Meeting I
Summary 3

COMMITTEE TO STRENGTHEN THE SECURITY OF THE FREE WORLD

Summary of Proceedings, January 25 and 28, 1963

Subject: The Alliance for Progress

I. Briefing and Discussion

The session convened at 3:30 P.M. The Alliance for Progress was represented by U.S. Coordinator for the Alliance Teodoro Moscoso, Deputy U.S. Coordinator Graham Martin, Deputy Assistant Secretary of State Herbert May, and Deputy Assistant Administrator Reuben Sternfeld. Also present was AID Administrator David Bell.

A. Introduction

Mr. Moscoso began the briefing session by stressing that Latin America is the region of the world where U.S. security interests are highest. The President has repeatedly stressed the primacy of Latin America, Moscoso said, and thusthe importance of the Alliance for Progress as a crucial testing ground of our aid program.

Mr. Moscoso sketched the threat to U.S. security in Latin America and the techniques the Alliance is using to preserve our interests in the region. Latin America is in the grip of a profound revolution, a revolution whose loyalties will be caught, as Cuba shows, by one side or the other in the Cold War. The threat of communist-Castroite insurgency in Latin America is being met directly through the public safety program of the Alliance. But the most important "counter-insurgency" program in Latin America is the broad program of social and economic development which the U.S., in partnership with the governments of the other American Republics, has launched under the Alliance for Progress.

Mr. May and Mr. Moscoso made clear that time is running out in Latin America for the U.S. For this reason, a part of any long-run economic and social development program in Latin America must include projects and programs designed primarily to have an immediate impact on the masses in the region, and thus maintain their hope and belief that free institutions—private enterprise and democratic government—are proper and efficient means to relieve the serious economic and social difficulties of the region. Only if this hope is fired in the people will the long-term developmental programs of the Alliance have a chance to succeed.

Mr. Moscoso emphasized the crucial role of self help measures in the Alliance. "People are not saved," he said, "they save themselves." The Latin

Americans recognize this, and in the Charter of Punta del Este they accepted the fact that the major part of the needed resources and effort for the development of the region must come from internal sources.

The problems of the Alliance are manifold. It began at a time when the foreign exchange earnings of Latin America were in decline, due to the recent drop in primary product prices, so that their capacity to import goods essential to a development program has been impaired. The region lacks trained manpower. It is plagued by flight of local capital, caused by fears of inflation and political instability. The strong Cuba stand of the U.S. in November of 1962 stilled some the latter fears and may have slowed the flight of domestic capital. But it did not cure the reluctance of foreign investors to put money into the region. These investors are equally afraid of the inroads of nationalism of the type reflected in the understandable but economically disastrous "Mexicanization" policy now underway in that country.

Mr. Moscoso concluded his opening presentation by indicating five primary areas of emphasis for the Alliance. These are the encouragement of planning—in the sense of efficient use of governmental resources for development; development and articulation of measures to stimulate private investment; relief, through pressure in Europe and otherwise, of the debt-service burden now pressing Latin America; institution building, especially private development banks; and finally the achievement of fiscal and monetary stability, as is now being done in Colombia and Chile.

