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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

SECRET/LIMDIS

August 18, 1971

MEMORANDUM FOR

The Under Secretary of State
The Deputy Secretary of Defense
The Chairman, Joint Chiefs of Staff
The Director of Central Intelligence

SUBJECT: US Policy in the Caribbean

At the Senior Review Group meeting held on 17 August 1971, to consider the response to NSSM 117, it was agreed that the NSC Interdepartmental Group for Inter-American Affairs should prepare a brief supplementary paper addressing, on a country-by-country (or appropriate grouping) basis, the political and security aspects of US relations with the countries and dependencies in the Caribbean. The paper should, inter alia, identify as specifically as possible likely political developments and trends in those countries in the next three to five years which could significantly affect US interests. It should identify options open to the United States, and specific actions which should be taken to protect and further US interests.

The paper should be submitted no later than September 3, 1971.

Henry A. Kissinger

cc: Assistant to the President for
International Economic Affairs
Assistant Secretary of the Treasury
for International Affairs

SECRET/LIMDIS

33406

UNITED STATES INFORMATION AGENCY
WASHINGTON

DIRECTOR

October 6, 1971

MEMORANDUM FOR: The Honorable
Henry A. Kissinger
The White House

Unless you have an objection, I plan to attend the Senior Review Group meeting Thursday at 3:00 dealing with Latin America and the Caribbean.

Frank Shakespeare

NSC CORRESPONDENCE PROFILE

DOC MO DA	RECD MO DA HR	LOG NBR	INITIAL ACTION OFF
10 06	10 06 18	33406	DAVIS

DOC SOURCE/CLASS/DESCRIPTION

TO: PRES ____ KISSINGER X HAIG ____

FROM: ELIOT ____ ROGERS, W ____ LAIRD, M ____ SHAKESPEARE

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SUBJECT: Coming to the SRG Meeting, Oct 7 on Latin America.

REFERENCE: S/S ____ OTHER ____ NOT XEROXED ____

APP'TS: PRES ____ HAK ____ TALKER ____ MEMCON ____ DATE REQ. ____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION

	ACTION	INFO	REC CY FOR
ADVANCE CYS TO HAK/HAIG		X	
STAFF SECRETARY	X		
FAR EAST			
SUB-SAHARAN AFRICA			
NR EAST/NORTH AFRICA			
EUROPE/CANADA			
LATIN AMERICA		X	
UNITED NATIONS			
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LR PLANNING			
PROGRAM ANALYSIS			
NSC PLANNING		X	
CONGRESSIONAL			

ACTION REQUIRED

MEMO FOR HAK ..... ( )
MEMO FOR PRES. ..... ( )
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RECOMMENDATIONS ..... ( )
JOINT MEMO ..... ( )
REFER TO STATE ..... ( )
ANY ACTION NECESSARY ..... (X)
CONCURRENCE ..... ( )
DUE DATE: 10/6

COMMENTS: *(Including Special Instructions)*

INTERNAL/INTERIM ROUTING

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DISPOSITION

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SPECIAL DISPOSITION COMMENTS: ____

SUSPENSE CY ATTACHED: YES ____ NO ____

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NSC CORRESPONDENCE PROFILE

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DOC SOURCE/CLASS/DESCRIPTION

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SUBJECT: STATE CABLE Coming to the SRG Meeting, Oct 7 on Latin America.

REFERENCE: S/S ____ OTHER ____ NOT XEROXED ____

APP'TS: PRES ____ HAK ____ TALKER ____ MEMCON ____ DATE REQ. ____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION

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NR EAST/NORTH AFRICA			
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LATIN AMERICA		X	
UNITED NATIONS			
ECONOMIC			
SCIENTIFIC			
LR PLANNING			
PROGRAM ANALYSIS			
NSC PLANNING		X	
CONGRESSIONAL			

ACTION REQUIRED

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MEMO FOR PRES. ..... ( )
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ANY ACTION NECESSARY ..... (X)
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DUE DATE: 10/6

COMMENTS: *(Including Special Instructions)*

INTERNAL/INTERIM ROUTING

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SPECIAL DISPOSITION COMMENTS: ____

SUSPENSE CY ATTACHED: YES ____ NO ____

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★ GPO: 1971—412-412

31355

MEMORANDUM

NATIONAL SECURITY COUNCIL

August 10, 1971

MEMORANDUM FOR: GENERAL HAIG

FROM: Jeanne W. Davis

SUBJECT: Attendance at SRG Meeting on Latin America, Friday, August 13, 4:00 p.m.

In June, when this meeting was first scheduled, you approved inviting AID, Treasury, OPIC, and, if they asked, USIA. You disapproved Commerce and Agriculture on the basis of Arnie Nachmanoff's belief that neither would have much to contribute.

We have invited the four agencies you previously approved. (USIA subsequently asked to attend.) Commerce, however, has again asked to send a representative. Arnie Nachmanoff now believes it would not be good tactics to try to exclude Commerce. Although he still thinks they would have little to offer, he believes that Secretary Stans is ready to press hard for Commerce representation, as he did at the recent SRG meeting on expropriation. Commerce apparently is particularly concerned about some aspects of the NSSM 117 study on the Caribbean, which has been added to the agenda of Friday's meeting.

Nachmanoff also recommends that we invite Mr. Peterson of CIEP to attend, since a number of economic topics of interest to him may be discussed.

Could we have your guidance:

	Yes	No
Commerce	✓	
CIEP	✓	

NSC CORRESPONDENCE PROFILE

DOC MO	DOC DA	RECD MO	RECD DA	RECD HR	LOG NBR	INITIAL ACTION OFF
8	10	8	10	14	31355	

X

DOC SOURCE/CLASS/DESCRIPTION

TO: PRES ____ KISSINGER ____ HAIG X

FROM: ELIOT ____ ROGERS, W ____ LAIRD, M ____ DAVIS

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NO FORN ____ BUO ____ EYES ONLY ____ CODE WORD ____ SENSITIVE ____

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SUBJECT: Commerce & CIEP Attendance at SRG Mtg on Aug 13 re LA

REFERENCE: S/S ____ OTHER ____ NOT XEROXED ____

APP'TS: PRES ____ HAK ____ TALKER ____ MEMCON ____ DATE REQ. ____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION

	ACTION	INFO	REC CY FOR
ADVANCE CYS TO HAK/HAIG	■		
STAFF SECRETARY			X
FAR EAST			
SUB-SAHARAN AFRICA			
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EUROPE/CANADA			
LATIN AMERICA			X
UNITED NATIONS			
ECONOMIC			X
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PROGRAM ANALYSIS			
NSC PLANNING			X
CONGRESSIONAL			

ACTION REQUIRED

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ANY ACTION NECESSARY ..... (____)
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DUE DATE:

COMMENTS: *(Including Special Instructions)*

INTERNAL/INTERIM ROUTING

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8/10	Davis	Haig	X	Decision (ASAP) by pass	
8/12				Haig Approved Recon	

DISPOSITION

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SUSPENSE CY ATTACHED: YES ____ NO ____

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★ GPO: 1971—412-412

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MEMORANDUM

NATIONAL SECURITY COUNCIL

SECRET

ACTION

June 18, 1971

MEMORANDUM FOR: DR. KISSINGER

FROM: Arnold Nachmanoff

SUBJECT: Grant MAP Materiel Program in Latin America in FY 1971

One of the issues scheduled for the now postponed SRG meeting on Latin America has some time urgency since it must be resolved before the end of the fiscal year. The issue is whether or not we will have a Grant MAP Materiel Program for Latin America in FY 1971.

In April, the IG/ARA unanimously voted to approve a Grant MAP Materiel Program for six Latin American countries. This was consistent with the President's desire to increase influence with the Latin American military. However, subsequently criticism on the Hill of the President's decision to waive the $75 million military sales ceiling for Latin America led Under Secretary Irwin to reverse the IG decision, except for the case of Bolivia (and only then after the urgent cables from Ambassador Siracusa).

In order to keep the issue in the NSC system, Meyer sent a notice to IG Members indicating that he would reverse his position and indicated that IG principals could appeal to the NSC Under Secretaries Committee. Because of the time pressure, I proposed that you raise this in the SRG meeting on Latin America, where a similar issue for FY 1972 would be discussed. With the SRG meeting postponed, I now suggest that you call Irwin and tell him that you do not agree with this decision. The FY 1971 MAP money has already been appropriated and is available for use in Latin America. We do not think it is necessary to cave to Congressional criticism on this issue. Our intention to carry out a Grant MAP Materiel Program in Latin America was made known to the Congress when we sought the appropriation. You may wish to indicate that the President feels strongly about being helpful to the military in friendly Latin American countries.

RECOMMENDATION:

That you call Under Secretary Irwin soon and suggest that we go forward with a Grant MAP Materiel Program in FY 1971 for the six Latin American countries.

Approve AR Called _____

Disapprove _____

Attachment:

IG Memo 7 June 1971

SECRET

NSC-IG/ARA Information Memo #164
June 7, 1971

INTERDEPARTMENTAL GROUP FOR INTER-AMERICAN AFFAIRS

SUBJECT: FY 71 Grant MAP Materiel

Following a review of the provisional 1971 grant MAP materiel allocations for eleven countries made in 1969 by the IG/ARA in the course of the FY 71 CASP cycle, the IG/ARA agreed on April 15, 1971 that FY 71 funds for Latin America should be apportioned at agreed levels among six countries (Dominican Republic, Guatemala, Panama, Uruguay, Paraguay, and Bolivia).

Upon reconsideration of this decision, the Executive Chairman of the IG/ARA has now determined that, with the exception of Bolivia, no FY 71 grant MAP materiel allocations will be made. It is understood that IG/ARA principals who wish to contest the Executive Chairman's decision may raise their positions before the Under Secretary's Committee.

Donald B. Easum

Donald B. Easum
Staff Director

IG/ARA:DBE:agr

NSC CORRESPONDENCE PROFILE

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6	18	6	19	09	29676	

DOC SOURCE/CLASS/DESCRIPTION

TO: PRES _____ KISSINGER X HAIG _____

FROM: ELIOT _____ ROGERS, W _____ LAIRD, M _____ NSC MEMO OFF

U _____ LOU _____ C _____ S X TS _____

LOG IN/OUT ONLY

NO FORN _____ BUO _____ EYES ONLY _____ CODE WORD _____ SENSITIVE _____

NODIS _____ EXDIS _____ LIMDIS _____ RES DATA _____

SUBJECT: Grant Map material Program for Latin America in Fy '71

REFERENCE: S/S _____ OTHER _____ NOT XEROXED _____

APP'TS: PRES _____ HAK _____ TALKER _____ MEMCON _____ DATE REQ. _____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION

	ACTION	INFO	REC CY FOR
ADVANCE CYS TO HAK/HAIG	■		
STAFF SECRETARY			
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EUROPE/CANADA			
LATIN AMERICA			X
UNITED NATIONS			
ECONOMIC			
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LR PLANNING			
PROGRAM ANALYSIS			
NSC PLANNING			
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ACTION REQUIRED

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FOR DISTRIBUTION/DISPATCH ..... (_____)
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RECOMMENDATIONS ..... (_____)
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ANY ACTION NECESSARY ..... (_____)
CONCURRENCE ..... (_____)
DUE DATE:

COMMENTS: *(Including Special Instructions)*

INTERNAL/INTERIM ROUTING

DATE	FROM	TO	S	ACTION REQUIRED	CY TO
6/18	NSC	HAK	X	Decision	
JUN 21 1971				HAK app'd recom.	
6/21	HAK	NSC	S	Further Action ? (6/23)	
6/21	NSC	~~HAK~~ NSC/S		No further action	

DISPOSITION

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SEE LOG _____ DISPATCH: LETTER/MEMO ✓

JOINED BY LOG _____ COPIES: (AS MARKED ABOVE) _____

SPECIAL FILE RQMT: ____ SA, ____ HP, ____ HM

SPECIAL DISPOSITION COMMENTS: _____

SUSPENSE CY ATTACHED: YES ____ NO ✓

MICROFILM DATA

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★ GPO: 1971—412-412

29378

MEMORANDUM

NATIONAL SECURITY COUNCIL

ACTION

June 14, 1971

MEMORANDUM FOR GENERAL HAIG

FROM: Jeanne W. Davis

SUBJECT: ACDA Attendance at SRG Meeting on Latin America (NSSM 108)

ACDA (Phil Farley) has now asked to attend the SRG meeting on Latin America on Thursday, June 17. This is already a very large meeting, with representatives from AID, Treasury, USIA and OPIC added to the regular membership. You will remember you turned down attendance bids from Commerce and Agriculture at the time you approved those above.

Arnie Nachmanoff notes that ACDA's interest is confined to a recommendation in the Security/Military section of the paper (the last of seven) that ACDA, in cooperation with the IG/ARA, conduct a study of the feasibility of a possible arms limitation initiative. Arnie doubts that it will be considered in any detail at the SRG and questions the necessity of adding ACDA to the already swollen attendance.

ACDA apparently feel strongly about this, and Gerry Smith may make an issue of it with Mr. Kissinger if they are refused.

Approve ACDA Attendance ____

Disapprove ✓

Clearance: Mr. Nachmanoff

MEMORANDUM

NATIONAL SECURITY COUNCIL

ACTION 29378

June 11, 1971

MEMORANDUM FOR GENERAL HAIG

FROM: Jeanne W. Davis

SUBJECT: Attendance at SRG Meeting on Latin America (NSSM 108)

AID, Treasury, Commerce, Agriculture, and OPIC (Overseas Private Investment Corporation) have asked to send representatives to the SRG meeting on Latin America (NSSM 108). USIA is also expected to want to attend, but has not yet asked.

Arnie Nachmanoff favors inviting AID, OPIC and Treasury, and has no objection to USIA if they ask. However, he thinks that Agriculture and Commerce would have little to contribute to this meeting.

	Yes	No
AID	✓	
Treasury	✓	
OPIC	✓	
Commerce		
Agriculture		
USIA, if they ask	✓	

NSC CORRESPONDENCE PROFILE

DOC MO	DOC DA	RECD MO	RECD DA	RECD HR	LOG NBR	INITIAL ACTION OFF
06	11	06	11	14	29378	

DOC SOURCE/CLASS/DESCRIPTION

TO: PRES ____ KISSINGER ~~X~~ HAIG X

FROM: ELIOT ____ ROGERS, W ____ LAIRD, M ____

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LOG IN/OUT ONLY ____

NO FORN ____ BUO ____ EYES ONLY ____ CODE WORD ____ SENSITIVE ____

NODIS ____ EXDIS ____ LIMDIS ____ RES DATA ____

Davis

SUBJECT: Attendance at SRG Meeting on Latin America (NSSM 108)

REFERENCE: S/S ____ OTHER ____ NOT XEROXED ____

APP'TS: PRES ____ HAK ____ TALKER ____ MEMCON ____ DATE REQ. ____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION	ACTION	INFO	REC CY FOR
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SUB-SAHARAN AFRICA			
NR EAST/NORTH AFRICA			
EUROPE/CANADA			
LATIN AMERICA			X
UNITED NATIONS			
ECONOMIC			
SCIENTIFIC			
LR PLANNING			
PROGRAM ANALYSIS			
NSC PLANNING			X
CONGRESSIONAL			

ACTION REQUIRED

MEMO FOR HAK ..... ( )
MEMO FOR PRES. ..... ( )
REPLY FOR ____ SIGNATURE ..... ( )
FOR DISTRIBUTION/DISPATCH ..... ( )
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REFER TO STATE ..... ( )
ANY ACTION NECESSARY ..... ( )
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DUE DATE:

COMMENTS: *(Including Special Instructions)*

INTERNAL/INTERIM ROUTING

DATE	FROM	TO	S	ACTION REQUIRED	CY TO
06/11	NSC	HAIG	X	Decision (06/14)	
JUN 14 1971				Haig Decision Attached	
06/14	HAIG	DAVIS	S	Noted, agrees (06/15)	
6/14/71	Davis	Guthrie		Notified DAID, Treasury, OPIC	
6/14	DAVIS	HAIG	X	Decision / Addl Davis Memo (6/15)	
6/15				Haig Disapproved Recom	

DISPOSITION

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SPECIAL DISPOSITION COMMENTS: ____

SUSPENSE CY ATTACHED: YES ____ NO ____

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★ GPO: 1971—412-412

29418

UNITED STATES INFORMATION AGENCY
WASHINGTON

DIRECTOR

June 11, 1971

MEMORANDUM FOR: The Honorable
Henry A. Kissinger
The White House

Latin American China

The Review Group meetings scheduled for June 18 and June 28 are on subjects that are of concern to USIA. Unless you disapprove, I plan to attend both of these meetings.

There are several matters I would like to discuss with you and would appreciate the opportunity of having breakfast with you on a convenient morning.

Frank Shakespeare

invited to LA meeting 6/17; will consider China closer to meeting time 6/29

Frank Shakespeare
UNITED STATES INFORMATION AGENCY
OFFICE OF THE DIRECTOR
WASHINGTON, D. C. 20547

BY MESSENGER

The Honorable
Henry A. Kissinger
The White House

NSC CORRESPONDENCE PROFILE

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FROM: ELIOT ____ ROGERS, W ____ LAIRD, M ____ SHAKESPEARE, F

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SUBJECT: Request for Attendance Approval for USIA Shakespeare at the June 18 & 25 Review Group Mtgs

REFERENCE: S/S ____ OTHER ____ NOT XEROXED ____

APP'TS: PRES ____ HAK ____ TALKER ____ MEMCON ____ DATE REQ. ____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION

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ADVANCE CYS TO HAK/HAIG			
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SUB-SAHARAN AFRICA			
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EUROPE/CANADA			
LATIN AMERICA			
UNITED NATIONS			
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SCIENTIFIC			
LR PLANNING			
PROGRAM ANALYSIS			
NSC PLANNING		X	
CONGRESSIONAL			

ACTION REQUIRED

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MEMO FOR PRES. ( )
REPLY FOR ____ SIGNATURE ( )
FOR DISTRIBUTION/DISPATCH ( )
MEMO ____ TO ____ ( )
RECOMMENDATIONS ( )
JOINT MEMO ( )
REFER TO STATE ( )
ANY ACTION NECESSARY ( )
CONCURRENCE ( )
DUE DATE: 6/15

COMMENTS: *(Including Special Instructions)*

INTERNAL/INTERIM ROUTING

DATE	FROM	TO	S	ACTION REQUIRED	CY TO
6/14	DoD	Vects		USIA invited to SRG mtg on Latin America 6-17; will consider request to attend mtg on China scheduled for 6/29	
6/14				Handled by DAVIS	

DISPOSITION

CROSS REF WITH ____ NOTIFY ____ DATE ____

SEE LOG ____ DISPATCH: LETTER/MEMO ____

JOINED BY LOG ____ COPIES: (AS MARKED ABOVE) ____

SPECIAL FILE RQMT: ____ SA, ____ HP, ____ HM

SPECIAL DISPOSITION COMMENTS: ____

SUSPENSE CY ATTACHED: YES ____ NO ✓

MICROFILM DATA

DO ____ INIT ____ DATE JUN 17 1971

ORIG) NSC ____ TO) PAF ____ WHC ____ SUBF ✓

★ GPO: 1971—412-412

MEMORANDUM

NATIONAL SECURITY COUNCIL

August 11, 1971

MEMORANDUM FOR: GENERAL HAIG

FROM: Jeanne W. Davis

SUBJECT: Budget Attendance at SRG on Latin America, Friday, August 13

Budget has now joined the list of agencies asking to attend this meeting. They want to send Kenneth Dam. Arnie Nachmanoff recommends that we approve his attendance. Could we have your guidance:

OMB may attend Let all Counts (pw Shultz

OMB may not attend _____

17 Aug. 1971

MEMORANDUM

NATIONAL SECURITY COUNCIL

SECRET

ACTION
11 August 1971

MEMORANDUM FOR: DR. KISSINGER

FROM: ARNOLD NACHMANOFF

SUBJECT: SRG Meeting on NSSM 117 --The Caribbean

The SRG is scheduled to take up NSSM 117 (review of US policy in the Caribbean area) right after its review of NSSM 108 (Latin America) on Friday afternoon, August 13. Although it is a lengthy document, the Study presents few issues which require SRG discussion. An Analytical Summary of the paper is tabbed, and the paper itself contains an Overview section which you may wish to review.

The basic thrust of the paper is:

-- That our interests in the Caribbean are more direct and intense than they are in other parts of Latin America. This results from the region's geographic position (proximity to the US, astride access routes to the Panama Canal), our requirements for access to strategic materials, particularly bauxite and oil, and our requirements for military facilities (mostly for anti-submarine warfare and scientific or navigational purpose).

