela by 16 United States, Canadian, and British banks.



Currencies...

*Approximate Canadian dollar equivalent,
as at November 29, 1958 of local currencies
referred to in this supplement:—*

	Local Unit of Currency	Canadian Dollar Equivalent
CUBA	Peso	\$0.97
UNITED STATES	Dollar	\$0.97
THE WEST INDIES (excluding Jamaica) AND BRITISH GUIANA	W.I. dollar	\$0.56
BRITISH HONDURAS	B.H. dollar	\$0.68
JAMAICA	Pound	\$2.71
NASSAU	Pound	\$2.71
DOMINICAN REPUBLIC	Peso.	\$0.97
HAITI	Gourde	\$0.193
ARGENTINA	Peso (official)	\$0.053
	Peso (free)	\$0.014
BRAZIL	Cruzeiro (official)	\$0.053
	Cruzeiro (free)	\$0.0073
COLOMBIA	Peso (certificate)	\$0.15
	Peso (free)	\$0.12
PERU	Sol	\$0.04
URUGUAY	Peso (official)	\$0.46
	Peso (free)	\$0.10
VENEZUELA	Bolivar	\$0.29



Branches in South America

*The many important cities
of South America served by
The Royal Bank of Canada
are shown on this map. The
Royal Bank has operated branches
in South America for over 40 years.
Officers of the bank know the
language and the people
and their ways of
doing business.*



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