B. International Institutions

The Committee then began to discuss various issues with the briefing witnesses. The first of these was the role of international lending institutions, chiefly the Inter-American Development Bank (IDB), in U.S. assistance strategy in Latin America. Taking the case of the recent $60 million U.S. loan package to Chile (AID $35 million, Ex-Im $15 million, Treasury $10 million), General Clay asked why such a major commitment was made before the Chilleans had applied to IDB, the IBRD, or the IDA, for aid. Mr. Moscoso replied that a primary purpose of these loans was to encourage the Chileans to take steps leading to exchange and monetary stability. This, he said, represented a political interest of the United States, and it was felt that the international institutions could not in this case do the "arm-twisting" necessary to achieve desired reforms. Mr. Black added that IDB did not have the money for an operation like the Chile $60 million loan and that IDA would not make a loan for this purpose. Mr. Moscoso pointed out that while in certain areas, such as tax and social reforms, IDB and other international institutions often are able to spur reforms which the U.S. could not achieve, in the field of exchange and monetary stability, the converse is true. He also indicated that some political situations require speed and flexibility greater than IDB etc. have. General Clay observed that at times the actions of international agencies are not in harmony with overall U.S. strategy. Thus, where the U.S. desires to cut off all assistance to force a country to put its fiscal house in order, as in the case of Brazil, the IDB has continued aid. It was pointed out that the IDB charter forbids it to withhold aid for political reasons. Thus, in many cases it is difficult to get the IDB to go along with a U.S. posture of "reluctance." Mr. Bell observed that withholding aid until a nation achieves some stability could hardly be called a "political" reason. Mr. May agreed, and thought national financial conditions might be made an IDB loan criterion.

C. Local Currency Financing

The next issue discussed was the problem of "local currency financing." Explaining why IDA would not make a loan of the Chile $60 million type, Mr. Black explained that in Latin America, countries need external resources for two reasons; first, to finance needed imports, and second, to generate local currencies to meet budgetary needs. Normally, a government gets local currency (i.e., domestic resources) through sale of bonds and/or taxation. In Latin America, however, because of the tax situation and the lack of a market for their bonds, governments cannot meet their needs in this fashion. One solution is to borrow abroad and utilize these foreign loans to generate local currency for governmental use. Many loans made by A.I.D., indeed, a major portion of Alliance for Progress loans, are made for this purpose. Mr. Black made clear that he found this very disturbing and had refused to make loans of this type at IBRD. External support of government deficits through such local currency financing simply permits a country to postpone taking the reforms necessary to marshal internal resources. These reforms include taxation and elimination of government subsidies. In Mexico and Argentina, for example, the government must subsidize the railroads in order to support their uneconomic rates and widespread feather bedding. Raising tax rates and eliminating subsidies are politically unpopular. Local currency budget-support financing by AID simply permits the government to postpone the day when the tough decision to make these reforms must be taken. General Clay pointed out that local currencies made available as a consequence of the Food for Peace program might also have precisely this effect. Addressing himself to this issue, Mr. May pointed out that you cannot look at "local currency" financing in a void. Whenever the U.S. finances the "local currency" part of a project it makes available U.S. goods and services, thus giving the country limited balance of payments aid. At the same time a sound project does result from and is identified with U.S. aid.

Against this background the purpose of the AID loan to Chile was examined. Mr. Moscoso pointed out that this loan was not made primarily for "local currency" needs. One half will be made available when Chile has entered into an IMF standby agreement, and can be used initially to generate escudos but also, naturally, for imports. The rest will be made available for imports pari passu with tax and other reforms which will eliminate the government's budget deficit and generate a surplus to finance investment.

D. U.S. Posture and Reform - The Reluctant Dragon

The next major area of discussion centered on what U.S. aid posture would best spur reforms; is it better to be "forthcoming" or to play the "reluctant dragon." Mr. Black espoused the cause of the "reluctant dragon." He took the position that the U.S. and international agencies should identify the reforms they wish a country to make, and then make it clear to the country that no loans will be made until these measures are actually taken.

Mr. Moscoso did not disagree with Mr. Black. But he did point out that there were times when a more flexible, yet tough, attitude was necessary. For example, he said, in the Chilean case the Government is using U.S. support as a political device to achieve reforms. Also, the U.S. support represented by the $60 million has helped head off a dangerous alliance between the Christian Democrats and the far left; the head of the Chilean Communist Party recently told the Christian Democrats that they must choose "between Chile and the Alliance for Progress." The U.S. has achieved these tangible political results —as well as clear progress toward stability—by making a commitment, but a contingent commitment. We have demanded reforms; we have been tough, and by being tough we have obtained results. There has been a devaluation, tax measures are in the works, and all future disbursements are tied to evidence that these measures are succeeding.