-- Our interests will be increasingly challenged or threatened in the next few years by rising nationalism (economic, racial and anti-US), by the growth of Soviet military presence in the region, by the prospect of British disengagement, and by the general instability resulting from frustration with the slow pace of economic and social progress.

The Study proposes a series of recommendations for limiting or responding to these threats to our interests. These are summarized on pages 3-8 of the Analytical Summary. Most of the recommendations concerning nationalism, British disengagement, Soviet military activity and US bases are non-controversial and probably can be approved with little or no discussion. With regard to British disengagement, one question you may wish to raise is whether it would be tactically useful to make a high-level (possibly Presidential) approach to the British to encourage their continued

presence in the Caribbean as long as possible. With regard to Soviet military activity, the IG endorses the recommendation it made in NSSM 108 that we study the need for increased surveillance and increased ASW capability in the Caribbean. In light of the gaps we had in tracking Soviet submarines in the Caribbean during the past year, I suggest that you strongly endorse such a study. With regard to US bases, there is no immediate threat, but the IG recommends that we be prepared if necessary to make base rights payments. This is one you may wish to flag for Treasury and OMB.

There are two general issues which should be discussed by the SRG. The first is the question of bauxite, which is summarized on pages 5-7 of the Analytical Summary.

BAUXITE: Guyana's Prime Minister Burnham's nationalization of DEMBA, a Canadian subsidiary, and his apparent intention to nationalize Reynolds (US owned) has raised concern that Jamaica--where US bauxite investments approach $1 billion, with about one-half guaranteed by OPIC--will follow Burnham's example. It is clearly not in our interest to see Burnham successfully organize an efficient state bauxite enterprise if we want to deter further nationalization by Jamaica. On the other hand, we don't want Burnham to fail so badly that he would be replaced by more extremist elements such as Cheddi Jagan, a Marxist clearly tied to Moscow. The issue then is how to balance between deterring further bauxite nationalization in Jamaica (and Surinam) and pushing Guyana into Marxist hands.

The NSSM 117 Study divides the issue into a number of options and recommendations towards Guyana, towards Jamaica, towards the companies, etc. The course recommended by the IG is essentially a middle option. I do not think it is necessary for the SRG to discuss this in any detail because (a) there are no serious agency differences, and (b) the problem is no longer an immediate one, since Burnham agreed to a compensation settlement with DEMBA and has indicated that he will not move against Reynolds before 1972 at the earliest.

Hence, I suggest that the SRG endorse the general approach recommended by the IG (which in fact is the one being pursued at the present time) and turn this issue over to the new CIEP mechanism which will be charged with handling expropriation problems.

TRADE: (summarized on pages 7-8 of the Analytical Summary). In view of the importance of our interests in the Caribbean and heavy dependence of the region on external trade, the Study recommends that we try to find ways to strengthen the trading capacity of the Caribbean countries. The recommendations are essentially innocuous, but--as with most trade issues these days--subject to considerable inter-agency disagreement.

I suggest that you:

-- avoid a bureaucratic debate on the merits of the specific recommendations;

-- seek agreement on the broad proposition that we ought to try to do something for the Caribbean countries in the way of economic benefits;

-- propose that a Working Group be established to study the possibilities of providing additional economic help to the region.

Your talking points (tabbed) proceed along the lines suggested above.

cc: Bob Hormats
Col. Kennedy

TALKING POINTS

SECRET

HAK TALKING POINTS
NSSM 117

TO OPEN THE MEETING

-- We are now going to take up a more specific aspect of our Latin American policy, the Caribbean.

-- If I understand it correctly, the NSSM 117 paper suggests that our interests in the Caribbean are more direct and intense than they are in other parts of Latin America because of the region's geographic position, our requirements for access to strategic materials (particularly bauxite and oil) and our requirements for military facilities.

-- The paper suggests that there is an increasing threat or challenge to our interests resulting from rising nationalism (both racial and economic), the growth of Soviet military presence in the region, the prospect of British disengagement, and general instability resulting from frustration with the pace of development.

-- Is this a fair assessment? [Ask State and CIA]

TO DISCUSS THE ISSUES

-- The paper proposes a series of recommendations for limiting these threats to our interests. These are grouped under six headings--Nationalism, Private Investment, Disengagement, Soviet Military Activities, US Bases, Economic Problems. Frankly, I think we can skim through most of these and concentrate on those issues which require some action.

SECRET

1. Nationalism: -- Are there any problems or disagreements with recommendations?

   (The paper recommends increasing our USIA programs in the English-speaking Caribbean. USIA may point out that budget cuts may force a reduction of its programs in the area. If so, you may wish to suggest that USIA and OMB see if some relief can be given, since it would be helpful to expand USIA programs in the area.)

2. British Disengagement: -- The paper stresses the value of a continued British role in the area for as long as possible. Is there any disagreement that we should try to prolong our "free ride" as long as possible?

   -- Would a high-level approach to the British on this point be useful?

3. Soviet Military Activities: -- The question of Soviet naval and air deployments in the Caribbean is essentially a matter of US-Soviet relations. However, the paper does raise a question of whether we need to increase submarine surveillance and ASW in the area.

   -- I recall that our tracking record on subs in this area has not been outstanding. [Ask DOD and JCS] Can we move quickly on the study that is proposed?

4. US Bases: -- Are there any problems here? I note the recommendation that we be prepared to make "base rights" payments if necessary. [To Treasury and OMB] I trust we will have all the cash we need when the Bahamans follow in Malta's footsteps?

5. Bauxite: -- The problem here is that Guyana's nationalization action casts a shadow over US investments in Jamaica and Surinam, though it would not necessarily limit our access to bauxite.

-- The real issue seems to be how do we discourage Jamaica from following Guyana's example without taking measures which lead to a communist (Cheddi Jagan) government in Guyana. [Ask Irwin for his comments]

-- Since the time pressure is off--with the Demba settlement in Guyana--shouldn't CIEP's new expropriation mechanism look at this issue? I doubt that we would want to consider this issue apart from our broader expropriation problem in any case. [Ask Peterson to comment]

-- Is there general agreement that in the meantime, we should pursue the course recommended by the IG?

(We think there will be agreement.)

6. Economic Issues (Trade and Aid): -- The study suggests that in in view of the importance of our interests in the Caribbean and the heavy dependence of the region on external trade, we should try to find ways to cooperate to strengthen the trading capacity of the Caribbean countries. Although there are quite a few recommendations, most of them involve further study or some other waffle.

-- Nevertheless, I understand there are objections to some of the proposals which have been made.

(Treasury objects to reducing the duty on rum, and Commerce believes we should not even consider the option of studying modification of our textile policy to see if some additional benefits could be given to the Caribbean.)

-- I do not think it would be useful for this group to debate the merits of these specific proposals.

-- Can we agree on the broad proposition that--in view of our interests--we ought to try to do something for the Caribbean countries in the way of economic benefits. (This might encompass both trade and aid). If so, could we establish a special working group to study specific possibilities and come up with some actions we can take or, if necessary, recommendations for the President.

(You may wish to ask Peterson if he would like to handle this under CIEP.)

[You may wish to conclude the meeting by noting that the SRG has approved most of the recommendations in the study, and that there do not seem to be any issues which require Presidential decision at this time.]

ANALYTICAL SUMMARY

ANALYTICAL SUMMARY

NSSM 117: U.S. Policy in the Caribbean Area

Introduction and Terms of Reference

NSSM 117 directed the preparation of a comprehensive review of U.S. policies and programs in the Caribbean area. It called for identification of U.S. interests, and recommendations on how best to advance or protect these interests in light of such factors as:

-- pressure against foreign bauxite interests in the area;

-- the U.K.'s intention to disengage;

-- the interest of some Caribbean governments in regularizing relations with Cuba;

-- the growth of black nationalism in the region;

-- increased Soviet military activities.

The scope of the NSSM 117 Study is confined to the non-U.S. Caribbean islands excluding Cuba (and, for the most part, Haiti), plus British Honduras, Guyana, and Surinam. The primary focus is on the English-speaking territories.

The paper begins with an overview [which you may want to look at] followed by sections on U.S. interests, the current policy environment, U.S. involvement in the area, major policy issues, and recommendations for U.S. policy. Nine annexes provide statistical and descriptive back-up material.

This paper summarizes the study, with our views indicated in brackets.

U.S. Interests

The paper considers the NSSM 108 statement of interests "generally valid" as regards the Caribbean. [You may want to refer to the NSSM 108 Summary.] Of particular importance, given the area's proximity to the U.S., are:

-- denying the region as an area from which a strategic attack could be launched against the U.S. (considered "very important" in NSSM 108);

-- continued access to naval and air bases and facilities, and denial to hostile powers of Caribbean bases which would enhance their non-strategic capabilities.

Other NSSM 108-derived interests of direct relevance in the Caribbean include: maintenance of access to the Panama Canal and continued access to bauxite and petroleum resources.

In general, our high degree of exposure in the Caribbean (trade, tourism, investment), our historic involvement there, and close proximity to the area combine to magnify the importance of our broader hemispheric interests. [We share this judgment and would add that the same factors tend to magnify the threats to our interests.]

The paper argues that until recently our attention has been concentrated heavily in the independent Latin Caribbean, and that we need to "give more careful consideration" to our more important interests in the newly and nearly independent British, Dutch, and French areas. Among the specifically Caribbean objectives deriving from our interests are:

-- to avoid the emergence of a series of non-viable independent mini-states with reference especially to the (British) Associated States and the Netherlands Antilles;

-- to encourage economic regionalism among the Commonwealth Caribbean countries;

-- to keep the U.K., France, and the Netherlands involved in the security and economic spheres as long as possible and to encourage them to work for an orderly transition to independence;

-- to encourage increased Canadian involvement in the area;

-- to encourage the fullest possible participation of the non-Latin areas in the Inter-American system;

-- to prevent Cuban subversion directed at its Caribbean neighbors.

Major Issues and Recommendations

[Although all the issues cited in the Study are important, we think you may want to concentrate the discussion on two issues which pose or soon will pose policy choices and could cause inter-agency differences: the potential threat to U.S. bauxite investments and the overall economic problems of the area.

A. Nationalism

The growth of racial and economic nationalism poses a major problem in advancing and protecting U.S. interests, starting with investment but potentially affecting our entire position in the region. The problem is compounded in the Caribbean by our relatively high visibility; the narrow economic potential of many areas; and the black power dimension, with its linkages to the U.S. domestic scene, which could pose a long-run challenge to existing governments, institutions, and values.

Recommendations: (in addition to the NSSM 108 recommendations on dealing with anti-U.S. nationalism, and on U.S. Government protection and encouragement of investment)

-- Increased public and private educational and cultural exchanges with Caribbean countries.

-- Increased USIA programming for the English-speaking Caribbean. [This could come up at the meeting since USIA budget cuts may actually lead to the closing of some posts.]

-- In the event of internal disorders resulting in requests for U.S. military assistance, limit such aid to small arms and ammo and riot control equipment for recognized constitutional governments.

-- Encourage maximum British and Canadian presence in order to hold down U.S. visibility and spread the security and economic aid burden.

-- Support economic and social progress (see F below).

B. British Disengagement

The Heath government has indicated its intention to disengage from the Caribbean area, though they have set no fixed timetable for withdrawal

and have indicated their willingness to cooperate with us in the planning. Embassy London has indicated that we have about one year and a half to align U.S.-U.K. plans. The Bahamas and British Honduras could well be independent in two years.

Though the issues differ in the various countries under British control, the basic issue is that the British presence has given us a "free ride," and that certain aspects of the U.K. role could be economically and, especially, politically costly for the U.S. to assume. The U.K. probably calculates that we would, in our own self-interest, assume responsibility for the external security of the islands after their withdrawal.

Recommendations:

-- Give priority to urging the U.K. to remain in the Caribbean as long as possible, particularly in the Associated States. To this end, we should meet with the British soon to get a clarification of their intentions. [It may be worth considering a high-level approach to the British on this question.]

-- Clearly indicate to the U.K., in the case of the Bahamas, our preference for independence later rather than sooner, while stating that we will place no obstacles to independence. [This represents a rejection of the alternative of offering the Bahamas some form of association with the U.S. on the grounds of our extremely close ties and large interests there. We concur with the IG/ARA's recommendation.]

-- Be prepared to provide economic and security assistance as necessary should the U.K. withdraw.

-- Postpone discussions on U.S. bases in the Bahamas until after independence.

C. Soviet Military Activities

(Cuba is not discussed in the paper.) In the last two years, Soviet naval activities in the Caribbean have increased and probably will evolve in a manner similar to that in the Mediterranean and Indian Ocean. The greatest potential threat to U.S. security from the Caribbean would come from a Soviet strategic offensive capability in the area. The availability of Caribbean patrol stations for SSBNs would increase Soviet on-target time within range of our strategic forces. The paper judges it "unlikely" that the USSR would seek such

a capability "if it involved the risk of a direct confrontation with the U.S." In addition, a Soviet attack submarine and surface combatant capability in the area poses a potential threat to our sea lines of communication and access to Caribbean defense facilities.

Recommendations:

-- As recommended in the NSSM 108 Study, we should study the need for increased sub surveillance and ASW capability in the Caribbean. [We fully concur that such a study should be undertaken.]

-- Pursue diplomatic efforts to inform regional governments of Soviet activities and to prevent Soviet bunkering.

-- Increase, as needed, U.S. port visits to offset Soviet visits.

D. U.S. Bases

The Study foresees no serious obstacles to continued access to our base facilities in the next few years, though Bahamian independence will probably mean renegotiation of existing U.S.-U.K. arrangements. Our bases in the area, except for two being phased out this year, remain important to us.

Recommendations:

-- Consider sympathetically and on their merits proposals for changes in current arrangements, including, if necessary, making "base rights" payments.

-- Study further the desirability of bilateral defense commitments, particularly in the case of the Bahamas, where this could facilitate retention of important installations.

E. Bauxite

Our bauxite problem is an intricate one involving the interrelations of 6 companies, 3 producing countries (Guyana, Jamaica, Surinam), and the U.S. and Canada. Guyana's action in expropriating the Guyanese subsidiary of Alcan created major uncertainties regarding our private investment in Caribbean bauxite. Caribbean bauxite is essential to our economy (nearly 90% of our bauxite/alumina comes from the Caribbean) and involves private investments in excess of $1 billion and OPIC guarantees of over $450 million.

The problem became less immediate with the conclusion of a compensation agreement in July and Prime Minister Burnham's assurance that negotiations with Reynolds are not contemplated before 1972. Nevertheless, the take-over could have spill-over effects in other producing countries (we have far more important investments in Jamaica and Surinam) given the climate of growing economic nationalism and pressure for greater local equity participation in the industry. An additional complicating factor is that though we do not wish Burnham's action to fully succeed, we would be at least equally concerned at a collapse of his government leading to a take-over by Marxist Cheddi Jagan.

Recommendations:

[The paper breaks down its recommendations into diplomatic efforts vis-a-vis the individual producing countries and efforts with U.S. companies involved in the area. In our view, since the immediate pressure is off, this problem should be dealt with in the context of whatever mechanism is established by the CIEP following the NSSM 131 Study. This seems an ideal case for a broad approach keyed to our private investment interests throughout the region; nevertheless, there are no inter-agency differences over the steps outlined below, and we have no problems with them.]

-- Vis-a-vis Guyana, stress our general position on nationalization and compensation and the problems expropriation raises for GOG-USG relations in order to deter unilateral action against Reynolds. In our relations with the GOG, we should neither create difficulties for Burnham nor assist him with the problems he may face in digesting Demba, the Alcan subsidiary he has taken over. Continue moderate economic aid in non-bauxite areas.

-- Vis-a-vis Jamaica, use our good offices to indicate our position on nationalization, while avoiding direct USG involvement in the substantive issues between U.S. companies and the GOJ, unless circumstances should so warrant in future.

-- Vis-a-vis Surinam, continue representations on U.S. private investment questions and consult closely with Alcoa representatives to ensure mutual understanding of local political developments.

-- Vis-a-vis the companies, hold periodic inter-agency meetings with company principals to probe differences of view among them and provide realistic briefings on what role they can expect the USG to play. In addition, we should encourage companies to take new steps -- including additional local expenditures and local minority equity participation -- to protect their long-term interests.

F. Economic Issues

The Study notes that the Caribbean area "relies overwhelmingly" on external, primarily U.S., trade, investment, and aid. It judges [and we agree] that, without some means of broadening development prospects beyond the present confines of tourism and minerals extraction, there is a serious prospect of frustration and economic nationalism leading to "greater conflict between the policies of the U.S. and the Caribbean states." The issue, therefore, is what the U.S. can do to be responsive to Caribbean development needs.

Recommendations:

[The Study assesses our problems and options separately for the fields of trade and aid, and presents a range of specific recommendations on such matters as sugar, textile, and rum imports, multilateral lending, etc. As a practical matter, in view of domestic pressures deriving from the economic situation, we have little flexibility to meet Caribbean needs except through the mechanism of Supporting Assistance. We therefore suggest that you concentrate at the meeting on this technique which could provide the Executive flexibility needed to advance our important interests in the area. One way to focus attention on this problem would be to ask a working group to grapple specifically with means to upgrade our aid efforts in this region.]

-- Concerning trade, the Study notes that there is uncertainty about the status of Commonwealth Caribbean exports after 1975, when the Commonwealth Preferences System will be phased out. Until that time, these exports will receive preferential access to the U.K. market and reverse preferences will remain in effect, thereby casting doubt on the eligibility of these countries for our own generalized system of preferences. The IG/ARA recommends that we do not exclude any LDC on account of reverse preferences until after 1975. (This issue is, in effect, OBE and is currently before the CIEP.)

The IG/ARA also recommends that we reduce on an MFN basis the import tariff on rum to a level comparable to that levied on whiskey and gin (Treasury non-concurs); that we continue to make a special effort for an adequate sugar quota to meet the needs of the Dominican Republic; that we study means of providing Caribbean countries greater access to the U.S. cotton textile and fruit and vegetable markets; and that we consider the impact of increasing above $100 the duty-free import ceiling for returning U.S. tourists. [Commerce non-concurs concerning textiles and may bring up the issue at the meeting. These trade issues are innocuous and probably not worth arguing over. We suggest you concentrate on getting a working group set up to examine a range of possibilities for providing additional U.S. help to the area.]

-- Concerning Aid, the study notes that U.S. bilateral aid had been concentrated in the Dominican Republic, Guyana, and, to a lesser extent, Jamaica and Haiti; but we have had almost no assistance presence elsewhere in the region (Trinidad, Barbados, and the U.K. Associated States) apart from regional and multilateral channels.

It therefore recommends that:

-- We provide bilateral aid for specific projects when important U.S. interests can thereby be enhanced and no alternative aid source is available.

-- We utilize Supporting Assistance when appropriate to strengthen or protect important political/security interests. [This is probably the only means of gaining the flexibility we need.]

-- We urge the U.K. to continue the maximum possible aid effort in the region with a priority on budgetary and technical assistance to its dependencies.

-- We encourage maximum involvement of the various multilateral assistance sources in all eligible countries of the region.

-- We continue to provide support for regional economic and educational institutions, and channel increased aid through such bodies to the U.K.'s low income dependencies.

BASIC PAPER

SECRET

REVIEW OF U.S. POLICY IN THE CARIBBEAN AREA

Response to NSSM-117

Prepared by National Security Council
Interdepartmental Group for
Inter-American Affairs (NSC-IG/ARA)

Table of Contents

SECRET
Group 3
Downgraded at 12-year intervals;
not automatically declassified.

Table of Contents (Continued)

I. Overview

The U.S. has important political, security and economic interests in the Caribbean, which are facing increasing challenges today, deriving primarily from the emergence of a more aggressive nationalism oriented toward economic issues and with strong racial and anti-American overtones, the growth of the Soviet military presence there, and the prospect of a British disengagement from the region accompanied by changes in the preferential marketing arrangements that Great Britain has historically offered to certain Caribbean products.

These challenges are occurring in the context of general dissatisfaction throughout the area with the pace of social and economic progress, only modest prospects at best for economic growth, and serious and rising levels of unemployment which pose a threat to the region's longer-term stability and to the moderate, constitutional governments in the region. At the same time, the constraints on our capacity to respond constructively to the regional challenges in such important sectors as trade, because of broader considerations affecting either our world-wide or domestic policies, may well reinforce the other destabilizing elements.

Today the bulk of our regional security installations, private investment, trade relationships and tourist travel, is focused in the Commonwealth Caribbean. This fact underscores the need for us as a government to give more careful consideration to our relationships with these newly-independent countries, and to ensure that our important interests relating to them are given adequate weight in the consideration of U.S. policies which will affect them.

Our hemispheric interests, as defined in NSSM-108, are generally valid as regards the Caribbean. The area's proximity to the U.S. accentuates the importance of our interest in denying the region as an area from which a hostile strategic attack could be launched against the U.S. The Caribbean is the source of most of our imports of bauxite, and through it must pass Venezuela's petroleum exports to us, with much of it refined en route in the Netherlands Antilles and Trinidad. The Caribbean is also the access route to the Panama Canal.

In addition to the above, specific U.S. regional objectives include: keeping the British, Dutch and French involved

in the area as long as possible; avoiding the emergence of a series of non-viable mini-states, as the British and Dutch disengage, over time, from the area; the encouraging and supporting of social and economic progress; encouraging a long-term concept of constructive economic regionalism in the area; encouraging greater Canadian involvement in the Commonwealth Caribbean; minimizing Cuban and other subversive activity in the region; and encouraging full participation in the OAS by the newly-independent areas.

The major specific problems, flowing from our hemispheric interests and regional objectives, which we face in the Caribbean today relate to: (a) the rising trend of nationalism; (b) Great Britain's potential disengagement from the area; (c) increased Soviet military activities in the area; (d) U.S. base requirements in the 1970's; (e) the outlook for U.S. bauxite investments; and (f) the socio-economic problems of the region.

Our overall strategy in the Caribbean should be to protect our interests in the area, and be responsive to Caribbean interests, in ways which avoid to the greatest possible extent the type of over-involvement which will feed anti-American nationalism.

A. Nationalism

1. Nature of Problem. The growing racially--and economically--oriented nationalism most directly touches on our investment interests at the moment, but it has the potential to affect our broader interests. Our capacity to counter the anti-American influences through informational, educational and cultural programs has been limited to date by budgetary constraints. Our own large tourist, business and media presence in the Caribbean gives us a high and not always helpful visibility, which some extremists are seeking to exploit for their anti-American purposes. Should extremism reach the point of posing armed challenges to existing governments we could be faced, as we were in Trinidad in April 1970, with requests for military assistance to help subdue extremist groups.

2. Major Recommendations. (U.S. private investment in the area, and the U.S. Government role in encouraging and protecting that investment, affect and are affected by, the growth of such nationalism. This problem is being treated in both NSSM-108 and NSSM-131.)

That we increase the level of public and private educational, cultural and labor exchanges with Caribbean countries;

That we increase USIA programming for the English-speaking Caribbean;

That in the case of internal political disorders which result in requests for U.S. military assistance, we limit such assistance to small arms and ammunition and riot control equipment, furnished only at the request of a recognized, constitutional government. Such requests would be considered on a case by case basis;

That, as indicated in (B) below, the British be pressed to maintain their presence as long as possible, and also that Canadian presence be encouraged;

That the U.S. support the achievement of economic and social progress, and thus of increased self-confidence in the area through the type of economic actions indicated in Section F.

B. British Disengagement

1. Nature of Problem. Although its timing remains uncertain, Great Britain clearly intends to reduce its political, security, and economic involvement in the Caribbean. Independent status for the Bahamas and British Honduras may well be realized within the next two years; the future of the small Associated States of the Eastern Caribbean is more cloudy. It is in our general interest to keep some British presence in the area as long as possible, not only to avoid having to assume the major burden for the security or economic development of these territories, but also to diversify to the extent possible, the targets of Caribbean nationalism. The Bahamas is something of a special case, because of its major U.S. security installations, because of the large U.S. citizen and investment presence, and because it is the most economically viable of the present dependencies. The future of British Honduras is tied very closely to the willingness of Guatemala to shelve its claim to British Honduras territory. We do not intend to become a guarantor of British Honduras' security or its economic well-being.

2. Major Recommendations

That we give priority to the maintenance of a British presence in the Caribbean as long as possible;

That, to that end, we meet with the British in the near future to obtain clarification of their plans and intentions towards the Caribbean;

That we press them to continue their presence in the area as long as possible, particularly in the Associated States;

That in the case of the Bahamas, we make clear we prefer independence later rather than sooner, but that we will place no obstacles in the way of independence;

That we follow up our initial talks with further efforts, the nature of which to be decided on in the light of the first meetings;

That however, we be prepared to provide appropriate economic and public safety assistance, in coordination with others, should the British decide to withdraw from these areas;

That we delay any bilateral discussions on U.S. base structure in the Bahamas, until after independence if possible.

C. Soviet Military Activities

1. Nature of Problem. Soviet naval activities in the Caribbean have increased in the last two years, with occasional pauses between deployments, and some Soviet tankers and merchant ships have bunkered at Trinidad and Jamaica. A Soviet attack submarine capability in the Caribbean constitutes a threat to our security interests. There may be an increase in bunkering activity as well as a continued increase in the level and scope of Soviet naval activity.

It is unlikely that the Soviets would make a determined effort to establish a strategic offense capability in the area, if it involved the risk of a direct confrontation with the U.S. The Soviets would, however, probably respond to an opportunity which would permit the introduction of these types of submarines without incurring such a risk. The availability of Caribbean patrol stations would permit them to increase their on-target time within missile range of part of our deployed strategic force.

2. Major Recommendations.

That we study the need for increased sub surveillance and ASW capability, as recommended in NSSM-108.

That we pursue diplomatic efforts to keep Caribbean governments aware of the nature of Soviet policies and practices, and to prevent Soviet bunkering in the Caribbean.

That we increase, as needed, the frequency of U.S. naval port visits in the area, to offset any Soviet port visits.

D. U.S. Bases

1. Nature of Problem. Our existing bases in the area (except for two being phased out this year) remain important to us; however, the present base configuration could well change as circumstances change. There are no serious obstacles foreseen to our continued access to the bases in the next few years, although we can anticipate a renegotiation of existing arrangements when the Bahamas achieves independence.

2. Major Recommendations.

That we consider, sympathetically and on their merits, any proposals for changes in current arrangements;

That we be prepared, if necessary, to make "base rights" payments;

That we study further the advisability of bilateral defense commitments, particularly to the Bahamas, if this would facilitate retention of important security installations.

E. Bauxite

1. Nature of Problem. The bauxite situation in the Caribbean is an intricate one, involving six major aluminum companies, three major supplying countries (Jamaica, Guyana and Surinam) and two major consuming countries (the U.S. and Canada).

The Government of Guyana formally expropriated the Guyanese subsidiary of the Aluminum Company of Canada on July 15, 1971. This action was preceded by many months of uncertainty following the breakdown in February of negotiations between the two parties, culminating in last minute talks between Alcan's board chairman, Prime Minister Burnham, and former U.S. Supreme Court Justice Arthur Goldberg acting in a private capacity. These talks resulted, on July 14, in a settlement according to which the two parties agreed on compensation of $53.8 million dollars, payable in equal annual installments over 20 years at an effective interest rate of 4.5 per cent. Deferral of up to 30% of the annual installments is possible provided that full payment of all installment balances due is made at the end of each 5-year period.

The action initiated by Guyana has created major uncertainties regarding the future of U.S. private investment in the Caribbean bauxite industry. Involved are our relations with several Caribbean countries (principally Jamaica, Guyana and Surinam), a commodity essential to our economy, U.S. private investments in excess of $1 billion, and Overseas Private Investment Corporation (OPIC) investment guarantees totaling more than $450 million.

With the apparent resolution of the compensation question in Guyana and assurances by the GOG that negotiations with Reynolds are not contemplated before 1972 at the earliest, the problem for U.S. interests in Guyana has become less immediate. Nonethe-less, there are possible spillover effects in the rest of the Caribbean.

This action against a Canadian firm is a manifestation of the economic nationalism which is affecting U.S. and other foreign private investment interests in developing countries, particularly in the Western Hemisphere and Africa. U.S. private investment in the bauxite/alumina industry in the Caribbean has traditionally been on the basis of 100% equity ownership, a pattern which was modified for the first time in 1970, when Reynolds Metals agreed to a 50-50 joint venture arrangement with the Government of Surinam to develop some new deposits. Some elements of the aluminum industry are strongly committed to maintenance of the principle of 100% ownership, whereas others are more willing to consider some degree of local equity participation, private or governmental.

All segments of the industry strongly oppose any arrangements which would give local interests majority control, which would have local equity financed solely out of future cash flow or profits, or which would in any way imperil the principle of the U.S. parent company's management authority. Jamaican Prime Minister Shearer in his July 21 budget speech to Parliament stressed that his government would seek to maximize bauxite revenues via taxes and royalties, making no reference to government participation in the industry. Our Embassies in Jamaica and Guyana, and our Consulate General in Surinam, have all stated that in the long run some type of local equity participation in the now foreign-owned bauxite industry is inevitable in these countries in the future.

It is in our interest that, given the virtual certainty of changes in the status quo in the foreseeable future, and particularly those involving nationalization, such changes take place in a manner consistent with the standards of international law and without threatening the security of U.S. bauxite supplies.

It is not in our interest that Prime Minister Burnham of Guyana be fully successful in organizing an efficient trouble-free State bauxite enterprise. Such an achievement would increase the danger of similar action against Reynolds in Guyana, and against the much larger U.S. bauxite investments in Jamaica and Surinam. The latter two countries are more dependent for prosperity than was Guyana on foreign private investment flows, and their leaders are aware of this. Nonetheless, a Burnham "success" would generate strong emotionally nationalistic pressures to imitate him.

Conversely, it is not in our interest that Burnham's policies result in total failure. This could lead to the collapse of his government and his replacement by significantly more extremist elements in his own party, or--of even greater concern to us--by the Moscow-subservient Marxist Cheddi Jagan, whose East Indian followers outnumber Burnham's blacks, and whose exclusion from power has been the cornerstone of our policy towards Guyana for several years. Jagan in power would not only mean expropriation of Reynolds, but would make available to the USSR an especially favorable opportunity on the South American continent.

We must, therefore, consider which courses of action on our part will minimize Jagan's chances for power, and thereby protect our security interests, but at the same time afford maximum protection to our economic and strategic supply interests, most of them outside of Guyana. Neither unequivocal support of Burnham's nationalizations nor all-out opposition to them may be the best policy approach. Favorable resolution of the problem calls for a careful approach which properly balances our interests towards the countries concerned and the companies.

2. Options and Recommendations. The choices available to us, following the negotiated settlement with ALCAN, are briefly outlined below by country.

(a) Guyana. (Assumption: Reynolds will not face expropriation issue before 1972, but cannot hope to maintain status quo indefinitely) (See pp. 51-55.)

The general question of U.S. policy regarding expropriation is currently being considered in the response to NSSM-131.

In the case of Guyana, therefore, pending that decision the IG/ARA has not laid out the choices in option form. The IG/ARA consensus, however, tends toward the conclusion that our most appropriate course of action in the present circumstances is one which lays emphasis on continuing diplomatic representations focused on Reynolds. This approach would stress the general U.S. position on nationalization and compensation, and problems that expropriation raises for the GOG vis-a-vis the USG. Our primary objectives would be to deter any unilateral action by the GOG to expropriate Reynolds; to encourage the conclusion of just compensation agreements prior to any anticipated expropriation; or to insure just compensation for Reynolds should expropriation occur. In our general approach to Guyana we as a government would neither create difficulties for Burnham, nor assist him with difficulties his decisions regarding bauxite bring upon him; and we would continue to provide moderate economic assistance to him in non-bauxite areas.

Alternative courses could include, as warranted by circumstances, a variety of economic pressures and sanctions against the GOG as a means of discouraging further expropriation.

(b) Jamaica. (See pp. 55-57)

Option 1. Active use of our good offices to make known USG position on expropriation and to encourage and facilitate continuing dialogue between the Government of Jamaica and the U.S. companies, without, at this time, becoming involved in substantive issues between them.

Option 2. Strong representations to the GOJ with the objectives of forestalling any demands for equity participation and minimizing any demands for renegotiations of contracts.

Option 3. Play an active and substantive intermediary role between GOJ and companies with the objective of working out a new company-government relationship which will satisfy government needs and provide companies with long-term operational stability.

IG/ARA Recommendation: (a) Option 1 now and at the outset of any future negotiations between the government and the companies; (b) That State and Treasury consult closely on the feasibility of utilizing current U.S.-Jamaican negotiations on double taxation and alumina transfer pricing to protect important U.S. economic interests in Jamaica. (Recommendation (a) does not rule out the USG taking a more substantive role in the future, should changed circumstances so warrant.)

(c) Surinam. (Annex H, p. 11)

Recommendation: That we continue periodic representations to the Government of Surinam on the question of U.S. private investment; and that we maintain the closest possible contact with Alcoa representatives to try to ensure a mutuality of understanding regarding the local political situation and outlook.

(d) The Companies.

Recommendations:

That we meet periodically on an inter-agency basis with the company principals to review developments, determine the extent to which there are differences of policy approach among them, and provide realistic briefings on U.S. policy and on what we can and cannot do to assist them.

That we encourage the companies to undertake imaginative and forthcoming approaches, not necessarily excluding either local minority equity participation, or additional local expenditures whose benefits would accrue primarily to the country rather than the companies, as the best means of protecting their long-term interests.

Options Regarding Anti-trust Question

Option 1. Should the companies raise the anti-trust question, we advise them that current circumstances do not make it necessary to consider State Department support for any requests for waivers of the anti-trust legislation.

Option 2. If the question is raised, we support a company request for such a waiver.

F. Economic

The economic health of the Caribbean, which relies overwhelmingly on external trade and capital, is heavily dependent on U.S. actions relative to trade, investment and economic assistance. Tourism and the minerals industry have accounted for most of the economic growth in the area. Without a formula which permits broader-based development and greater indigenous involvement, the tension already evident in respect to tourism

and the extractive industries will grow, leading to the prospect of greater conflict between the policies of the U.S. and the Caribbean states. If we expect the Caribbean states to be responsive to our special interests, the U.S. must be reasonably responsive to their needs, also.

I. Trade

A. Nature of Problem. The range and importance of our interests in the Caribbean and the heavy dependence of the region on external trade make it desirable to give special attention to ways in which we can cooperate to strengthen the trading capacity of Caribbean nations.

Whether such cooperation should include support for preferential trading arrangements which discriminate against us is one of the issues raised, and one also being dealt with in a CIEP options paper.

In the trade field, the entry of Great Britain into the EC may have employment and foreign exchange implications for the Commonwealth Caribbean as the Commonwealth Preference System is phased out. Until 1975, we understand the area will continue to enjoy preferential access to the UK market. After that, it is not yet clear what the situation will be. The likely continuation for some period of certain preferential arrangements, particularly reverse preferences, creates problems regarding the eligibility of Commonwealth Caribbean countries for our own generalized system of preferences.

U.S. sugar legislation is important to all the Caribbean, and, in particular the Dominican Republic, which has benefited from special allocation arrangements since 1966.

Cotton textiles and rum, now excluded from the G.S.P., are examples of commodities produced in the area which, if granted more liberal access to the U.S. market, could help strengthen the economies of some of the producing countries. More liberal access for certain fruits and vegetables, and an increase in the present $100 limit on exemptions for returning tourists could also benefit the economies of the region. In all cases, however, there are strong domestic policy considerations for not liberalizing current policy.

B. Options and Recommendations (See pp. 60-65)

1. Generalized Preference Legislation and the Commonwealth Caribbean. (The options listed below duplicate those now under consideration by the White House.)

Option 1. Adhere strictly to our stated position on reverse preferences as contained in NSDM 65, i.e., to exclude any LDC that does not give us satisfactory assurances that it will phase out reverse preferences by 1975. Do not spell out this condition in the draft legislation. (Supported by OMB.)

Option 2. Same as Option 1 except: Incorporate specific language reflecting this position in the draft legislation. (Supported by Agriculture, Labor, Treasury, STR, AID, and CEA.)

Option 3. Make it clear that generalized preferences will not be extended beyond 1975 to any LDC which continues to grant reverse preferences, but do not exclude any LDC at the outset on account of reverse preferences. Incorporate specific language reflecting this position in the draft legislation without any authority for special exceptions. (Supported by Commerce, Interior and State)

Option 4. Same as Option 3 except: Provide authority for the President to make special exceptions to the 1975 cutoff when he determines it to be in the national interest. (Supported by Defense.)

IG/ARA Recommendation. Option 3. (Subject to decision of CIEP on relationship of GSP legislation to those countries which grant reverse preferences.)

2. Rum (See pp. 63-65)

Option 1. That we reduce on an MFN basis the U.S. import tariff on rum from $1.75 per gallon to a level comparable to that levied on whiskey and gin. (Legislation would be required for this purpose.)

Option 2. That we include rum in the list of commodities in our Generalized System of Preferences.

Option 3. That we take no action on rum.

IG/ARA Recommendation: Option 1, subject to a further examination of its specific economic impact on the revenues of Puerto Rico and the Virgin Islands. (Treasury favors Option 3)

3. Sugar (See pp. 61-62)

Recommendation.

That, in recognition of the special importance of sugar to the economy of the Dominican Republic, and of our own interests in the Dominican Republic, we either provide a basic quota adequate to the DR's needs, or we retain in the new Sugar Act the national interest waiver provision, and continue to utilize it to provide special allocations to the Dominican Republic.

4. Other Items (p. 62-63, 65)

Recommendation

That, should the Administration review its current policy on cotton textile imports, on imports of fruits and vegetables, or on the $100 ceiling on duty free imports for returning U.S. tourists, we study further the possibilities of modifications which would permit countries of the Caribbean greater access to the U.S. cotton textile and fruit and vegetable markets; and that we study the economic impact in the Caribbean of increasing the duty-free import ceiling. (Commerce dissents, with respect to cotton textiles, for reasons given on pp. 75-76.)

II. Development

A. Nature of Problem. U.S. bilateral assistance in the Caribbean has concentrated primarily on the Dominican Republic and Guyana. We have had small programs in Jamaica and Haiti, but have followed the policy in the Eastern Caribbean (Trinidad, Barbados and the Associated States) of providing assistance only through regional and multilateral channels. While we should continue to encourage this area to look initially to the UK, Canada, and multilateral sources of aid, the structure and location of our interests in the Caribbean may make it desirable under certain circumstances to expand our bilateral assistance in the Caribbean. The use of supporting assistance may become appropriate in certain cases, given the nature of our political and security interests in the area. Given our almost total lack of assistance presence in these areas to date such an approach is not an exception to the "low-profile" policy, nor would it create any serious "presence" problems for us.

Efforts at regional economic integration are focused primarily in the Caribbean Free Trade Association (CARIFTA) and the Caribbean Development Bank (CDB). We should continue to support the general concept of regional integration. CARIFTA, however, has only a limited potential for increasing intra-area trade. Some members see it also as a device for coordinating area policies on, and local control over, private foreign investment. Given these two factors, our interest in supporting CARIFTA is marginal. The CDB, on the other hand, is the kind of constructive development institution which we should continue to support and to urge others to support. In the longer term, ties between CARIFTA and the Central American Common Market could strengthen the region's economy.

B. Major Recommendations (pp. 65-68)

1. That, in accordance with our broader assistance policies, we encourage maximum involvement of multilateral assistance agencies (IBRD, IDB, OAS and UN agencies) in all eligible countries of the area, and to the fullest extent feasible look to these agencies and the CIAP for coordination of assistance efforts.

2. That we urge the UK to maintain at least its current level of assistance to the area. That, in the event the UK insists on reducing its assistance, we encourage it to maintain necessary budgetary and technical assistance to the dependencies. That we encourage Canada to continue its assistance and increase it where possible.

3. That we accord high priority to continuing the support of regional developmental or educational institutions such as the Caribbean Development Bank and the University of the West Indies. That we, where feasible, channel an increased level of assistance to the Associated States or other low income dependencies of the UK through such regional institutions.

4. That the U.S. provide bilateral U.S. Government assistance for specific projects when (1) there are important U.S. interests such assistance could enhance, and (2) U.S. interests are not adequately furthered by metropole, multilateral or regional projects.

5. That the U.S. utilize Supporting Assistance as appropriate to strengthen or defend our important politico-security interests in the region.

II. Introduction

For the purposes of this paper, the Caribbean area is defined as all the non-U.S. islands of the Caribbean, including the Bahamas but excluding Cuba; plus British Honduras, Guyana and Surinam. Any broader definition, to include the Caribbean basin countries from Mexico through Venezuela, would involve unnecessary overlapping with NSSM-108, since it would include 15 of the 24 independent republics of the hemisphere.