Both General Clay and Mr. Black raised the question whether Chile would not have taken the reforms without U.S. insistence or assistance. Mr. May agreed that a stabilization effort would have occurred eventually, but said he did not think without U.S. pressure it would have been accompanied by the anti-inflationary measures and tax reform which are occurring in Chile in the wake of this loan. He felt that in many ways the Chile loan is unique. It was made to support the Chilean development program, which has been reviewed by the IBRD and the OAS "Nine Wise Men," and it is tied pari passu to specific reforms. Both he and Mr. Moscoso felt that, as a result of the loan, President Alessandri's position vis-a-vis the left had been strengthened.

E. Brazil

Mr. Moscoso set out some of the history of U.S. policy in Brazil. In 1961, the U.S., with several European countries and the IMF, were prepared to give substantial support to Brazil both by rescheduling old debts and by putting in new money. The AID commitment was for $100 million, contingent upon Brazil's entry into an IMF agreement. Because of Brazil's failure to adhere to the IMF agreement, the deal fell apart and the Europeans refused to participate. Since our loan was contingent soley on Brazil's entering into an agreement, not fulfilling it, the U.S., however, did make a disbursement. In March 1962 a Brazilian mission presented a program of reform measures which we were prepared to support, but they failed to implement these measures and so disbursements under the $100 million loan were halted. Subsequently, President Goulart came up to the U.S. and, as Mr. May put it, "sold us a bill of goods." IMF refused to go along with the Brazilians, but the U.S. told Goulart we would disburse the remainder of the U.S. commitment, including funds from Ex-Im and Treasury. Again, this did not pay off; the reform measures were not forthcoming. As a result of this experience, we have told Brazil that they will get nothing until real progress is made to put its house in order. We have taken a tough stand, and have stuck to it despite blackmail of all sorts. Indeed, we have been so tough that people around Goulart became convinced that there was no way to do business with the U.S. and so Brazil's best path would be to turn away from the U.S.

Mr. Black asked what "turning away from the U.S." could mean. Mr. May explained that the basic idea—put forth by Celso Furtado—had been simply for Brazil to default on the $1.5 billion worth of debts which are to fall due in the next 3 years; if this was done some Brazilians believed that Brazil's normal export earnings would finance their development. There was also a suggestion that closer ties with the Soviet Union would be explored. General Clay raised the question of what effect such an experience would have on a country; whether such total isolation would not "put them through the wringer" and result in the long run in a more favorable situation from our viewpoint.

Mr. Graham Martin resumed the chronology of U.S. Brazilian policy. The recent $30 million Treasury loan was made only after full consideration by the Latin American Policy Group and the NSC. The decision was taken to move in the period following the plebiscite to attempt to influence the creation of a government more favorable to the U.S. and to the measures we have prescribed for Brazil. The plebiscite has given Goulart a mandate, and people around him have manifested a definite shift to a more pro-United States stance. He has announced a three year plan designed to combat inflation, deal with the subsidy problem, encourage foreign investment, and achieve exchange stability. We intend to condition any support of this plan on Brazil's maintenance of eligibility under an IMF standby agreement, satisfactory solution of the ITT expropriation case, and elimination of subsidies.

This raised the issue of the expropriation of ITT property. General Clay asked whether the result of the strategy outlined will not be that the U.S. government will be paying for expropriation of its nationals' property. Mr. May said that we have never explicitly conditioned our aid on settlement of the case. He also pointed out that any U.S. assistance to Brazil will free other resources to pay ITT, but this is unavoidable. Mr. May said that while ITT feels it has received a "good deal" in the settlement, even fair settlement is no solution to the expropriation problem. He agreed with General Clay that the obligation to give adequate compensation simply imposes on the country greater needs for foreign exchange. Primary U.S. policy is and must be to discourage expropriation. However, in Brazil a state governor simply presented us with a *fait accompli* which had to be dealt with.