The Caribbean islands constitute a geographic unity. The fact of that unity combined with contiguity to the U.S. lends importance to our military and strategic interests in the area. They are also experiencing, in common with much of the developing world, similar problems of political agitation, lagging development, and serious social tension, as discussed in the Situation and Trends section.

In other senses than these, however, the Caribbean is characterized by a diversity significantly greater than that found in continental Latin America. Principal languages of the region include Spanish, French, Dutch, English, Creole, and Papiamento. This is a reflection of the historical imprint left on the area by the various and rival European sea-faring powers through the centuries. Ethnically the populations comprise Hispanic, French and Portuguese elements from Latin Europe; English and Dutch from Northern Europe; and African, East Indian, Javanese, Chinese and Amerindian elements. These have mingled in varying proportions to produce a wide cultural diversity incorporating inputs from four continents. The black, mulatto and East Indian components have the largest numerical representation in the area's population. Except in the Dominican Republic, the incumbent political parties are black-dominated.

Economically, the area runs the gamut from the $75 annual per capita income in Haiti to over $1000 in the Bahamas or Curacao. Political systems range from repressive dictatorship through parliamentary democracy, British-style. The area includes both the newest (Guyana-1970) and the oldest (Haiti-1804) independent republics in the southern part of the hemisphere.

The diversity is noted here because it illustrates the problem posed by trying to define any single policy approach

or across-the-board courses of action toward the area in pursuit of our interests.

III. U.S. Interests

This description of U.S. interests will not attempt to duplicate, and should be read in the context of, the Interests section of NSSM-108 (summary attached as Annex A), the broad outlines and general thrust of which are applicable to the Caribbean.

A. Historical. The largest of the Caribbean countries we are considering does not exceed 5 million population; their combined population is barely 15 million; all of the islands combined are not as large in land area as the State of Virginia. Their combined GNP is less than that of Colombia; and no combination of them, without the assistance of an extra-hemispheric power, could represent any conceivable security threat to the U.S. Yet the Monroe Doctrine was largely an expression of concern about the Caribbean, and we have resorted to the extreme of military intervention in the Caribbean on various occasions in this century. These facts reflect both the duration over time and the intensity of our interest in the area, but do not suggest the reasons for it. It is an historical fact that almost since the founding of the nation, the U.S. has fixed as an essential element of its foreign policy and security planning that the area of the Caribbean is of prime interest to the U.S. and is so recognized by the rest of the hemisphere and the world.

Historically, our interests in the Caribbean have primarily derived from security concerns, particularly after the relative decline of the region as a trading partner. These concerns, frequently related to the Panama Canal, have always focused, and continue to focus, on the involvement in the area of an extra-hemispheric power which could constitute a threat to the U.S. The fact that we have avoided through history any military involvement on the South American continent points up, among other things, the relatively greater concern we have traditionally had over European messing around in the Caribbean. In more recent years, the unique geographic location and characteristics of the islands

have led to the establishment of important defense and military-scientific facilities in some of them, thus creating a security interest not directly associated with these traditional concerns.

Whatever the objective situation may be in today's world regarding the importance that proximity plays in permitting a hostile foreign power to threaten effectively our security, the historical experience has produced a psychological reality which should not be discounted. That is, that the general U.S. public perceives a potential security threat emerging from certain political situations in the Caribbean, which does not concern it nearly so greatly when these situations occur in more distant regions. A Marxist government in the Dominican Republic or the Bahamas, for example, would be seen as a greater immediate threat to U.S. security interests than is such a government in Chile.

There is, however, another aspect of our historic interest which is particularly relevant to this policy study. Our intense involvement has occurred only in the independent Latin Caribbean; Haiti, Dominican Republic, and Cuba. Our concern over the security threat to the entire area was, of course, aroused during World War II, leading to the establishment of bases and facilities throughout the Caribbean, but always through arrangements with the metropolitan powers. With respect to internal Caribbean developments, it can be fairly said of the English, Dutch and French Caribbean areas that they have been largely interest-invisible to us until very recent years. We generally defined our area interests in relation to the European powers concerned, and sought to advance or protect them via these powers--a logical procedure when dealing with colonial areas. Despite the Monroe Doctrine, we have historically been quite content to leave the problems of these areas to the metropolitan powers controlling them, even (and perhaps particularly) during periods of fierce internal strife and rioting such as that occurring in Jamaica and Trinidad in the 1930's.

Only in the last decade, as the former British colonies began achieving their independence, have we been forced to recognize the need for an articulation of our interests vis-a-vis the ex-colonies, separate from (and possibly even at odds with) our interests toward the ex-colonial power. To date, we have not done this in a particularly coherent

NIXON PRESIDENTIAL MATERIALS PROJECT

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1. To reconcile its continuing dependence on the British market for the export of certain primary products (sugar, bananas and citrus) with its need to share in any generalized system of preferences offered by the U.S. These products, which are non-competitive except in protected markets, represent a major source of employment in the area, and their continued export is a key to internal stability. The countries involved believe that the requirement, under our proposed Generalized System of Preferences, for phasing out these preferences is too onerous. If they are forced to make a choice between the two alternatives, they fear both the economic and the political consequences.

2. To strengthen CARIFTA as an intra-Caribbean free trade association which will bring significant economic benefits to the region and to coordinate policies regarding foreign investments. It to date has provided only marginal benefits, and, given the limited extent of intra-regional trade, its potential may remain small for some time.

Just as in Latin America, much of the tension currently existing in our relationships derives from differing perceptions of, and priorities assigned to, the two sets of interests which are not intrinsically in conflict with each other. The need, therefore, is for a set of policies and programs which will bring the perception of these U.S. and Caribbean sets of interests into greater consonance with each other, to the extent possible.

IV. Situation and Trends

A. The Current Situation. Although there exists a political and cultural diversity among the countries of the Caribbean, most of them are experiencing similar problems of political agitation, lagging development, and serious social tension. Organized labor, students, intellectuals, and professionals dominate politics. The military--except for the Dominican Republic--have little influence. Growing nationalism is universal but is particularly evident in the English-speaking countries where small black radical groups are contributing to public discontent. A main target of the radicals area-wide is foreign-owned business. Guyana's present campaign to nationalize the important bauxite industry is being watched

closely elsewhere, notably in Jamaica where the U.S. investment in bauxite alone is over $600 million.

Compared to other countries in the hemisphere, most of those in the Caribbean are more affected by a broad range of external influences. This is a result of, among other factors, their brief experience with self-rule, their efforts to break away from still substantial reliance on their European "patrons" for guidance and support, and their uncertain drive for self-determination. As the British and Dutch disengage from the region the English-speaking territories and Dutch dependencies are facing problems of finding other sources of assistance. Meanwhile, both the Soviet Union and Cuba are expanding their presence in the Caribbean in the past year or two--the former through six naval excursions, the latter mainly through commercial activity--although they have moved slowly and cautiously.

Economically most of the Caribbean is struggling to increase growth in the face of heavy population demands on sparse resources and to ameliorate the high rate of unemployment, ranging from 15-25%. Agriculture remains the mainstay of the economies, although minerals are increasingly important, and they are heavily dependent on U.S. and other foreign markets. The economies of the larger nations--for example, the Dominican Republic, Jamaica, and Trinidad-Tobago--have generally experienced moderate growth while those of Haiti and the smaller islands have done poorly. Efforts to boost trade through the Caribbean Free Trade Association have had only limited impact thus far.

B. Trends. Pressures for more strongly nationalistic policies are certain to increase in most of the region over the next several years. Agitation by black radical groups will continue to contribute to nationalistic sentiment with foreign-owned firms becoming more and more the target of direct action. Unless the governments make progress in finding solutions to the difficult social and economic problems, civil disorders and violence will probably erupt from time to time with little advance notice. This could lead to requests for U.S. emergency assistance. The expressed intention of the British to disengage further complicates the problems for the English-speaking territories. In foreign policy these trends are likely to be reflected in a noticeable drift toward "Third World" positions on international

issues. At the same time Moscow and Havana seem prepared to expand their political and economic activities as opportunities arise.

Although efforts at regional political cooperation have proven futile, regional economic organizations show some promise. Economic conditions in the Caribbean are unlikely to improve significantly over the next few years, however. In Haiti and most of the eastern Caribbean the general economic outlook is dim. Reactions abroad to the spectre of nationalization of industry and the continued threat of unrest raise questions as to the ability of the region to maintain even the recent modest gains. Most are likely to look to the U.S. for increased economic aid. (Annex C contains a more detailed discussion of the Situation and Trends.)

C - Current Policy Environment

The overall recommendations outlined in NSSM-108 for Latin America and the analyses supporting them are also generally valid for the Caribbean, and will not be repeated here. There are, however, certain additional or complementary courses of action dealing more specifically with the Caribbean, or parts of it, which should be considered. Some of them, for example in the trade and investment areas, involve policy issues extending beyond the Caribbean area, on both the U.S. and the Caribbean side. Whatever decisions are finally reached on these matters, it is important that the consequences of the alternatives for our interests in the Caribbean be clearly understood.

There is also an interrelationship among the various sectors which should not be overlooked. If we are, for example, unable to be forthcoming to the Commonwealth Caribbean on trade issues because of general commercial policy considerations, this could well have an adverse impact on our private investment interests in Jamaican bauxite. If we choose not to increase our informational and cultural exchange activities in the Caribbean, this will mean losing an opportunity to counter dedicated anti-American activists whose objectives run counter to U.S. interests in almost every field.

Aside from Soviet military activities in the area, the two factors of most significance to our interests that emerge

from an examination of the current situation are: (a) the growing strength of nationalist feeling in much of the area, focused largely on economic issues and accenting race and hostility to white foreigners; and (b) the extent to which most of our current policy concerns relate primarily to the Commonwealth Caribbean.

Nationalist and anti-American attitudes are not, of course, unique to the Caribbean. Nonetheless, the recent attainment of independence for many of the countries in the area, the greater visibility, because of color differences, of the foreign elements dominating the economies of the countries, their relative smallness compared to most Latin American countries, and the existence of some acute racial problems in our own country, combine to provide a special character and intensity to the nationalist and zenophobic trends in many parts of the Caribbean.

When we examine the area questions which preoccupy us today--bauxite, the reverse preference trade issue, U.S. base rights, the "black power" phenomenon, possible British withdrawal from the area--we find them to be matters relating almost exclusively to the Commonwealth Caribbean. The French and Dutch appear reasonably content at the moment with the status quo in their Caribbean dependencies, and the dependencies themselves are not challenging in any serious way that status quo. The only potentially serious near term problem--the possible repercussions of which should not be underestimated--we might face with the Dominican Republic would be our inability to provide it with an adequate sugar quota level in 1971, or under the new Sugar Act legislation to become effective in 1972. The problems of Haiti are grave, but are sui generis and hardly susceptible to treatment in a Caribbean-wide policy paper.

This concentration of concerns highlights one fact to which we have perhaps not given sufficient attention to date; that is, that within the non-U.S. Caribbean, the bulk of U.S. investment, trade, tourism and security installations centers in the Commonwealth Caribbean region. That so many of our current concerns deal with the Commonwealth Caribbean is also in part a reflection of the fact that this region, newly thrust upon our consciousness, has not as yet found a secure place for itself in the traditional hemispheric organizations which have evolved over the decades. Nor have we as yet hit upon any effectively coherent alternative means of dealing

with the region, outside the traditional hemispheric framework. The task of harmonizing Commonwealth ties with participation in the OAS, and historic links to Britain with the growing influence of and dependence upon the U.S., is one that will only be resolved over a lengthy period. To some degree Commonwealth Caribbean interests will be in conflict with those of Latin America. To the extent this is true, it is incumbent upon us, given the extent of our own interests in the Caribbean, to seek accommodations in which continental Latin American interests do not necessarily override those of the Caribbean.

One potential problem area appears to have eased in recent months, Prime Minister Eric Williams of Trinidad was among the first to propose, more than a year ago, that the time had come to normalize relations with Cuba. More recently, we have had indications that the Jamaican Government would not be averse to a resumption of Cuban relations, and that this could conceivably occur in the next year or two. Guyana, as a non-member of the OAS, is not bound by the resolutions of that organization regarding Cuba. As the most "third-world" oriented of the Caribbean countries, and the only one to date to establish relations with the USSR, it might well be disposed to move towards relations with Cuba.

Jamaica, however, although holding little brief for the present OAS policy on Cuba, is not likely to be willing to risk injuring its relations with the U.S. over this issue. Trinidad, following last year's mutiny and its subsequent preoccupation with internal affairs, no longer appears interested in serving as the cutting edge of the effort to bring Castro back into the OAS sphere. Prime Minister Burnham is well aware of the support Cuba has given in the past to his rival Jagan, and for the short run he may be so preoccupied with bauxite industry nationalization and other domestic problems that he will not want to court additional trouble by recognizing Castro.

The main pressures today on this issue are not originating in the Caribbean, although Jamaica and Trinidad would be unlikely to resist very strongly an OAS ground swell to modify the present relationship. There do not appear to be any measures uniquely appropriate to the Caribbean that can be taken on this question. It is best dealt with via normal diplomatic representations and such other efforts as we would utilize elsewhere in Latin America.

V. United States Involvement in the Caribbean

The United States, both as a government and through private activities, is deeply involved in the Caribbean, and the outlook is for increased interaction of U.S. and Caribbean interests in coming years, in general political-psychological orientation and in matters affecting our own and their security, trade and investment, tourism, and economic-social development.

A - Political-Psychological

The "new" Caribbean countries have not fitted easily into our general policy framework oriented toward the Latin American republics and the OAS. With the exception of the Dominican Republic, and perhaps Haiti, they do not consider themselves part of the Latin American community for obvious reasons of language, race, culture and separate historical experience. They were not members of the OAS (although three now are--Jamaica, Trinidad and Barbados), and to date only Trinidad is a signatory of the Rio Treaty. Our relationships with them have tended to be ad hoc and makeshift. Our diplomatic and AID representation has been minimal and our USIA effort has been equally sparse, with little USIA programming tailored to the special needs of the English-speaking Caribbean.

On the private side, the U.S. has been making a strong economic and cultural impact on the area, in contrast to the thin, tenuous character of our official relationships. Ease of travel, transport, and communications have fostered massive American tourist movements and brisk trade; private U.S. investment has brought American management attitudes and techniques to the Caribbean along with money. Caribbean workers have migrated by the tens of thousands to the United States in the past decade. All of these factors have added up to strong new ties to the U.S. gradually supplanting European cultural ties.

In the years ahead, the growing experience of some of the new countries within the OAS framework may be an important plus factor, strengthening their ties with the Hemisphere and permitting the U.S. to deal with the area more effectively within a general Latin American/OAS policy framework. But

some, notably Guyana and British Honduras, may not gain easy entry into the OAS (because of border problems with Venezuela and Guatemala) while others, such as the small Leeward and Windward islands, may remain indefinitely in limbo as orphaned mini-states.

B. Security. U.S. security involvement in the Caribbean is readily manifest in the numerous military bases and installations we maintain there. In addition, we provide military assistance to the Dominican Republic and Public Safety assistance to several countries.

1. U.S. Bases and Installations. The United States military base structure in the Caribbean has developed during this century to meet a variety of security needs, and was expanded during World War II. Following World War II, certain facilities have been acquired to support military defense activities and technological research.

There are at present 15 separate active military facilities in 5 political areas of the region (Annex B). There are 41 other active military facilities in 5 other political areas of the region, including Puerto Rico, the Virgin Islands, Bermuda, Panama Canal and Cuba. These facilities vary from those of major importance and potentially vital to U.S. security interests to those whose loss would be less detrimental to such interests.

The facilities fall into two functional categories, with some of the more important bases and facilities having functions falling in both categories:

- Antisubmarine Warfare (ASW)
- Scientific, Technological & Navigation

Antisubmarine Warfare facilities consist of four oceanographic stations (referred to as NavFacs) whose mission is passive surveillance of the ocean areas as part of the Atlantic Sound Surveillance System (SOSUS). This system does not provide coverage in the Caribbean, nor does it preclude undetected submarine penetration into the area as occurred in 1970. Specifically, the system can detect and locate submarines in the Atlantic and together with air and naval facilities used by and supporting ASW forces comprises the ASW effort.

Scientific, Technological and Navigation. The U.S. operates scientific and technological facilities in the Caribbean area which are of major military importance. Additionally, there are several Coast Guard and other navigation facilities which provide significant assistance to navigation in the area.

The Atlantic Undersea Test and Evaluation Center (AUTEC) is a major asset to the U.S. Navy in testing and evaluating newly developed deep sea warfare systems. Andros Island (Bahamas) is one of the very few islands meeting the unique physical requirements for such a facility and the Navy has invested some $150 million in developing the Weapons Range, Sonar Range and Acoustics Range that comprise the total facility.

Although the Naval facilities (NavFac) are essentially for passive underwater surveillance, they also gather scientific oceanographic data.

The advent of missiles has brought with it a need for missile ranges covering large areas, including tracking stations and other sophisticated weapons testing facilities. The Eastern Test Range extending from Cape Kennedy to the Indian Ocean, has provided and continues to provide facilities for the development and testing of weapons and for outer space activities. In addition to missile tests, these facilities are used by NASA in its space program. The rights to use these facilities were secured under the Long Range Proving Ground Agreements of 1950 and 1962, and U.S. uses are limited to proving-ground activities. Except by specific agreement with the UK, operational use for contingency purposes is not presently authorized. At present the Air Force is reducing the Eastern Test Range facilities and will be eliminating certain stations (e.g., Eleuthera and Trinidad). It previously closed a facility in San Salvador.

To the U.S., these various facilities are of continuing importance. To the host countries, however, their importance is viewed primarily in terms of economic advantage (i.e., local employment; foreign exchange earnings) and/or in negative terms of national, political or social disadvantage (i.e., yielding of sovereign control over base

areas and U.S. personnel; identification with "Big Power" international aims of U.S. which may expose host government to nationalistic criticism at home).

As current security agreements (which were negotiated with the UK) lapse, host countries are likely to press for greater consideration of their domestic interests. This could lead to demands ranging from withdrawal or phase-down in U.S. activity in some cases to such things as higher base rental, economic assistance as a quid pro quo, higher wage rates for local employees at installations, etc.

2. Military Assistance. Our interest in the maintenance of basic law and order and internal security in the Caribbean countries is now served primarily through grant military assistance and grant Public Safety programs. However, there have been no military credit and/or cash sales in the area in recent years other than an emergency sale of ammunition to Trinidad and Tobago during the 1970 mutiny (and, in fact, most of the countries are not on the Foreign Military Sales Act eligible list). As of FY 71, U.S. grant military assistance was given only to the Dominican Republic (the only Caribbean country where we have a MAAG and training personnel).

3. Public Safety Assistance. Past and present public safety activities in the Caribbean area were designed to serve the developmental and security interests of the U.S. Full in-country programs (technical advice, training and commodities) are present in the Dominican Republic, Jamaica and Guyana. Some limited assistance has been provided to a few of the other countries and consisted of only participant training.

Civil police assistance to the Commonwealth Caribbean countries is furnished principally by the UK. As an indication of magnitude of their activities, $600,000 has been recently committed by the UK for a new police academy for the Bahamas police force; the UK expects its total outlay to be over $5 million during the three years 1970-1972 to assist these countries (including British Honduras) to improve police capabilities.

C. Trade. Trade with the U.S. is a major component in the trading pattern of most of the countries of the area. Total U.S. trade with the area is $1.9 billion yearly ($1.1 billion U.S. imports and $800 million U.S. exports, with the unfavorable U.S. trade balance of $300 million annually attributable largely to our oil imports from Trinidad and the Netherlands Antilles). The area is the third largest U.S. market below the Rio Grande (after Mexico and Brazil) and has been growing by an average of about 12% annually over the last ten years. U.S. tourism provides an estimated additional $400 million annually in foreign exchange to the Caribbean. (Annex C contains detailed U.S. trade statistics.) Total British trade with the area (exports and imports) is between $500 and $600 million per year, Canadian trade amounts to nearly $300 million annually, Dutch trade to $130 million, and French trade was $324 million in 1969.

A few commodities are of predominant trade importance: sugar, bauxite and alumina, and refined petroleum. Access to the U.S. sugar market is of greatest relative importance to the Dominican Republic, but for all of them, access to our market contributes significantly to their foreign exchange earnings and is what makes the labor-intensive sugar culture highly profitable. For the U.S. it is clearly advantageous to have dependable supplies of sugar readily available in this nearby area.

The U.S. aluminum industry depends heavily upon Caribbean bauxite and alumina and these exports are of major importance to the economies of several Caribbean countries. 97% of total U.S. imports of bauxite (over 13 million tons) came from the Caribbean: Jamaica supplied 62%, Surinam 20% with the remainder coming from the Dominican Republic, Guyana and Haiti. While Guyana is relatively unimportant to the U.S. as a source of metallurgical bauxite, it is a major source of refractory bauxite. Approximately half of the U.S. imports of alumina come from the Caribbean: 34% from Jamaica and 14% from Surinam.

U.S. imports of petroleum products--primarily residual fuel oil--are of major significance to the small economies of Trinidad-Tobago and the Netherlands Antilles. U.S. petroleum imports from Trinidad, which is both a crude producer and a refiner of Venezuelan oil, were equal to slightly less than 6 percent of total U.S. petroleum imports. U.S.

imports from the Netherlands Antilles, which refines Venezuelan crude, were equal to 12 percent of the total U.S. petroleum imports.

D. Investment. Total private U.S. investment in the area is estimated at over $2 billion or nearly 17% of U.S. investment in Latin America. U.S. investments are especially large in the Bahamas, Jamaica and Trinidad. (Annex E has a breakdown of this investment.) The contingent financial liability to which the U.S. Government is exposed through Investment Guaranty Insurance in the area currently amounts to $732 million (assuming confiscation without any compensation). For comparative purposes, British investment in the area is estimated to be "at least $500 million". No statistics are available for Canadian, Dutch or French investment.

E. Development Assistance. In FY 1970, AID development loan and grant assistance to the entire area was only about $17 million, out of total new commitments to Latin America of about $411 million. In addition, approximately $1.6 million in Supporting Assistance funds were provided for humanitarian purposes to Haiti. PL-480, Title II assistance to the area in FY 1970 was about $10.6 million.

In the period since the mid-1960's economic assistance has been heavily concentrated in two states--the Dominican Republic and Guyana. Since 1965, the U.S. provided $308 million of AID and PL-480 (excluding Title I) assistance to the Dominican Republic in addition to the U.S. sugar quota benefits estimated at approximately $300 million accruing from higher U.S. prices. AID commitments in recent years have been more modest. In Guyana, where our major objective has been to deny power to the Communist Cheddi Jagan, the USG has provided approximately $56 million. The USG has also provided a modest USG development assistance program to Jamaica and in 1970 authorized a $10 million loan for the Caribbean Development Bank serving the Commonwealth Caribbean.

UK assistance for Caribbean countries--grants, loans and technical assistance--averaged $25 million between 1966 and 1969. In the same period Canadian assistance averaged $9 million yearly, but with a rising trend. Dutch aid to Surinam and the Netherlands Antilles averaged $22 million annually, and French aid averaged $136 million per year.

F. Immigration. Over 200,000 immigrants have entered the U.S. from the Caribbean countries discussed in this study in the past decade, with a marked acceleration in the flow in recent years. Jamaican immigrants, for example, rose from 1,780 in 1965 to 15,309 in 1970. (Selected statistics are contained in Annex F.) In addition, several thousand Jamaican contract laborers enter the U.S. annually for seasonal work harvesting crops in Florida and elsewhere. Including the smaller, non-independent areas, the total Caribbean immigration is well over 40,000 per year. While immigration restrictions adopted by the UK were partially responsible for the increased migration to the U.S. in the later 1960's, the geographic and economic attractions of the U.S. were also important factors.

The outlook is for increasing migratory pressures in the Caribbean, as populations continue to expand more rapidly than economic opportunities. Thus, the numerical limitation on immigration to the U.S. (120,000 total for independent countries of the Western Hemisphere) may become a source of increasing friction in our political-psychological relations with the area even though, on a per capita basis, immigrants from Jamaica, Barbados and Trinidad are more numerous than from any other countries in the world.

VI. Major Policy Problems

The major problems we face in the Caribbean today are the following:

A. The rising trend of nationalism, focused primarily on economic issues, with strong black power and anti-American overtones.

B. The intention of Great Britain to reduce its present levels of involvement in the Caribbean.

C. The increase in Soviet military activities in the Caribbean.

D. The nature of U.S. Caribbean base requirements.

E. The future of U.S. bauxite-alumina investments in the Caribbean.

F. How best to react to the area's social and economic problems, needs and aspirations.

These are considered and analyzed in the sections which follow.

A. Nationalism, Black Radicalism and Anti-Americanism

The rise in nationalist feeling, well described in the Situation and Trends section, is a consideration which underlies and influences many of the problems we will be facing throughout the region. With its focus on such issues as nationalization and local participation in foreign-owned enterprises, it is currently touching in our interests primarily in the investment sector. It has the potential, nonetheless, for extending well beyond this particular aspect of our Caribbean interests as it has, in fact, in the past. The growth of nationalism in the area is also closely linked with the rise of black radicalism or "black power", a development which frequently takes on an anti-American character for economic and political as well as racial reasons. As is the case in the U.S., black power in the Caribbean is an amorphous concept meaning different things to different people. One major strand that runs through all the manifestations of black militancy in the region, however, is a deep-seated mistrust, dating largely from colonial experiences, of those traditional political, social, and economic values inherited from predominantly white-skinned societies. This is a factor that will make it increasingly difficult for us to assist and influence these black societies. The difficulty will be reinforced, of course, by our own domestic racial problems.

One of the features of the more extreme "black power" type movements in the area is that they frequently challenge the legitimacy of the existing governments, seeking to identify them as tools of the white foreign establishment. Should such efforts reach sufficient intensity, as they did in Trinidad in 1970, civil disorders could easily erupt. Widespread or prolonged violence, or the threat of it, would probably force governments to seek outside help, including requests to the U.S. for military or other internal security assistance to counter the challenge. The issues and the organizations involved may well be strictly internal with no links to Cuba or Moscow. Even short of such crisis situations, area governments may approach us for certain kinds

of public safety assistance to help them in efforts to maintain public order.

Although the official U.S. presence in the Commonwealth Caribbean is not large, there is a very substantial volume of U.S. tourists in the area at any one time. Also, because of proximity, small size and a common language, the impact of the U.S. media in its various forms is both very great and, as Prime Minister Shearer has complained to us on different occasions, not always helpful either to the area nor to the U.S. image in the area. The American citizen abroad as tourist does not always project the most favorable image of America, and may on occasion contribute to anti-American or anti-white feelings by citizens of the tourist-receiving countries. The tendency of the media to focus on the dramatic and sensational also may contribute to a distorted view of the U.S. (as well as a distorted view in this country of Caribbean realities) and provide a basis for hostile or anti-American attitudes.

We have, through USIA and through CU and other governmental and private sector educational and cultural exchange programs, some means of countering the exaggerated nationalism and anti-American tendencies. The use to date of these instruments, in an area where we have such major and diversified interests susceptible to injury by hostile forces, has been severely limited by a shortage of funds.

It has been apparent that not all governments in the region have a clear understanding of U.S. policies toward Africa, a region which there is some identification with because of racial and cultural ties. To improve that understanding, Deputy Assistant Secretary for African Affairs Beverly Carter has agreed, subject to the concurrence of our Embassies, to make a briefing tour of the area within the next few months.

The growth in economic nationalism directed at foreign investors intensifies our problems with respect to the encouragement and protection of U.S. private investment in the region. We must deal with the dual problem of furthering understanding within the region of the importance and advantages to them of private investment flows, and of encouraging U.S. investors to take flexible and forthcoming attitudes responsive to the legitimate needs of host governments, in a period of rapidly changing attitudes toward the foreign investor.

Paradoxically enough, some of the anti-Americanism focuses on the fact that the U.S. places limits on the immigration or temporary visits of area residents to this country. This is a problem in which our available remedy is not to change our immigration laws, but to do a better job of explaining what the facts are. As a percentage of the area's population, particularly in the Commonwealth Caribbean, the number of immigrant visas issued is the highest in the world. The same is generally true for non-immigrant visas, despite a heavy incidence of fraud in NIV applications which results in very high rates of refusal, and thereby fosters some inevitable anti-American feelings in the process. In a statistical sense at least, if there is any discrimination in our immigration laws and regulations, it is in favor of, rather than directed against the independent countries of the Caribbean. Because of legal provisions relating to their status as dependent territories, restrictions are greater on immigration from the densely populated Associated States. There is pending as part of an Administration omnibus bill to amend the present Immigration and Nationality Act, a proposal to triple the present limit of 200 per State on immigration. If adopted, this should contribute significantly to decreasing concerns in the Associated States.

B. British Disengagement from the Caribbean

1. British Presence and Intentions. In line with a concerted effort to reorder and rationalize its foreign policy interests, the Heath Government has decided to "disengage" from the Caribbean area, where the vestiges of empire present political and economic liabilities. The British have expressed the view that the security of the area is of greater concern to the U.S. than the UK and that they can spend their money more profitably elsewhere. The basic problem we confront here is that a premature or hasty British withdrawal might create a political or security vacuum which could attract extremist elements and require greater U.S. involvement with the area than we are currently prepared to ac ept.

Currently, the British are responsible for the external affairs and defense of the colonies and Associated States and have additional internal responsibilities in the smaller colonies. The UK's public safety program provides training and equipment to both dependencies and the independent countries of the Caribbean Commonwealth. The two-frigate naval squadron is mainly symbolic. The British estimate that they

spend about U.S. $25 million annually to maintain their presence, mainly in the form of budget support and technical assistance. The dependencies, which would be the areas most affected by a British disengagement, are the Bahamas, British Honduras, the Associated States (located in the Windward and Leeward islands), the British Virgin Islands and some other small islands colonies (see Annex G for details).

The British have told us there is no fixed timetable for their proposed withdrawal, other than that they would like to nudge the Bahamas into independence in 1972. In our most recent discussions, they told us that they were not under urgent time pressure to liquidate their presence and that they were more than willing to cooperate with us in the planning. Their present intention is to allow the dependencies to move toward independence at whatever pace is possible. The British hope that the Associated States would either form a larger political unit, or join one of the presently independent entities, before seeking independence themselves. Embassy London has estimated that we have about one year and a half for aligning U.S. British plans.

2. British Alternatives. In many ways the best solution, from the standpoint of U.S. interests, for the problem of the dependencies would be a continuation of the status quo (and Secretary Rogers said as much to Sir Alex Douglas-Home at Camp David on December 18). The British dependencies have in general been politically stable, if not economically prosperous, and there is no strong popular sentiment in the islands for a British withdrawal. The impetus for withdrawal comes from Britain itself. Nonetheless, the British are not pressing the Caribbean dependencies issue now, and, in contrast to their position regarding the Persian Gulf, have no fixed timetable for the area.

The British have both political and economic motives for considering withdrawal from the Caribbean. We could probably greatly reduce their economic motives for departure if we were willing to subsidize their continued presence. However, the actual cost is not great, and the economic motive does not seem to be a particularly pressing one at the moment. Furthermore, the political disadvantages to them of retaining the dependencies would not be reduced by a subsidy arrangement, and in fact might be increased as the arrangement became public knowledge.

The political disadvantages to the British derive mainly from the requirement to maintain firm security obligations to distant areas, and to risk the need to intervene with force in domestic disputes, as in the case of Anguilla. These risks do not seem large in absolute terms, but the British are aware from their experience in the Anguilla case that the political embarrassment from forcible intervention can be made all the greater by the essential trivality of the issue. In the absence of any discernible political advantage to the British in staying in the dependencies, even relatively small risks suffice to shape the decision.

If attempts at federation were to fail, the British might try to make a case that each of the Associated States (associated not with each other, but each separately with Great Britain), is an embryo nation which could accept and maintain independence, provided that it received moderate economic assistance and commitments from regional powers with respect to its external security. Problems for the U.S. reside in the proviso; the U.S. would probably have to be the main source of economic assistance and the principal de facto guarantor of the external security of the islands, without having the power which the British presently have to take preventive measures in the internal security field should that be necessary.

An important element in British calculations about the future of the Caribbean dependencies is their view that the U.S., for fundamental reasons of self-interest, would probably feel itself obligated to assume the present British role at least in respect of protection of the islands against external threats to their security. The British have most recently expressed the hope that before the present dependencies achieve independence they will have established some new relationships with the U.S. and Canada.

3. Implications for the U.S.

(a) The Bahamas. U.S. ties to the Bahamas are closer and more numerous than to any other part of the Commonwealth Caribbean. We are committed by the NATO Treaty to regard an attack upon the Bahamas as if it were an attack upon ourselves, and we have a number of important and expensive military and space installations in the islands. The American community of permanent residents is more than 10% of the total population of the islands, a ratio many

times larger than in any other foreign territory in the world except perhaps Bermuda, and the same is true of the American economic stake per capita of population and of the volume of American visitors.

Against the background of our ties to the Bahamas, we have considered in general terms two broad alternative forms of a U.S.-Bahamian relationship for the period after the British depart. The first alternative is to promote our interests through the conduct of normal diplomatic relations with a fully independent Bahamas. The second alternative is to offer the Bahamas some form of association arrangement under which a part of Bahamian sovereignty (e.g., defense and foreign affairs) would be delegated to us. The alternatives are based on differing views as to how our relations with the Bahamas will develop over the next several years.

The arguments favoring normal diplomatic relations with a fully independent Bahamas run as follows: The Bahamas themselves are presently planning for eventual full independence, and there is no evidence of the widespread popular support in the islands that would be a sine qua non for an association arrangement. Prime Minister Pindling did broach the subject of association with us in 1967, and sent a delegation to Puerto Rico to study its operation there. He has not adverted to the idea recently, however, and is today the strongest advocate of independence among local politicians. The only real differences of opinion among political leaders relate to the timing, rather than the fact, of independence. With a voting age of 18, and 50% of the population under 18, it does not seem likely that any Bahamian politician could succeed by advocating such a conservative position as association, as opposed to independence.

While our relations with an independent Bahamas will not be free of problems, the ones that we can foresee now all appear reconcilable through normal diplomatic relations between sovereign states. When the British and NATO security commitments lapse, we shall probably have to reach new security understandings with the Bahamas to fill the vacuum, and we shall have to negotiate new base rights agreements, but we see no major obstacles in these fields. Relations between the large and economically powerful American community and the new Bahamian Government may undergo some strain as the new government moves to consolidate its authority, but we believe that U.S. educational diplomacy with the

Bahamians and with the U.S. citizens resident there should suffice to prevent the problem from getting out of hand. There is evidence that the large American investment presence there, based almost entirely on its status as a tax haven, has already peaked following imposition of certain restrictions on foreigners which have raised doubts about the permanency of the area's investment attractiveness.

A proposal for Bahamian association with the U.S. would probably encounter U.S. domestic opposition. The Senate in particular might be loath to take on new responsibilities. An offer of association could awaken charges of a renewed U.S. "interventionism" in Caribbean affairs.

Association would raise many thorny legal and constitutional problems. The price that the Bahamians would probably ask for their agreement to association (e.g., rights of unrestricted entry and residence in the U.S. on the Puerto Rican model; economic assistance) might be too high for a Congress preoccupied by the domestic needs of our own country. If we did agree to confer these benefits on the Bahamians, other countries of the Caribbean which are resentful of our laws on immigration might charge us with discrimination and press for improved treatment for their own citizens.

Apart from Congressional considerations, furthermore, and despite the unique nature of some of our relationships with the Bahamas, it is anachronistic in the 1970's to handle these relationships through protectorate-type arrangements, however delimited. Sensitive local politicians, under such an arrangement, would be pressured into aggressive and strident anti-U.S. positions to demonstrate they were not being dictated to by us. It would also affect adversely our relations with the independent countries of the black Caribbean who would view it as a threatening extension of American hegemony in the area, and revive memories of the Platt Amendment.

The arguments favoring a U.S. offer of association are as follows: It is conceded that widespread popular Bahamian acceptance of association would be the sine quo non for its realization, but the question appears still to be open as to what the Bahamians would prefer. They evidently have real doubts about their viability as an independent state. The British have noted to us that the UK faces a situation

virtually unique in its relations with a colony, in that it is the mother country and not the colony which is pressing for independence. Pindling's 1967 initiative for association with the U.S. is another evidence of Bahamian doubt about independence. He may have dropped the idea of association only because he got no encouragement from the U.S. to regard it as a realistic alternative.

The proximity of the Bahamas to the U.S., our security interest in ensuring that the islands never opt out of the Western security and political system, and the large and growing U.S. private presence in the islands would all operate against independent Bahamian nationhood in the conventional sense. The American private presence could be particularly troublesome to our relations.

If American influence is a serious preoccupation to a country like Canada, it could be an obsession with a much smaller country like the Bahamas. The Bahamians would recall the political effects of a large private American presence in past situations such as Texas in the 1830's and Hawaii in the 1890's, and would not find the parallels reassuring. But once set on a course of independence, they would probably feel bound to differentiate themselves from us in ways that might quickly challenge our extremely low tolerance for significant shifts in Bahamian political orientation away from us. The consequence could be an indefinite state of tense and unstable relations between the two countries which the Communist states would be tempted to exploit, and which could profoundly affect the American image in other less developed countries.

While there would be U.S. domestic opposition to a U.S. offer of association in any case, it would be much reduced if there were a clear demonstration that the Bahamians themselves considered it a realistic alternative to full independence. As for an objection that we were taking on new responsibilities, we would argue that association would be only a political accommodation to a situation already created by geography, the requirements of security, and the uniquely close and constantly growing ties between the U.S. and the Bahamas.

After considering these alternative views, we conclude that the disadvantages to an offer of association greatly outweigh the possible advantages, and we should determine

now that when the British depart it will be our policy to conduct our affairs through normal diplomatic relations with a fully independent Bahamas.

(b) British Honduras. The prospective independence of British Honduras raises potentially serious problems of political and economic stability. Although the dispute with Guatemala has not been an active public issue recently, the Guatemalan Government has continued to avow her claim to British Honduran territory, and there is no reason to believe she would gracefully accept British Honduran independence without what she would consider adequate concessions to Guatemala. Local political leaders in British Honduras have long recognized this external threat, as well as the loss of domestic political support they would suffer from endangering the country by demanding independence too early. The British are seeking to reach a solution with Guatemala, but any settlement seems very difficult to achieve; the British have refused to give a defense guarantee.

Forceful action by Guatemala, perhaps triggered by British withdrawal, would generate strong pressure on us, on the British and on the OAS from Jamaica, Trinidad and Tobago, Barbados and Guyana. The Mexican Government might choose to activate its residual claim to part of British Honduras, and the British might also turn to us to protect the British Hondurans' right to self-determination. Trinidad, as a Rio Treaty signatory, could invoke Article 3 of the Rio Treaty (which provides for individual and collective obligation to assist in meeting an armed attack by any state against an American state). Failure of the OAS to play a constructive and impartial role could lead to the Commonwealth Caribbean members leaving the organization. If a Guatemalan aggression were launched, our ties with that government would be severely strained and probably damaged, and efforts peacefully to settle territorial disputes elsewhere--especially Venezuelan claims to part of Guyana--would be set back.

U.S. interests would best be served by the continuation of British efforts to negotiate a settlement of the dispute with Guatemala, accompanied by continued discreet U.S. encouragement to the various parties to reach a peaceful and viable solution. The U.S. should be as forthcoming as possible in cooperating with the terms of any settlement which is agreeable to all of the parties, without placing

itself in the role of guarantor of British Honduras' security of economic well-being.

In the event of the grant of independence without a resolution of the dispute, we should be prepared to exert strong diplomatic pressures against any threat of Guatemalan aggression. Given our present relations with the British and Guatemalan Governments, it should be possible through preventive diplomacy to avoid the worst eventuality--a Guatemalan invasion.

The British Honduran economy is dependent on large financial grants from the British to make up the bulk of a gross imbalance in its foreign trade. The U.S. has been unwilling to unilaterally assume this burden. We have been encouraging the British to continue their predominant role in the area of development financing even after a grant of independence. The Canadian Government (which now provides some grant assistance), the World Bank and the Caribbean Development Bank appear to be willing to channel new or increased funds to British Honduras. Our own technical assistance program is now running at a level of under $100,000 a year.

(c) Associated States. A British disengagement from the Associated States raises different problems, since these areas are not economically viable as individual units, and only questionably so even if united in a Federation. In contrast to the Bahamas, we have only a minimal economic stake in the Associated States, and only two (but important) military installations, on Antigua.