Mr. May and Mr. Moscoso stated that the Alliance is prescribing very tough medicine for Brazil as a condition of going ahead. While a technical analysis of the Goulart plan has not been completed, Mr. Martin felt that U.S. pressures were having an effect on Brazil, and that there was some hope that assistance would be resumed in the future, so that the 90 day Treasury loan for $30 million could be refinanced. All agreed that this is the only way that loan will be repaid.

F. Coordination of Strategy

General Clay observed that while we are playing the "reluctant dragon" in Brazil, we continue Food for Peace programs there, and the IDB continues to make loans. He wondered whether this does not dilute our efforts. Mr. May agreed, but observed that the IDB did not consider itself able to deny aid to Brazil on these grounds. Further, he said, Food for Peace is in part a response to U.S. need to dump its agricultural surplus, and our programs in this field are affected by pressure from the Agriculture Department. There was agreement that efforts might be made to coordinate IDB's efforts in such cases. Mr. Bell pointed out that because U.S. foreign lending policy is still subject to the arrangements set up at Bretton Woods, there is some confusion as to the division of responsibility for setting U.S. policy on such matters, including use of U.S. voting rights on IDB and similar institutions. Because the Secretary of the Treasury has formal responsibility for such matters, our foreign loan policy and our foreign policy are not always clearly coordinated.

G. Private Enterprise

One issue which was discussed from time to time throughout the session was whether the Alliance is doing enough to improve the climate for U.S. investment in Latin America. Mr. Mason stated that the Latin American governments seem to prefer public funds to private investment, and wondered whether the Alliance should resist these pressures. Mr. Moscoso answered that often the loaning of public funds can be used to induce a greater receptivity to private investment and enterprise. Also, he pointed out that changing the climate for foreign investment takes a great deal of political leadership. Mr. May observed that the first priority in this field was to get fiscal and monetary stability. General Clay cited a dissent from the COMAP report on the Alliance, which indicated dissatisfaction with the speed at which the Alliance was pressing for reforms and investment guaranty agreements. He asked if the U.S. should not be prepared to insist on a favorable climate for U.S. investment as a precondition for assistance. The Alliance cannot succeed without private capital; there must be a point at which we must come in and say to a country, "You just aren't moving fast enough on this."

H. Concluding Observations

Mr. Moscoso raised the issue of export diversification. He said that in many ways this was the real problem of Latin America; that everything else was symptomatic. There is a deep need in the region to build up a manufacturing sector for exports, to reduce dependence on primary products. Worst of all, the Latin Americans are unaware of the problem. Yet the potentials for earning foreign exchange by this path are great.

Two final observations terminated the session. General Clay stressed the need to choose a few countries on which to concentrate our efforts. Mr. May said this was the basic idea of the Alliance to which the Latin American countries subscribe, and that this is exactly how U.S. Alliance funds are programmed.

Mr. Black raised the question whether there is any role for AID in Latin America other than the undesirable one of local currency financing. AID plans to request 600 million dollars in loan funds for Latin America (over and above the Social Progress Trust Fund) for FY 1964. Of these funds, over 50 per cent will go for local currency financing. AID now finances only projects which Ex-Im and the international agencies will not. Their reluctance is usually based on a negative judgment as to the economic soundness of the country, not the project. Thus AID's role is to finance countries and projects which fall outside this class. If AID is really to be completely tough and require complete reforms, not promises, before it makes loans, it will not be able to play that role much longer, for its reluctance will parallel Ex-Im's and IDB's. An uncompromising attitude by the Alliance, therefore, would almost put it out of business. "I don't see how you can put 600 million dollars into Latin America next year on a sound basis", Mr. Black said. Mr. May and Mr. Martin disputed this; they felt that local currency lending can often be defended on its own merits, and that the Alliance can handle jobs, such as that recently done in the Dominican Republic, which the international institutions are incapable of doing.

The Committee adjourned at 6:00 P.M.

II. Executive Session

The Committee convened for executive session at 8:30 P.M. on January 25. David Bell, AID Administrator, was also present.

Mr. Black stated that the "reluctant dragon" approach had worked for the IBRD and that while U.S. aid should not be given merely on the basis of promises, it could be given if steps actually were being undertaken and so long as they were continuing. In such circumstances, aid to Brazil and Argentina would be acceptable. He disagreed with Moscoso, however, that the giving of U.S. funds had eased the way for change and reforms; he thought the withholding of funds to be a better inducement to change and reform. Also, he thought too much aid was going for local currency purposes which the governments could meet themselves if they increased their own resources.

General Clay summarized the tentative conclusions of the Committee, which would serve as a basis for further discussion:

1. The maintenance of an economically healthy, growing Latin America is of the greatest importance to the security of the United States.

2. The use of United States funds to achieve economic stability and stimulate sound growth in the region is an effective means to achieve U.S. objectives.

3. Government funds alone cannot meet the region's needs; private investment is essential and of greater importance to the successful

attainment of growth and stability. Therefore, a more propitious climate for private investment must be created in Latin America. Measures to date to achieve such a climate have not been satisfactory.

4. In providing governmental support to Latin America, we must avoid making loans to finance local currency budgetary needs if this will permit recipient governments to continue unsound fiscal practices.

5. Assistance should be made only upon condition that the recipient governments promise and begin carrying out specific reform measures. If reform measures are taken, continue, and prove successful, assistance should be continued.

6. Assistance for purposes of financing local currency budgetary needs should be phased out within 2-3 years; other members of the Committee and Mr. Bell suggested a shorter period might be feasible. It was also suggested that the Committee might adopt the working position that this form of assistance be terminated within one year and present the proposal to Mr. Moscoso for his reaction. It was agreed that the timing of the termination would depend on whether local currency financing can be stopped now without causing the U.S. to fail to fulfill commitments made at Punta del Este. Mr. Mason thought such funding would be necessary for longer than a 2-3 year period.

7. There is inadequate coordination between United States assistance strategy in Latin America and the actions of the international lending agencies, particularly the Inter-American Development Bank, which is not following U.S. efforts to induce fiscal and other reforms. This situation should be remedied.

General Clay also suggested that it would be helpful to the AID Administrator if an advisory committee of private businessmen and financial experts were established to review the economic soundness of certain kinds of loans or of overall commitments to specific countries. This committee would review all loans made to finance local currency needs or for "political" purposes. The basic idea of such a mechanism, General Clay explained, would be to provide the President and the AID Administrator with an impartial judgment of the economic soundness of loans, to counterbalance political pressures which might be brought to bear upon them to grant the assistance. Mr. Mason agreed with the purpose of the advisory committee, but expressed reservations on the mechanism. Mr. Bell said he would want to consider whether he wanted and needed such a committee. There was general agreement that the economic arguments against "bail-out" operations in Latin America were not being fully heard in the White House. Mr. Black pointed out that U.S. lending policy in the past has hurt the climate for private investment in Latin America by permitting continuation of unsound fiscal and monetary practices. All agreed that the real issue raised by

General Clay's proposal is how the U.S. government can best be organized to evaluate political pressures brought by Latin American countries and U.S. Ambassadors for economic assistance.

General Clay also suggested that more of an effort could be made to place Alliance for Progress loan repayments into a revolving loan fund so that annual appropriations could be reduced and eventually eliminated. It was agreed that such a proposal would require a hardening of loan terms.