These small islands maintain a precarious economic equilibrium thanks to British Government subsidies, preferential entry in the British market for their bananas and other tropical products, and outward migration to the larger islands and, on a small scale, to British and the U.S.

While the British would like to terminate responsibility for these territories, some of which it has held for over 300 years, it has not yet found a feasible way to do so.

C. Increase in Soviet Military Activities in the Caribbean

During the 19 month period ending in March 1971, Soviet naval visits occurred in the Caribbean with increasing frequency and duration. Since then the pace has slackened; but this should not imply any lessening of Soviet interest in the area; rather it should be considered a pause between deployments.

Six Soviet naval combatant groups have deployed to the Caribbean since July 1969. Moreover, between April and December 1970, Soviet TU-95 BEAR D naval reconnaissance aircraft flew four separate missions to Cuba. In addition to these visits to Cuba and naval exercises nearby, a few Soviet naval vessels have made port calls at Martinique and Barbados, and other Soviet vessels have put in at other ports. Two Soviet scientific and research vessels were bunkered at Trinidad in late February 1971. Eleven Soviet tankers which have carried petroleum to Cuba are known to have bunkered at Trinidad between January 1970 and February 1971; and Soviet merchant ships in the Cuban trade have bunkered at Jamaica.

A Soviet attack submarine capability in the Caribbean constitutes a threat to United States security interests in the area. Although the Caribbean is not estimated to be a first priority area for such craft in case of general war, attack submarines would threaten our sea lines of communication with Latin America and through the Panama Canal. They would also pose the possible denial to the United States of access to certain naval bases and facilities in the area and a capability to interdict the flow of strategic materials from Latin America to the United States.

Soviet cruise missile-armed surface combatants and submarines, although not currently deploying to the area in significant numbers or on set schedules, have intermittently operated in the Caribbean and when present constitute an additional threat to sea lines of communications in the area. Moreover, these units when armed with 250 nm missiles and deployed in the Caribbean at the outbreak of hostilities could be employed against some land targets in the area and in the coastal regions of the south-east continental United States.

The greatest potential threat to United States national security emanating from the Caribbean area would consist of a Soviet capability to launch strategic weapons against the continental United States from submarines or land bases. Such a capability would significantly affect the level and complexity

of the nuclear balance, introduce new control uncertainties, and increase the cost of defense. Operating from patrol stations in Caribbean waters, Soviet submarines would be within missile range of a portion of our deployed strategic force, thereby inceasing Soviet flexibility and further reducing warning time. With support facilities in the area, on-target time would obviously be increased.

Aside from security aspects, these Soviet military activities will have certain political and psychological side-effects in the area. Some countries may become accustomed to the Soviet military presence, accepting it as a "new normal" state of affairs and accommodating to it in various ways, e.g. establishment or enlargement of cultural, diplomatic and trade relationships, acceptance of Soviet port visits, provision of bunkering services. In contrast, other countries may feel increasing concern over Soviet activities (e.g. the Dominican Republic and Haiti), seeing new potential threats to their own security or domestic stability. Our Caribbean Chiefs of Mission at the January Mission Chief Conference in Panama, however, reported that there appeared to be no serious concern on this score on the part of the Caribbean governments.

Our attitude toward Soviet activities in the Caribbean will be largely determined by our over-all posture vis-a-vis the Soviet Union on the broader world stage. We have a special concern over potential use of Cuba as a hostile Soviet base area, but this is not within the purview of this paper. As to possible Soviet efforts to seek facilities elsewhere in the area, we do not expect over the next few years that any other Caribbean country will allow the Soviets to establish an overt military base or other major military presence. Conversely, it is believed unlikely that the Soviet Union would consider the potential advantages of new bases or facilities (elsewhere than Cuba) as justifying the risks involved.

Bunkering, and any similar non-permanent accommodations or facilities, may be a different proposition, however. To the extent Soviet tankers and naval vessels can bunker in non-Cuban ports (and thus burn non-Soviet transported fuel), there would be important savings in Soviet tanker utilization. The Soviets would have to weigh this benefit against the cost to them in scarce hard currency resources. Additionally, availability of such bunkering facilities might lead to an increase in the duration of Soviet naval visits in the area.

Having weighed the advantages to be gained against the cost and risks involved, the USSR will almost certainly continue in its present efforts to establish and maintain a continuous naval presence in the Caribbean. An analysis of the frequency and duration of the deployments to date shows that while the interval between deployments has declined, the duration of each deployment has increased. Thus, it appears that a Soviet presence in the Caribbean will evolve in a manner similar to that noted previously in the Mediterranean and Indian Ocean. The size and composition of this force will be tailored to the specific plans and requirements associated with Soviet objectives in the Caribbean. For the near term, these objectives are believed to be oriented primarily towards promoting Soviet political interests in Latin America, rather than the creation of a naval force capable of challenging U.S. military power. The speed with which a naval presence is established is a function of many factors, not the least of which is the reaction and concern demonstrated by the U.S.

The level and scope of Soviet naval activity in the Western Hemisphere can be expected to increase. Within the next 12-18 months, this will probably result in a continuous but limited presence focused in the Caribbean. In subsequent years, the size of this presence, influenced by the general trend in Soviet worldwide maritime expansion, will probably show a further increase.

Within the next several years, the Soviets will probably also deploy limited numbers of naval reconnaissance and ASW aircraft to Cuba. The Soviets have already established a precedent of deploying long-range aircraft into Cuba with apparently little or no reaction by the U.S. Soviet Naval Aviation TU-195 BEAR D reconnaissance aircraft would be a valuable adjunct to any naval force in the Caribbean. The deployment of MAY ASW aircraft or the introduction of BEAR ASW aircraft into Cuba would substantially increase Soviet ASW capabilities in the Western Atlantic.

It is highly unlikely that the Soviets would risk a direct confrontation with the U.S. by making a deliberate effort to establish a strategic offensive capability in the area. A land-based capability is not considered likely to materialize in at least the next several years. The capability to project ballistic missile submarines into the

Caribbean remains, and the Soviets would probably respond to an opportunity which would permit the introduction of these submarines without provoking a direct confrontation with the U.S.

On occasion the Soviet military presence in the area may provide a convenient opportunity for some Third World rhetoric. Such leaders as Guyana's Burnham or Trinidad's Williams might allude to Soviet presence in speeches or invite short visits to give credibility to their Third World credentials.

D. U.S. Base Requirements in the Caribbean

In examining potential problems under this heading several questions arise. First, "Do we need what we now have -- 15 separate active military facilities?" Second, "Do we need more facilities than we have now?" Third, "Is there any challenge to the continued use of these facilities?"

With the exception of two of the military facilities which will be phased out in 1971, all of the facilities we now have in the area are important to us at this time for various reasons, according to their differing functions. However, changing assessments of Soviet capabilities or intentions, changing perceptions of our own defense posture and needs, and technological advancements may dictate corresponding changes in our current arrays of facilities in the area, e.g., to phase down or even terminate some activities (as the Eastern Test Range facility on San Salvador island has been closed), or to expand activities at other facilities, or even establish new ones.

As to challenges to our continued use of facilities we now have, we see no serious obstacle in this direction over the next few years. However, we have had indications already from the Government of the Bahamas that it would like to undertake preliminary talks with us prior to independence regarding the U.S.-UK Defense Areas Agreement governing U.S. military facilities in the Bahamas. The implication is that the Government of the Bahamas following independence, might wish to make some changes in existing arrangements, but the nature of such changes, if any, cannot be foreseen with any precision at this time. In Trinidad, we have been carrying

on discussions with Prime Minister Williams' government on residual problems related to the phase out of the ETR tracking station (to be closed as of October 1, 1971), and certain details related to the operation of an OMEGA navigation station there. The "challenges" we have faced in Trinidad have been manageable utilizing normal diplomatic methods. The "challenges" we foresee arising in the pre-Independence period in the Bahamas (which we not estimate will continue until about 1973) similarly appear manageable through normal diplomatic methods. The gravity of these challenges, and the efficacy of normal diplomatic means to cope with them, are subject to reassessment in the event of an unforeseen radicalization of host governments along nationalistic, neutralist or racist lines, but these potentially adverse developments do not appear probable over the next two or three year period.

E. Bauxite in the Caribbean

1. Summary of Problem. Following three months of inconclusive negotiations with the company, Guyana on March 1 passed a bauxite nationalization law to permit it to take over the local subsidiary (DEMBA) of the Aluminum Co. of Canada (ALCAN). ALCAN is a Canadian corporation with about 46% U.S. ownership. The actual takeover occurred on July 15, but was immediately preceded by intensive high level negotations which produced an agreement on compensation for the expropriated assets. Under the agreement, the Government of Guyana will pay $53.8 million in equal installments over 20 years, with interest of 6 percent. Interest payments are subject to a 25 percent withholding tax. Up to 30% of payments due in any given year (up to 40% in the first year) may be deferred, but full payment of all such outstanding deferments must be made at the end of the fifth, tenth, fifteenth and twentieth years.

The compensation is recognized as an obligation of the Government of Guyana, and is to be covered by notes in two series; one covering the fixed portion of the debt and the second, any deferred portion. The notes are non-negotiable until 1977.

The precedent established in the ALCAN case may set the pattern for similar action against Reynolds Metals' $31.5

million* investment in Guyana. Guyanese officials including Burnham, however, have offered assurances that action against Reynolds will not occur before 1972. OPIC holds a $16.3 million investment guarantee covering the Reynolds investment. Moreover, the Guyanese action may trigger demands for increased local control and ownership of over $1 billion of U.S. investment in bauxite and alumina located elsewhere in the Caribbean. Of this, almost $650 million is in Jamaica and is covered by more than $430 million in OPIC insurance against expropriation. The outlook for Jamaica and other Caribbean countries will depend in part upon the ability of Guyana to successfully operate the nationalized properties and market the output of bauxite and alumina.

Burnham is encountering a host of problems as a result of his own poor planning and, notwithstanding the compensation agreement, the prospects for a trouble-free operation are dim. To the extent that they remain so, it will tend to alleviate pressures for expropriation elsewhere in the region. With respect to Guyana's internal politics, however, total failure of the nationalization scheme could pose serious bilateral problems for us. Already Burnham's Marxist rival (Cheddi Jagan) is trying to capitalize on the government's troubles which he depicts as resulting from inept leadership, poor planning and the failure to take over the entire bauxite industry (i.e., the U.S.-owned Reynolds holdings). In fact, Jagan has hinted darkly of U.S.-Burnham collusion to save Reynolds from ALCAN's fate. In an atmosphere of growing labor unease and diminishing public confidence in the government's ability to successfully operate DEMBA, Burnham might move impulsively against Reynolds and adopt anti-U.S. positions in order to reassert his "progressive" credentials. The likelihood of this would be increased if he felt the USG were applying economic pressures on him. Even less attractive alternatives include Burnham's replacement by more extremist elements in his own party, or a Jagan return to power. In the latter event, Jagan would certainly nationalize Reynolds, and seek to align Guyana openly with USSR.

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*"gross value" figures (total investment without regard to either appreciation or depreciation) are used throughout this paper for bauxite investments. Figures are confidential and were furnished by the companies to the Office of Emergency Preparedness.

In Jamaica, neither the government nor the opposition is anxious to follow Burnham's lead, although both see some local equity participation in the bauxite industry as inevitable, and are searching for an acceptable formula. Both Jamaican party leaders fear that a Burnham "success" could create irresistible pressures on them to seek a similar arrangement.

In Surinam, there is no pressure at present for expropriation. Government leaders there have been critical of Burnham's actions. For a more detailed discussion of the situation and outlook in Guyana, Jamaica and Surinam, see Annex H.

2. Importance of Caribbean Bauxite.

(a) Bauxite imports are vital to U.S. We currently import nearly 90% of our bauxite/alumina from the Caribbean, nearly half from Jamaica alone and an additional 20% from Surinam, on a content basis. Our Caribbean bauxite/alumina suppliers (in rank order) are Jamaica, Surinam, Dominican Republic, Guyana and Haiti.

Major expansion of bauxite/alumina capacity in Australia, and bauxite capacity in Guinea, and to a lesser extent in Brazil and elsewhere, will substantially increase alternative sources of bauxite/alumina supply by 1973-74. These expansions reflect to a large degree a projected increase in world demand for aluminum. Substitutions for U.S. imports of metallurgical grade bauxite from Guyana (about 3% of total U.S. imports) should not be difficult. Canada, which imports nearly half (on an alumina content basis) its bauxite/alumina from Guyana will face more of a problem, but Alcan apparently believes imports could be supplied from alternative sources with little difficulty given a two-year transitional period. Larger scale substitution for existing Caribbean bauxite/alumina production (particularly any large part of Jamaican production), would take several years and major additional capital investment. Moreover, transportation costs (port-to-port) from Australia at present are much higher.

The developing situation, even assuming the worst outcome (nationalization of the Jamaican bauxite industry without any agreement on compensation) would not necessarily threaten U.S. access to adequate supplies of bauxite/alumina. Given the lack of alternative buyers for its ten million ton output, Jamaica needs our market as much as we need its bauxite,

even though it might be able to sell a small part of its output elsewhere. The combination of stockpile availabilities, medium-term alternative sources for the U.S., and, in particular, Jamaica's relative lack of other buyers makes the access problem not a critical one. What could be affected, in the worst outcome situation, is terms. Jamaica might capitalize on the transportation cost differential and certain technical considerations to seek a higher price for the product it sells. Even short of nationalization, its demands on the companies could compel them to consider a price increase for aluminum.

U.S. industries depend upon Caribbean producers for calcined bauxite, a special type used for refractories, abrasives, and chemicals. Guyana and, to a lesser extent, Surinam, together enjoy practically a world monopoly in the production of refractory grades. If necessary, substitutions of other materials (alumina, kyanite or synthetic mullite) could be made for refractory purposes, but at a higher cost or loss of efficiency. Available information suggests that such substitutions would have only a marginal effect on the cost of steel or cement. Industries producing these materials are primary users of bricks made from refractory grade bauxite. At present, calcined bauxite is in short supply and alternative sources are not likely to be in large-scale production before 1974.

U.S. strategic interests are important, but do not appear to be threatened. Although a preliminary review of requirements for refractory bauxite indicates a potential growing deficit, this would not seriously impair industrial activity. Strategic needs for aluminum would not be threatened unless Jamaica and other Caribbean sources generally denied or greatly reduced U.S. access to bauxite and to alumina and aluminum. This contingency seems unlikely. Total annual mobilization requirements for bauxite are calculated to be 14.5 million dry tons, of which 48 percent depends on imports from Jamaica and 26 percent on imports from other Caribbean areas. The U.S. also depends on imports of 17 percent of its alumina requirements from the Caribbean area. Direct military requirements for aluminum would not be in question because they constitute only about 23 percent of total mobilization requirements, and would be seen to by the priority system already in effect under the Defense Production Act. The other 77 percent would be required, even in war, for transportation equipment, construction materials, food containers,

etc. The Caribbean area is considered available as a source of supply during all three years of the war emergency planned for, unlike other overseas area, which are not considered available during the first year of a war. Under present stockpile procedures, which are being reexamined in an interagency study in NSC channels, supply from these Caribbean sources is evaluated in terms of the following reliability percentages: Jamaica 100 percent; Guyana, Surinam, and the Dominican Republic, 75 percent; and Haiti 50 percent.

(b) U.S. bauxite investments in Caribbean exceed $1 billion. Five U.S. corporations, Alcoa, Reynolds, Kaiser, Revere and Anaconda--are involved in bauxite/alumina production in the Caribbean. Combined total investment of these companies is estimated at over $1 billion, $650 million of which is in Jamaica. OPIC investment guarantees presently cover $447.7 million but could reach $544.3 million under existing agreements. The Aluminum Company of Canada, Ltd. (Alcan) also has substantial Caribbean interests. Although a Canadian firm, Alcan's top management is American and 46% of the company's shares (figure confidential) are held by U.S. investors.

(c) Status of U.S. inventories. U.S. consumption in 1970 of metallurgical and calcined bauxite, including refractory grade, was estimated at 16 million long dry tons. U.S. industry purchased from GSA some of the metallurgical grade bauxite which is excess to that required by the strategic objective. There is no excess of refractory grade bauxite in the USG stockpile and negligible commercial stocks. Including these quantities of ore under contract but as yet not removed from GSA storage sites, commercial stocks of metallurgical grade equate to about five months current consumption. USG inventories hold an additional 3.9 million tons of metallurgical grade ore which is excess to that needed to meet the objective. With Congressional approval, this could be made available to meet non-wartime requirements. Should all imports of metallurgical grades be stopped and the U.S. industry forced to rely exclusively on the stockpile, differences between Jamaican and Surinam bauxite would require the industry to make technical production adjustments. Stockpile supplies not in excess of the strategic objective can, of course, be made available for the purpose of the "common defense" during peacetime; this criterion excludes other economic reasons. In a wartime situation, security of access to foreign bauxite supplies would become more critical.

U.S. Bauxite Stockpiles*

Type	Strategic Objective	Inventory	Excess to Inventory
Metallurgical	10.3 million	14.2 million	3.9 million
Refractory	173,000	173,000	None

*All figures in long dry tons.

3. U.S. Policy Options. (Because of the intricate nature and the special importance of the bauxite problem, which involves relations with Canada as well as with three major Caribbean bauxite-producing nations and five major North American aluminum companies, a more detailed consideration of the options available to us is presented on this problem than for several of the others.)

a. Guyana. NOTE - These options are subject to revision in the light of decisions to be made on NSSM-131.

(Assumption: Reynolds will not face expropriation issue before 1972, but cannot hope to maintain the status quo indefinitely.)

Option 1. Diplomatic representations stressing general U.S. position re nationalization and compensation and problems that expropriation raises for GOG vis-a-vis USG. The primary objective would be to avoid any unilateral action by the GOG that would lead to expropriation of Reynolds; and secondarily to insure just compensation for Reynolds in the event of nationalization. This option would recognize the likelihood of an ultimate change in ownership patterns in Guyana, and would place priority on closely coordinating our actions with Reynolds and making private diplomatic representations to Burnham and the GOG when it appeared the GOG was taking any action inimical to our interests. We would hope expropriation could be avoided via negotiations, and we would encourage Reynolds to negotiate in good faith. However, we would not encourage the company to accept terms that would constitute an unfavorable precedent for future changes in Jamaica, even if the alternative was expropriation and the OPIC guarantee had to be paid.

We would take a strong stand with the GOG on assuring prompt and adequate compensation for an American company as

a principle of international law and in order to limit claims against OPIC.

Pro - Might help delay expropriation of Reynolds in Guyana and lead to better settlement terms in event of expropriation; might limit, although not necessarily avoid, claims against OPIC; could help assure access to calcined bauxite for at least an interim period; problems with the GOG would be less than under Option 2.

Con - May be interpreted by Jamaicans and others as showing lack of strong U.S. concern over expropriation route; may bring criticism from some U.S. bauxite companies as inadequate protection of their interests; existing settlement with ALCAN might be limiting factor on terms.

Option 2. Hard line approach on expropriation. This option would be predicated on the assumptions that an aggressive approach would help deter expropriation of Reynolds, but that, even if it did not, it would discourage similar actions elsewhere. It would place primary emphasis on discouraging emulation of GOG pattern, even at the risk of undermining Burnham's position vis-a-vis Jagan and limiting U.S. access to calcined bauxite. Under this policy the USG might use its influence to discourage U.S. firms from buying bauxite from Guyana or in any way cooperating with Guyana. Moreover, the USG might use its influence with foreign governments to limit foreign purchases and foreign assistance to the bauxite industry. It could also involve the use of public high-level statements critical of expropriation, designed to discourage nationalization of Reynolds.

Pro - Helps bring about economic difficulties for Burnham thus protecting position of U.S. bauxite companies in Jamaica and the rest of the Caribbean and reducing the possibility of OPIC having to pay claims in Jamaica; policy probably would be strongly supported by U.S. bauxite companies.

Con - Would precipitate action against Reynolds and incur likelihood of OPIC having to pay Reynolds' claim in Guyana; would adversely affect over-all U.S. relations with Guyana and possibly cause Guyana to look to Bloc countries for assistance; could push Burnham toward extremist policies; might strengthen Jagan's position; would lead to charges of

economic imperialism by Guyana and others; U.S. would lose access to Guyana's calcined bauxite, which would bring strong protest from U.S. refractory industry; barring the unlikely assistance of ALCAN to him, Burnham, who has already run into lots of problems, will have serious difficulties in any event for some time.