Mr. Black felt that if the United States refused to finance budget deficits through local currency loans, there would not be any Alliance for Progress, that Ex-Im, IBRD, IDA and IDB could meet the region's needs for foreign exchange. Mr. Mason disputed this diagnosis; he felt that Latin America would continue to need substantial sums in foreign exchange which should be made available through the Alliance for Progress on a "program" loan basis. Mr. Black questioned the wisdom of program lending as a device for making external assistance available.

General Clay suggested consideration of reducing country offices and having more regional offices in Latin America.

The Committee decided that it would present its conclusions to the Alliance staff and discuss with them the issues raised. Mr. Bell felt that they should be specifically requested to submit a memorandum on the amounts of and reasons for local currency financing in the next year.

The Committee adjourned at 10:00 P.M.

III. Improving the Climate for U.S. Private Investment in Chile

The Committee convened at 10:30 A.M. on January 28 to take up this subject in connection with the recent loan to Chile. Deputy U.S. Coordinator Graham Martin, Deputy Director of West Coast Affairs Ragnar Arnesen, Department of State Chile Desk Officer Ralph Richardson, and Special Assistant to the U.S. Coordinator Glen Lucas represented the Alliance for Progress. AID Administrator David Bell was also present.

General Clay pointed out that the Alliance for Progress could not meet its economic goals unless there was a significant increase in the pace of U.S. private investment in Latin America and that the Alliance specifically recognizes the need to stimulate this investment. He felt Chile is a country where this policy must be tested. There is substantial U.S. private investment there, but in recent years the investment climate has seriously deteriorated, primarily for two reasons: (1) Chile has imposed an excessive tax burden on U.S. copper companies, and (2) the Government has taken no steps to relieve a very turbulent labor situation. The General observed that the U.S. has just made a major commitment to Chile, and asked what steps had been taken in connection with this commitment to improve the climate for private U.S. investment.

Mr. Arnesen replied that AID's $35 million portion of the total $60 million U.S. commitment to Chile is not linked to specific measures to improve the private investment climate. However, he pointed out, the loan was conditioned on Chile's entry into and continued eligibility under an IMF Standby Agreement. Thus the loan is leading to stabilization of the exchange and monetary situation. The loan is also tied to continued progress on tax reform and the resultant generation of a current budgetary surplus. These measures, he said, would create a more favorable economic climate in Chile.

Mr. Arnesen described the Chile package in more detail. The IMF, he said, is making available $40 million, AID $35 million, Ex-Im $15 million, and the U.S. Treasury $10 million. He also indicated that the Chileans were negotiating a $25 million loan from the New York banks, which would be repayable in 2 years. The AID and Ex-Im loans are program--balance of payments--loans, not tied to specific projects. The Ex-Im loan is conditioned upon Chilean drawings from the IMF, and in this respect is slightly "tougher" than the AID loan which requires only continual eligibility to draw.

The AID loan will be disbursed in quarterly tranches, these to be keyed to successful achievement by Chile of a specific surplus on its current budget. To achieve this goal, the Chileans will have to pass the tax reforms now before their Congress. None of these loans, however, is tied to a satisfactory conclusion of negotiations between Chile and the U.S. copper companies.

Mr. Richardson traced the history of the U.S. copper companies' difficulties in Chile. Troubles in Chile caused in part by U.S. price controls on copper during the Korean war led the Chilean government to take over control of copper sales, with disastrous results. There was also talk of expropriation. In 1954 the companies and the Government worked out an understanding, reflected in the Copper Law of 1955. Under this law, the control of sales was returned to the companies. A basic tax rate of 50% was imposed, with a surtax of 25%. A base production figure was set up, and under the law, the companies could reduce the surcharge by increasing their production above this base figure. (Until 1961, they had successfully done this.) A further agreement was reached that the companies did not have to return to Chile the dollars they earned abroad, except to pay taxes and local operating costs. As a result of this agreement, Anaconda made a large investment. In 1961, however, the companies again came under heavy political attack, since the Chilean budget deficit was quite large. In part, however, this pressure came from and was justified by conservatives in Chile, who, smarting under pressure from the U.S. for land and tax reform, under the Alliance for Progress pointed to the copper companies and said: "If we have to make these sacrifices, they should suffer too." In 1961, the Chileans imposed an 8% and a 5% additional special taxes on the companies, putting the tax burden in the case of Anaconda over 80%.