Contingent Options. (Assumes ALCAN has already been expropriated and Reynolds is also facing negotiation or expropriation; the options are listed as contingent and are not necessarily mutually exclusive, because we cannot now be sure of the circumstances which might prevail at the time Reynolds would be called in. Therefore, no recommendations are made concerning these options, other than that they be carefully reexamined when the situation arises.)

1(a) Use our good offices to encourage both parties to achieve a negotiated settlement that would keep Reynolds operating in Guyana. This option would accept a changed ownership pattern with probably at least majority ownership for the GOG; the possibility of better compensation arrangements than offered to ALCAN; could include a proposal for expansion. It could involve our attempting to influence both the GOG and Reynolds toward this end, without assurance of success.

Pro - If successful, would assure access to calcined bauxite; would avoid payment of claim against OPIC; could help maintain favorable relations with Burnham. Would not necessarily be prejudicial to U.S. interests in Jamaica, particularly if Guyana were having difficulties assimilating DEMBA.

Con - Could be used by Jamaicans and other countries as a precedent for demanding equity from bauxite companies; would probably be opposed by other U.S. bauxite companies; agreement on terms acceptable to Reynolds may not be possible; if agreement reached, could strengthen Burnham's position of leadership in the Caribbean.

2(a) Strong representation to the GOG stressing general U.S. position re nationalization and compensation. While seeking to avoid expropriation, the primary objective of this option would be that of assuring just compensation for Reynolds. It would be a concerted effort on this single issue. This policy would have to recognize that Guyana could only make

compensation from future cash flow from bauxite/alumina operations thus accepting the principle of deferred compensation. The emphasis would be on a fair evaluation of assets and an acceptable formula for future payments. It might involve our urging Guyana to submit the compensation issue for international arbitration or judgment under the Convention for Settlement of International Investment Disputes, of which Guyana is a signatory.

Pro - Could lead to better settlement terms for Reynolds in event of expropriation than would be available without representations; might limit, although not necessarily avoid claims against OPIC; would probably be acceptable position as far as other U.S. bauxite companies are concerned.

Con - Would not assure continued access to calcined bauxite: risks of having to pay OPIC claims would be greater than under Option 1(a); runs likelihood of getting less adequate compensation than under 1(a).

3(a) Hardline Approach if Reynolds is Expropriated Without Prompt, Adequate and Effective Compensation. This approach, like Option 2 above, would emphasize sanctions against Guyana. It would include measures to compound Burnham's difficulties in running bauxite industry, and could include formal application of economic sanctions such as the suspension of assistance and sugar quota upon expiration of the six-month waiting period contemplated by statute.

Pros and Cons - Many of the pros and cons of Option 2 above would be applicable, but relations with Canada would not be an issue as a U.S. company would be involved. Although we would not be concerned about precipitating action against Reynolds, which would be a fait accompli, this option would imply willingness to sacrifice compensation for Reynolds in Guyana--and corresponding loss to the U.S. Treasury under the OPIC guaranty--to protect larger investments in Jamaica and elsewhere. Application of formal economic sanctions, however, would require a finding by the President that Reynolds had exhausted all adequate legal remedies in Guyana and that GOG was not prepared to take other appropriate steps such as submitting the dispute to arbitration. Moreover, formal application of sanctions would aggravate the political costs foreseen under Option 2 above and would expose USG to charges in the UN of economic coercion in violation of the UNGA resolution on non-intervention and the Declaration on Friendly

Relations between States. Further, application of sanctions to Guyana while deferring such application against Peru (and possibly Chile) would expose U.S. to charges of racial discrimination with potentially wide repercussions. This charge would be even more serious if Reynolds and OPIC reject in Guyana terms that U.S. investors and OPIC have accepted in Chile or elsewhere.

b. Jamaica.

Whichever of the three options outlined below is followed, there are various courses of action open to the USG which can contribute to a favorable climate for U.S.-Jamaican relations, provided the GOJ pursues a moderate course with respect to U.S. bauxite investments. These include one or more of the following:

(a) Taking a forthcoming position, to the extent that our own laws permit, on the question of alumina pricing for tax purposes.

(b) Adopting a flexible trade posture toward Jamaica on such issues as special preferences granted by the UK and Jamaica's possible need to retain reverse preferences.

(c) Providing economic assistance to combat basic socioeconomic problems in Jamaica.

(d) Encourage companies to be more forthcoming and imaginative in efforts to protect their investments in Jamaica, not excluding efforts or approaches that could involve either local equity participation or substantial additional expenditures whose benefits would accrue primarily to Jamaica rather than the company.

Item (a) is currently under discussion between Jamaican and U.S. Treasury officials; item (b) is related to broader considerations of general U.S. trade policy and is the subject of a recommendation elsewhere in the paper; item (c) is in the process of being implemented, on a modest scale, via recommendations in the Bernbaum report; item (d) would represent an effort to anticipate future problems by some timely company actions, but requires considerations of how far the USG can or should go in influencing company policy or decisions.

Option 1. Actively use good offices of USG to encourage and facilitate continuing dialogue between the Government of Jamaica and the U.S. companies but do not become involved in substantive issues. Given the growing pressure for greater participation in ownership and the drive to increase returns to the Jamaican economy, the results of this approach will depend in large part upon the willingness of both the companies and the Government of Jamaica to evolve a new relationship. Company initiative in this regard may obviate having to respond in the future to tougher demands from the Jamaicans, which could create a more difficult bargaining situation.

Pro - Avoids putting USG in a position in the middle on controversial issues; facilitates continuing good relationships with GOJ; gives us flexibility to influence both parties; insures that final outcome represents choice of both parties. If successful, would protect access to bauxite, deter nationalization and avoid payment of OPIC claims; allows for subsequent more direct involvement of USG if this should come to be considered advisable.

Con - May represent inadequate use of USG leverage to discourage nationalization or encourage forthcoming company position; could subject us to criticism from companies for not supporting their positions.

Option 2. Make representations to the Government of Jamaica with the objective of forestalling any demands for ownership and minimizing any demands for renegotiation of contracts.

Pro - Would have strong support of U.S. companies; if successful, could arrest trend towards nationalization of extractive industries and avoid claims against OPIC.

Con - Fails to recognize current realities (Embassy states some equity participation is inevitable) and may stiffen positions on both sides rather than facilitating compromise; would adversely affect political relations with GOJ.

Option 3. Play an active and substantive intermediary role between GOJ and companies with the objective of working out a new company-government relationship which will satisfy government needs and provide companies with long-term operational stability.

Pro - Is best way to ensure eventual settlement is consistent with overall U.S. interests including access to bauxite and avoidance of OPIC claims; would permit USG to deal effectively with intransigent or dogmatic positions on either side.

Con - May assume more than is justified about USG capability to achieve such a solution; if solution back-fires, USG is stuck with responsibility for it. Neither side has requested such a USG role and in any event it is premature to consider such a U.S. role in present circumstances.

F. How Best to React to the Area's Social and Economic Problems, Needs and Aspirations.

The U.S. military installations and economic interests (including primary bauxite reserves and investments, as well as petroleum refining installations) are heavily concentrated in the Commonwealth Caribbean, although Surinam is an important and expanding source of bauxite and the Netherlands Antilles have extensive oil refining facilities that provide about one-fourth of the U.S. east coast's import requirement of residual fuel oil.

The potential British disengagement from the area confronts us with the reality that it is predominately U.S., rather than British, interests that are at stake in the Commonwealth Caribbean. At the same time, the economic health of the Caribbean is heavily dependent upon U.S. actions relative to trade, investment and economic assistance. The Caribbean states, to a much greater extent than many Latin American countries, rely overwhelmingly upon external trade and capital. Traditionally their narrow economies have been based on labor intensive agricultural export trade with the metropolitan powers. Although the stage of development varies widely among the several Caribbean states,

in many of them it has only been within very recent years that significant modern sectors related to tourism, the minerals industries, and in some countries import substitution manufacturing, have been superimposed upon the traditional economies. These new industries are to a large degree externally dominated by North American companies which have sharply increased their investments in the area during the past decade. On the other hand, much of the traditional export agriculture in the Commonweallth Caribbean is tied to UK interests operating in sugar and other commodities.

Tourism and the minerals industries have accounted for most of the economic growth in the area. The growth of tourism has also made more obvious the disparity between the opulence of the prdominantly white North American tourist and the poverty of the predominantly black population and often has led to the purchase of scarce lands by foreigners. The importance of the bauxite industry to the economies in Jamaica, Surinam and Guyana and the oil industry in Trinidad and Tobago make these industries logical targets for nationalists who emphasize the exploitation of limited and expendable national resources by foreign, largely U.S. companies. Without a formula that permits broader-based development and greater indigenous involvement, it seems likely that the tension already evident in respect to tourism and the extractive industries will continue to grow, leading to the prospect of greater conflict between the policies of the U.S. and the Caribbean states.

There will be increasing pressure for local participation in foreign-owned economic enterprises, particularly but not exclusively in the extractive industry, which will require a constructive response both from American investors and the USG to avoid damage to legitimate American investment interests and access on reasonable terms to needed raw materials. Moreover, a conflict over policy in one area such as trade can be expected to have a spillover effect on other interests such as investment or even base rights.

A U.S. commitment to development of the area is as essential to our bilateral political and economic relationships in the Caribbean as it is anywhere else in the hemisphere. We cannot expect to have healthy relationships

with the Caribbean states unless the U.S. is prepared to take a positive stance in trade, assistance and commercial policies. As elsewhere, such a stance will not guarantee stability or even friendly governments. Nor will it assure the security of U.S. investments without accommodation to national aspirations. However, we cannot afford to adopt a policy of benign neglect toward the Caribbean in the 1970's any more than we can afford a policy of intervention. If we are to expect the leaders and people of these states to be responsive to our special interests, the U.S. must be willing to be reasonably responsive to their needs and aspirations.

1. The Nature of Future U.S. Trade Relations with the Caribbean. The range and importance of our interests in the Caribbean and the heavy dependence of the region on external trade make it incumbent upon us to give special attention to ways in which we can cooperate to strengthen the trading capacity of Caribbean nations.

Trade decisions that will be taken over the next year will significantly affect the future structure and growth of the Commonwealth Caribbean economies and may be a decisive factor affecting future political stability in the area. Of major importance to the Commonwealth Caribbean states are the negotiations between the UK and the European Economic Community. At the same time, U.S. decisions concerning participation of the Commonwealth Caribbean in our proposed Generalized System of Preferences the amount of their participation under the U.S. sugar quota and arrangements governing specific commodities such as rum and textiles will affect the ability of Commonwealth Caribbean states to broaden their markets and diversify their economies.

The potential entry of the UK into the European Economic Community presents the Commonwealth Caribbean with a serious problem affecting future employment and foreign exchange earnings. It is expected that the Commonwealth Preference System in general will be phased out. At present all Commonwealth Caribbean countries benefit from special preferences granted by the UK for their major agricultural exports, in particular sugar, bananas and citrus fruits. The share of these commodities of the total exports of these states represent about 80% in the case of the Windward Islands, 70% for Barbados, 60% for the Leewards, 30% for British Honduras, 20% for Jamaica, 16% for Guyana and 10% for Trinidad and Tobago. However, the significance of the UK market

for these crops goes beyond foreign exchange earnings. Their production by labor intensive methods provides more than proportional employment opportunities in a situation of generally serious endemic unemployment. Moreover the Commonwealth Caribbean countries are by and large high-cost producers of sugar, bananas and citrus fruit, and depend heavily upon the sheltered UK market for their earnings from the export of these products.

The UK is asking the Community to make special provision for imports of sugar from Commonwealth countries, notably in the Caribbean, and to give Caribbean Commonwealth countries the same three options granted African Commonwealth countries: (a) accession to the Community's present Yaounde Convention on preferential arrangements for former African colonies of EC members; (b) commercial agreements, or (c) association with the Community. The Community may insist on reverse tariff preferences in return. U.S. interests in the Caribbean would be best served if there were reasonable accommodation, permitting the Commonwealth Caribbean states to export their agricultural commodities to the Community, at more or less existing levels, without reverse preferences.

a. Participation of the Commonwealth Caribbean in the U.S. Generalized System of Preferences. The Commonwealth Caribbean countries are anxious to participate in the system of generalized tariff preferences which the U.S. plans to extend to the LDC's, even though relatively few of the items included in our preference list would be of immediate benefit to them. They are aware that one of the aims of this system is to promote the gradual phase-out of the reverse tariff preferences granted by some developing countries to certain developed countries.

Faced with a choice between losing preferential access to the Community-market or foregoing participation in our G.S.P., they may choose to opt for preferential access to the Community to avoid serious unemployment and economic dislocations.

Four alternatives are currently under consideration by an inter-agency working group, for the purpose of agreeing on definitive wording for the Administration's draft bill on generalized preferences to be submitted shortly to Congress.

Option 1. Adhere strictly to our stated position on reverse preferences as contained in NSDM 65, i.e. to exclude any LDC that does not give us satisfactory assurances that it will phase out reverse preferences by 1975. Do not spell out this condition in the draft legislation. (Supported by OMB.)

Option 2. Same as Option 1 except: Incorporate specific language reflecting this position in the draft legislation. (Supported by Agriculture, Labor, Treasury, STR, AID, and CEA.)

Option 3. Make it clear that generalized preferences will not be extended beyond 1975 to any LDC which continues to grant reverse preferences, but do not exclude any LDC at the outset on account of reverse preferences. Incorporate specific language reflecting this position in the draft legislation without any authority for special exceptions. (Supported by Commerce, Interior, and State.)

Option 4. Same as Option 3 except: Provide authority for the President to make special exceptions to the 1975 cutoff when he determines it to be in the national interest. (Supported by Defense.)

Agencies represented in IG/ARA have taken differing positions on these alternatives; a decision will presumably have been taken before the final review of this paper. If the choice eventually offered to the Commonwealth Caribbean is found by them to be too restrictive to permit their participation in our G.S.P., this will have adverse consequences, more political and psychological than economic, in our relationships with the area. It will be taken by the area, unless we can provide offsetting advantages elsewhere, as a further indication that Caribbean concerns have a relatively low order of priority for the U.S. This can in turn influence their own decisions in areas of important U.S. interests such as investments.

b. The U.S. Sugar Quota. The present outlook for U.S. sugar legislation is that the new Sugar Act will be extended for not more than three years. The Commonwealth sugar arrangement, under which Commonwealth Caribbean sugar has a preferential market in the UK (though at lower prices than in the U.S. market) expires in 1974. Britain's entry

into the Common Market could affect its ability, or willingness to continue such arrangements after 1974. Given the major nature of our interests in the Caribbean, it could be in our interest to provide some offset in the U.S. market to any serious decline in Caribbean exports to Britain. Since, under the present outlook, our new legislation will expire either before or simultaneously with the British arrangements, there is no need to confront the issue at this time. It is in our interests that the new legislation retain the present basic quota for the British West Indies, British Honduras, and the Bahamas, and permit their pari passu sharing with other Western Hemisphere suppliers in any supplementary allocations.

The Dominican Republic is more dependent, in both the foreign exchange and employment sense, on its U.S. sugar quota, than any other country of the Hemisphere. It has been the sole beneficiary, for some years, of a special allocation of tonnage, based on a Presidential determination that such an allocation is in the U.S. national interest. It is important to our own interests as well as those of the Dominican Republic that such Presidential waiver authority be retained in the new sugar legislation, or that it otherwise be enabled to continue receiving a total quota approximating that of recent years.

c. Modifications of Present Trade Arrangements with Respect to Specific Commodities. Aside from whatever benefits the Caribbean countries are likely to derive from participation in our generalized preferences and from a possible growth in their sugar exports to the U.S., there are a number of other commodities which are excluded from the G.S.P. If these were granted more liberal access to the U.S. market, the foreign exchange earnings of these countries would be improved, their economic situation strengthened, and their dependence on traditional exports reduced.

In favor of a more forthcoming U.S. attitude it can be argued that the domestic U.S. impact of any concessions, given the magnitudes involved, is likely to be rather limited, while the benefits to the recipients could be quite substantial.

Two such commodities are textiles and rum.

Textile imports are now regulated under the terms of the Long Term Agreement on Cotton Textiles. Textile import policy is a matter of major domestic concern, and it is not within the competence or jurisdiction of IG/ARA to make judgments or recommendations on overall textile policy. The Caribbean area, which suffers from severe unemployment, could benefit economically from an expansion of labor-intensive, low-skill industries such as textiles. This is a fact which should be taken into account, at such time as the Administration undertakes any review of its current arrangements governing textile imports.

More liberal access to the U.S. market for Caribbean rum would also be helpful. Rum imports now suffer from discriminatory tariff treatment vis-a-vis whiskey and gin. This has resulted from the fact that the tariff rate on the latter commodities has been more extensively reduced over the course of several trade negotiations than the duty on rum. In the latter case, there has been the desire to protect rum producers in Puerto Rico and the Virgin Islands (on whose exports to the mainland no duties are levied), and the fact that other rum-producing countries were unable to provide sufficient reciprocity to obtain a concession on rum.

It can be expected that the Governments of Puerto Rico and Virgin Islands, which supply 96% of the rum consumed in the U.S., would strongly oppose any reduction in the duty on rum. In 1969, about 4.9 million gallons, valued at $21.7 million, came from Puerto Rico and 1.4 million gallons, valued at $1.6 million, from the Virgin Islands.

Of more importance than receipts from rum exports, however, is the rebate of revenue to these Governments from special funds accruing from the U.S. excise tax of $10.50 per gallon on all rum from these areas sold in the United States. In 1969, these funds amounted to about $50 million for Puerto Rico and $15 million for the Virgin Islands, or about 5 percent and 16 percent, respectively, of the total revenue of these Governments.

It was because of these circumstances that rum was withdrawn from the list of U.S. offers in the Kennedy Round and that it was placed in the most sensitive category among the

group of products requested by Latin America for inclusion in the U.S. generalized scheme of preferences (CSP) last fall. This category was reviewed and turned down by White House decision at that time.

In the context of our total Caribbean policy, however, it might be appropriate to reconsider the rum question. It should be noted, though, that inasmuch as the President has no authority to lower tariffs at this time any action would require new legislation. Under these circumstances two alternative courses of action might be considered: 1) directly reduce the rum duty to a level comparable to that levied on gin and whiskey, or 2) reconsider the possibility of including rum in the G.S.P.

With respect to the first option, special legislation could be requested to give the President authority to reduce the duty on rum, presently $1.75 a gallon, to a level comparable to that levied on whiskey and gin, i.e., about $.50 a gallon. This concession would still provide some protection for the Puerto Rican rum industry but would improve the earnings of other exporters and broaden their market in the U.S. Under the MFN provision this concession would also benefit the French Caribbean dependencies of Guadeloupe and Martinique (which are treated as part of Metropolitan France).

This alternative would also permit a show of U.S. interest in and responsiveness to Caribbean trade problems in the event that the conditions for joining the Generalized System of Preferences are such that the Commonwealth Caribbean countries decide not to join it. On the other hand, it would be difficult to obtain authority from the Congress to give any concession, particularly on a sensitive product, for which there would be no direct reciprocity.

The second alternative would be to include rum in the list of products governed by the proposed U.S. scheme of generalized preferences. If this were done the duty on rum would go down to zero which would actually provide a preferential advantage for rum in relation to gin and whiskey. In addition to all of the Caribbean countries, some other Latin American countries would stand to benefit from such a step. However, this alternative would result in a more serious disruption for the industry in Puerto Rico and the Virgin Islands.

While rum was among the list of sensitive products turned down for inclusion in the GSP last fall, it is our understanding that the products were considered as a group rather than individually. Inclusion under the GSP would also be a unilateral concession, but it would be temporary and it would be relatively easier to obtain the requisite Congressional authority given the fact that rum would be just one of many products to be included under the scheme. Moreover, legislation for generalized preferences will shortly be ready for submission to Congress and thus action on rum might be obtained sooner under this alternative. On the other hand, if it did not prove possible to include rum under the GSP, consideration could still be given to the possibility of requesting appropriate authority under special legislation.

Other areas worthy of further study are the possibilities of increasing access in the U.S. market for certain Caribbean fruits and vegetables, and of increasing the duty free import ceiling for U.S. tourists returning from the Caribbean area.

2. The Nature of U.S. Economic Assistance Activities in the 1970's. Our economic assistance programs of the 1965-70 period reflected the following policies:

(i) Our bilateral economic assistance has been concentrated in those countries--specifically the Dominican Republic and Guyana--where the USG has involved itself because of a perceived threat of a Communist takeover.