Down to 1961, the companies (Kennecott and Anaconda) had dealt with the Chileans together. Now Anaconda is going off on its own. The President of Anaconda has recently been talking to the Chileans, including President Alessandri. The Company is willing to invest $83 million in Chile over several years, in return for tax guarantees, and other concessions. The Chileans seem willing to grant these but are insisting on increases in production. Kennecott has not participated in these negotiations but had an observer in Chile. The Kennecott position has been tougher than Anaconda's—they want full repeal of the 1961 taxes, which the Chileans won't agree to unless Kennecott invests $200 million.

General Clay asked whether the recent $60 million U.S. loan to Chile has not simply allowed the Chileans to continue dragging their heels in the negotiations and thus maintain their present treatment of the companies, and generally to postpone efforts needed to improve the investment climate. Mr. Martin, while not specifically disputing the General's contention, observed that the risk that the loan would have such an effect must be weighed against the U.S. need to influence the present day political situation in Chile. Only if the risk that a communist government will be elected in 1964 is minimized is there any hope that in the long run the climate in Chile will be favorable for U.S. private investment. Mr. Martin reviewed a recent policy paper concerning the U.S. aid program in Chile on the problem of private investment there. The paper takes the position that in Chile the U.S. must continue to put pressure on the government to maintain both public and private investment levels. Specifically, this will require:

1. Pressure on the government to generate public resources for investment;

2. Solution of the tax and other issues in the dispute between the government and the copper companies;

3. Conclusion of the present negotiations for an extended risk investment guaranty;

4. Stimulation of the domestic private sector, including pressure for anti-monopoly legislation.

He added that, in view of the forthcoming 1964 election in Chile, it was hoped that measures could be taken by the U.S. to put more of a Chilean "cast" on the copper investments. It was hoped that a high-level U.S. committee could be set up to examine measures which might have this effect.

Mr. Black asked how the amount and composition of the $60 million loan package had been decided. Mr. Arnesen explained that the total amount had been based on several analyses of the foreign exchange and local currency needs of Chile in the next year. Mr. Martin stated that the contribution of the various U.S. agencies had been arrived at by negotiation, but that no formal mechanism exists through which such questions are decided.

General Clay and Mr. Bell asked what measures the U.S. government has taken to affect a settlement of the dispute with the copper companies. Mr. Black said that in the summer, U.S. Ambassador to Chile, Charles Cole, called him and asked if the IBRD could exert some pressure on the Chilleans to get them to recognize the central role which expansion of copper production must play in their economic program. This was done, Mr. Black explained, in the IBRD report on the Chilean Plan. Mr. Richardson added that in the talks held with President Alessandri recently this issue was repeatedly stressed. Both President Kennedy and Acting Secretary of State Ball spent a great deal of time on this subject in their meetings with Mr. Alessandri. Thus, he summarized, the United States Government has launched a four-pronged attack on the problem of the U.S. copper companies, by:

1. Constant negotiations by the Department of State aimed at elimination of the special 1961 taxes;

2. A request that the IBRD put pressure on the Chileans which would lead them to resolve the dispute;

3. Direct pressures by high U.S. officials, including the President and Mr. Ball, on Alessandri;

4. Measures, including establishment of a high-level task force, to give the companies a more Chilean appearance.

General Clay asked whether the Foreign Assistance Act forbids aid to countries who have not signed Investment Guaranty Agreements with us. Mr. Bell said that it did not, and that about 50% of the countries to which we give assistance have not as yet signed such agreements.

The Special Proceedings on Chile ended at 11:00 A.M.

David Trubek
Secretary