(ii) We have sought to avoid a proliferation of bilateral AID programs in the Commonwealth states and have encouraged the UK to continue as a major source of assistance.

(iii) We have, where possible, channeled assistance through multilateral and regional institutions.

(iv) We have continued a small humanitarian assistance program in Haiti primarily through multilateral and private agency channels.

Consistent with the findings of NSSM-108 a firm U.S. commitment to social and economic progress is necessary to support our many important U.S. interests in the Caribbean. As documented in this study, our primary interests in the area are not concentrated in the Dominican Republic and Guyana. While we have special reasons for continuing assistance to these two countries, such assistance should be provided in accordance with our current policy of placing increasing reliance upon multilateral assistance channels and reducing our bilateral profile. By the same token, we need to

acknowledge our special interests in various Commonwealth Caribbean states and assure that our assistance policies do not discriminate against them.

Given the concentration of USG security and economic interests in the Commonwealth Caribbean, the intended British disengagement from the area, and the potential for growth of radical nationalist groups, should the USG adopt more forthcoming policy on economic assistance to the Commonwealth Caribbean States?

Ameliorating the deep-seated social and economic problems confronting the Caribbean states (high unemployment, a rapidly growing labor force, a stagnant agriculture, and capital-intensive investment) will require maximizing opportunities for productive employment, strengthening development oriented training and financial institutions, and expanding social and economic infrastructure. As in most dual economies, there is a wide disparity in wage rates and a shortage of skilled personnel. Because of the proximity to North America, the common language and lenient immigration quotas, there is a serious skills drain from the Commonwealth Caribbean. In the case of the Dominican Republic and Haiti there are major institutional impediments to broad-based development.

Successful diversification and processing of agricultural products will require a more concerted effort in agricultural research, extension and in some cases infrastructure development. Virtually all the states have a shortage of skilled manpower to satisfy domestic economic and social needs and compete in a world economy. To develop and retain such manpower will require substantially improved training programs both within and outside the formal education systems. Many governments have recognized that high population density of the area requires adoption of family planning programs, but successful implementation will necessitate further efforts. To accomplish the foregoing will at best be difficult, given the nature of the problems and the limitations of the administrative capabilities of many of the governments. However, several countries such as Jamaica and Barbados have shown a willingness to seek solutions to deep-seated problems. All these programs will require significant self-help efforts but they will also require reasonable levels of external capital and technical assistance.

Leaders of these countries recognizing their social and economic problems, increasingly look to the U.S. for assistance. In the case of Jamaica where our interests are substantial, and contacts have been made at the highest level of government, the U.S. has responded with a survey by a Development Commission and is planning an expanded bilateral aid program. In the case of other states such as Trinidad and Barbados, we have to date conscientiously discouraged requests for bilateral assistance.

Will some bilateral U.S. aid activity create too much of an official U.S. presence and involve us too heavily in the internal affairs of these small Caribbean nations at a time when nationalism is on the increase? A bilateral presence and involvement of the magnitude of our aid program in the Dominican Republic and even Guyana in the last half of the 1960's is inappropriate for the 1970's. However, in most of the Commonwealth Caribbean countries the U.S. presence has been limited almost exclusively to tourists, businessmen, and Peace Corps volunteers. The official U.S. bilateral aid presence in many countries has been non-existent to the point of creating an image of a lack of U.S. concern about major local problems and an official preoccupation with "Latin" America. This attitude was clearly reflected in Prime Minister Shearer's request for a separate Commonwealth Caribbean policy.

Providing bilateral assistance to the independent states of the Commonwealth Caribbean need not create a presence problem or be an irritant in our relations if we do not establish bilateral missions, avoid a dominant role in the host country's decision making process, and limit restrictive covenants. Basically our foreign policy interests will be best served if lending agencies are prepared to respond to requests to assist critical unemployment, agricultural, and education problems, but in a manner consistent with local efforts and initiatives. We should be willing to participate in an appropriate manner along with other donors in supporting these countries in their own efforts to strengthen their institutional framework and achieve development with dignity.

We have three general choices with respect to our assistance policy in the Caribbean. The first is: to continue the bilateral programs we now have (Dominican Republic,

Guyana and Jamaica); to provide additional assistance through multilateral and regional institutions; and to encourage the UK and Canada to continue their current levels of assistance in the area. This is consistent with our current policies and avoids proliferation of bilateral assistance efforts. It does not, however, permit us to be responsive to request from Barbados, Trinidad or the Associated States, and may not assure an adequate flow of capital and technical resources.

A second choice would be to include the now-excluded independent Caribbean countries in our bilateral programs while encouraging the international agencies, the UK and Canada to continue to provide the bulk of the assistance. Under this choice, we would provide bilateral assistance to any Caribbean nation which meets the criteria currently being applied to any other nations in the hemisphere. The Associated States and other UK dependencies would be assisted by the U.S., but only through regional projects.

This approach would enable the governments in the area to undertake expanded programs to combat socio-economic problems; would demonstrate increased U.S. interest in the area problems, and would get around the difficulty of seeming to endorse the more radical Government of Guyana while refusing to assist bilaterally more moderate governments elsewhere. It would also, of course, increase the number of AID recipient countries.

Finally, we could also include bilateral aid to the Associated States in our approach to the area. Such inclusion would recognize their underdeveloped state relative to their independent neighbors; on the other hand, it might encourage the UK to relax its assistance and might discourage the Associated States from looking for regional solutions to their problems.

3. Regional Integration Efforts. Efforts at political integration in the Caribbean are not likely to prosper for many years to come, and little or nothing is currently being done in this area.

The essentially competitive nature of the area's economies also places limits on the potential for economic integration; however, the Caribbean Free Trade Association

(CARIFTA) was founded in 1968 by all of the independent Commonwealth Caribbean countries plus the Associated States, and British Honduras has since become a member. It seems umlikely that the Dominican Republic or Haiti will seek to join CARIFTA.

Some expansion of trade has occurred under CARIFTA, primarily benefiting the larger states, such as Jamaica and Trinidad. (Even so, Jamaica's intra-CARIFTA trade amounts to only 3.5% of its total trade.) These larger members have encouraged development of import substitution industries that are now exporting to the smaller islands. Since many of the new industries are initially, at least, high-cost, the smaller islands are deriving little benefit from the CARIFTA trade, and are suffering a loss of tariff revenues.

The CARIFTA Secretariat, as well as Guyana, see CARIFTA as playing an important coordinating role on matters such as maximizing return to local economies from foreign investment and increasing control over such investment. The Caribbean nations could undoubtedly strengthen their bargaining position vis-a-vis foreign investors were they to coordinate their efforts. Given the limited advantage CARIFTA offers to the smaller states, the potential policy conflict relative to our own private investment interests and the lack of any request for or interest in U.S. assistance from CARIFTA, there does not appear to be any useful way in which the U.S. could support CARIFTA.

The Caribbean Development Bank (CDB), although still a very young organization (it made its first loan this year) is a more promising institution. It has sound management, under Sir Arthur Lewis, and appears freer from political influence than CARIFTA. Its efforts are directed at productive, rather than social infrastructure, investments. It is designed inter alia to assist the smaller islands' efforts to improve production and exporting capacity, which means in the first instance, improvements and greater specialization in their agricultural production. The Bank is the kind of constructive development institution which we should continue to support and encourage other bilateral and multilateral agencies to support.

A broadening of economic relations between the Caribbean countries and the countries of the North Coast of South America and Central America can be expected over time. We have considered the possibilities of closer economic cooperation and concluded that over the near term the Caribbean countries can not expect to achieve significant benefits by tying CARIFTA more closely to Latin American trade associations, although there may be an advantage to extending membership of the Caribbean Development Bank to Colombia and Venezuela as well as non-member Caribbean states such as the Dominican Republic and Haiti. U.S. interests during the next decade are not likely to be critically affected by such moves; it behooves the U.S. to let these relationships develop naturally without our involvement.

VIII. Recommendations

A. Anti-U.S. Nationalism.

1. That we endorse for the Caribbean region the recommendations of NSSM-108 (pp. 22-23) on dealing with anti-U.S. nationalism in Latin America. (Treasury reserves its position pending approval of NSSM-108.)

2. That we increase the level of U.S. Government educational and cultural exchanges between the U.S. and the English-speaking Caribbean; and that, through CU, we encourage private organizations to do the same.

3. That we increase the amount of USIA programming focused specifically on the English-speaking Caribbean.

4. That in the case of internal political disorders which result in requests for U.S. military assistance, we limit such assistance to small arms and ammunition, and riot control equipment furnished only at the request of a recognized, constitutional government. Requests from such counyries would be considered on a case-by-case basis.

5. That, as indicated in B. below, the British be pressed to maintain their presence as long as possible, and also that Canadian presence be encouraged.

6. That the U.S. support the achievement of economic and social progress, and thus of increased self-confidence in the area through the type of economic actions indicated in Section F.

B. British Disengagement.

1. That we accept as a priority goal the maintenance of a British presence in the Caribbean as long as possible.

2. That, as a first step towards this goal, we meet with the British in the near future, at the Assistant Secretary level, to obtain a clearer definition of their intentions and plans towards the Caribbean, and to put forth our own views, along the following lines:

(a) Bahamas. Regarding the timing of independence, make known our preference for a later rather than an earlier date; make clear our preference not to begin discussions on U.S. base structure in the Bahamas until after independence, although allowing for the possibility of preliminary talks whenever a definite independence timetable is established; leave open for the present the U.S. position on whether an independent Bahamas should have a bilateral security arrangement with the U.S.; and encourage OAS membership and Rio Treaty adherence for an independent Bahamas.

(b) British Honduras. Continue discreet encouragement to the parties involved to reach a peaceful and viable solution to the territorial dispute. Urge the British, if necessary, to resist any pressure to grant independence before the dispute is settled. Continue to make clear that we will not assume responsibility for British Honduras' security or economic welfare. If Guatemala's claim is settled, encourage and support British Honduras' membership in the OAS after independence.

(c) Associated States. Urge the British to retain present involvement until some viable political alternative to their present status emerges; should the British decide, nonetheless, to phase out economic and technical assistance, coordinate with them, the Canadians, and the multilateral agencies in seeking possible alternatives, including some U.S. help through regional bodies.

(d) Internal Security. Strongly urge the British to continue their present public safety activities in the region beyond 1972, where such assistance is requested by the local government. In those situations where the U.S. has special interests at stake and the British are unable or unwilling to

provide necessary requested assistance, the U.S. should consider providing public safety assistance on a selective basis.

3. That we follow up on the initial talks with further efforts to retain British presence, both via concessions and pressures, as appropriate.

C. Soviet Presence.

(NSSM-108 recommended the examination of possible need for increased submarine surveillance and ASW capability. Those recommendations are supplemented by the following.)

1. That we pursue diplomatic and informational efforts to foster continuing awareness by other Caribbean governments of the nature of Communist societies and Soviet international policies and practices.

2. That we continue diplomatic efforts with appropriate Caribbean countries to prevent bunkering of Soviet tankers carrying petroleum to Cuba (and/or bunkering of Soviet naval vessels).

3. That we increase frequency of visits of U.S. naval units (and/or other appropriate displays of U.S. military interest) as needed to offset any Soviet port visits or other Soviet military displays.

4. That, if diplomatic efforts fail, we study the possibility of economic alternatives to countries presently engaged in bunkering or otherwise providing assistance to Soviet Union.

D. Bases.

1. That we be prepared to give a sympathetic hearing to the reasonable desires of other governments for changes in current base arrangements and consider their requests on their merits. That in the Bahamas, we be prepared to engage in informal, preliminary discussions with appropriate officials--preferably after independence but, if pressed, after the next Bahamian elections, provided a date for independence has been fixed.

2. That, in order to enhance our negotiating posture on bases when the time comes, we make special efforts to facilitate mutually satisfactory solutions to bilateral problems as they arise.

3. That we be prepared, as necessary, to make "base rights" payments if the foregoing courses of action need to be supplemented.

4. That we undertake further study of the advisability of extending or encouraging bilateral defense commitments to Bahamas and other present dependencies where we have important defense installations, in event that such commitments would help us to retain important installations which we might otherwise lose.

E. Bauxite.

1. The Companies. That we meet periodically (approximately every six months) at the Under Secretary level to review developments with the company principals, determine the extent to which there are differences of policy approach among them, and provide realistic briefings on U.S. policy and on what we can and cannot do to assist them. That on these occasions, we encourage them in undertaking imaginative and forthcoming approaches, not excluding either local equity participation, or additional local expenditures whose benefits would accrue primarily to the country rather than the companies, as the best means of protecting their long-term interests.

2. Guyana. That we seek to delay as long as possible GOG efforts to obtain equity participation in Reynolds' investment. That, if such effort is nonetheless made, we focus our major attention upon protecting Reynolds' interests by endeavoring, to the extent possible, to obtain a negotiated settlement consistent with our Caribbean-wide interests; but in the absence of such, insuring that Reynolds obtain just compensation for any expropriated assets. That we not create difficulties for Burnham, but do not help him with difficulties his decisions regarding bauxite bring upon him. (Option 1) (Subject to decisions on NSSM-131, this should be regarded as a general conclusion, rather than a recommendation.)

3. Jamaica. That our involvement both now and at the outset of any future negotiations between the GOJ and the bauxite industry be in the form of active good offices, rather than one of substantive participation in the terms of a settlement. (Option 1)

4. Surinam. That we continue periodic representations to the Government of Surinam on the question of U.S. private investment; and that we maintain the closest possible contact with Alcoa representatives to try to ensure

a mutuality of understanding regarding the local political situation and outlook.

F. Economic.

1. That, in accordance with our broader assistance policies, we encourage maximum involvement of multilateral assistance agencies (IBRD, IDB, OAS and UN agencies) in all eligible countries of the area, and to the fullest extent feasible look to these agencies and the CIAP for coordination of assistance efforts.

2. That we urge the UK to maintain at least its current level of assistance to the area. That, in the event the UK insists on reducing its assistance, we encourage it to maintain necessary budgetary and technical assistance to the dependencies. That we encourage Canada to continue its assistance and increase it where possible.

3. That we accord high priority to continuing the support of regional developmental or educational institutions such as the Caribbean Development Bank and the University of the West Indies. That we, where feasible, channel an increased level of assistance to the Associated States or other low income dependencies of the UK through such regional institutions.

4. That the U.S. provide bilateral U.S. Government assistance for specific projects when (1) there are important U.S. interests such assistance could enhance, and (2) U.S. interests are not adequately furthered by metropole, multilateral or regional projects.

5. That the U.S. utilize Supporting Assistance as appropriate to strengthen or defend our important politico-security interests in the region.

6. That we make it possible, in our forthcoming generalized preference legislation to allow the Commonwealth Caribbean countries to participate in the G.S.P. from the outset, without requiring agreement in advance to phase out reverse preferences (but not expanding them either); but with the understanding that we shall not continue to grant preferences after 1975 to those countries extending reverse preferences beyond that date. (Treasury reserves its position on this

recommendation and notes that a White House review and presidential decisions on a CIEP options paper for our generalized preferences scheme will decide this issue.)

7. That we reduce the U.S. import tariff on rum, from the present level of $1.75 per gallon, to a level comparable to that levied on whiskey and gin (about $.50 per gallon). If this is not possible, that we include rum under the G.S.P. scheme. (Treasury dissents) (This recommendation is subject to further examination of its impact on the revenues of Puerto Rico and the Virgin Islands.)

8. That, in recognition of the special importance of sugar to the economy of the Dominican Republic, and of our own interests in the Dominican Republic, the U.S. retain in the new Sugar Act the national interest waiver provision, and that it continue to use it to make special quota allocations to the Dominican Republic, as we have done since 1966.

9. That, should the Administration review its current policy on cotton textile imports, we study further the possibilities of a modification which would permit the countries of the Caribbean greater access to the U.S. market. (Commerce dissents. Its position is:

a. The cotton textile recommendation clearly assumes a result that will give preferential treatment to Caribbean countries. This would be clearly inconsistent with our international obligations under the Long Term Cotton Textile Arrangement (LTS).

b. Present policies permit the negotiation of cotton textile bilateral agreements on more favorable terms to exporting countries than individual restraint actions. In the case of Jamaica, the only Caribbean country with which we have individual restraint actions in effect, the State Department recently refused to concur in a Commerce Department proposal that the U.S. negotiate a cotton textile bilateral agreement with Haiti which would permit increased exports from Haiti to the U.S.

c. The Administration should be permitted to review its textile policy at an appropriate time while considering the relevant domestic and international factors applicable at that time. It should not be encumbered by policy

recommendations beneficial to local regions of the world, which were made at a previous time and possibly outdated at such time as the pertinent textile policy is reviewed.

d. Similar type of clause could be included in many regional economic trade policy reevaluations placing unnecessary pressure on the Administration to make ad hoc worldwide concessions permitting an increased flow of textile imports to the U.S.

e. Recognizing the unique position within the economy occupied by the textile industry, an Executive Order in effect since 1962 established the President's Cabinet Textile Advisory Committee to supervise the administration of the long-term arrangements regarding trade in cotton textiles and to advise the President on problems relating to textiles. In view of the Executive Order on textiles, the Department of Commerce submits that the President's Cabinet Textile Advisory Committee is the proper forum to examine and evaluate U.S./Caribbean textile policy.)

10. That we study further the possibility of more liberal access to the U.S. market for certain fruits and vegetables produced in the Caribbean.

11. That we undertake a study of the economic impact in the Caribbean countries of an increase in the present limit on duty-free purchases for American tourists returning from the area.

Annexes to NSSM-117

Annex A - NSSM-108 Interests (Summary)

Annex B - U.S. Bases and Installations in Caribbean

Annex C - Intelligence Community Response to NSSM-117, The Situation and Trends in the Caribbean

Annex D - U.S. Trade Statistics

Annex E - U.S. Investment in Caribbean

Annex F - U.S. Immigration from Caribbean

Annex G - British Colonies, Dependencies and Associated States

Annex H - Bauxite Outlook in Guyana, Jamaica and Surinam

Annex I - Barcelona Traction Company Case

SECRET

UNITED STATES INTERESTS IN LATIN AMERICA AND LATIN AMERICAN INTERESTS IN THE UNITED STATES

SUMMARY

I. United States Interests in Latin America

The United States has major objective interests in Latin America which are listed below in rough order of priority. [1/] Some of these major interests could become vital interests in the future; and a number of them, including one of the most important ones, could cumulate now or in the future in various combinations to be a vital interest.

A. Very Important

1. Preservation of a predominance (by the combination of numbers and importance) of independent, self-sustaining Latin American countries favorably disposed to the United States.

2. Denial of Latin America as an area from which a strategic attack could be launched against the United States.

B. Important

3. Maintenance of the confidence of Latin America and of the world in the effectiveness, maturity and responsibility of our leadership as a great power in our relations with Latin America, with due consideration for the "mature partnership" concept.

4. Maintenance of access to the Panama Canal, including, under existing circumstances, its protection and control by the United States. [2/]

5. The existence of a strong inter-American system, including an effective collective security function.

6. Unimpeded transit for United States forces on the high seas and in international air space in the area.

1/ A vital interest is understood to be one which directly concerns a nation's ability to survive, or at least to survive in its existing essential character. A major interest is at the next level; it is one which significantly affects a nation's well-being.

2/ ISA and JCS prefer "Protection and control of the Panama Canal as essential to maintaining our access to its use."

7. Mutually beneficial economic interchange, includi reasonably favorable trade and investment climates.

8. Denial to hostile powers of bases in Latin America that would enhance their non-strategic military capabilities.

9. Continued access to bauxite in Jamaica and petroleum in Venezuela.

10. Protection of the large number of U.S. citizens who live in, have economic ties with, or visit Latin America.

11. Continued access to certain naval and air bases and facilities in the area.

Economic and social progress, freedom of communications media, and maintenance of internal security in Latin America are very significant, but are considered to be means of advancing United States interests in Latin America rather than interests in themselves.

II. Latin American Interests in the United States

Latin America's principal objective interests in its relations with the United States are:

1. Maintenance of the flow of United States capital and technology and obtention of liberal trade and aid treatment as a contribution to economic and social progress.

2. Development of offsets to the pervading United States presence and the gaining of control of key natural resources as means of demonstrating and maintaining independence.

3. At the same time, avoidance of dependence on another power.

4. Maintenance of an effective inter-American system, with United States participation.

5. Maintenance of the United States security umbrella against potential future extra-hemispheric attempts at incursion.

III. Consonance or Conflict Between Interests

There is no necessary inconsonance between United States and Latin American objective interests in relations with each

other. However, perceived interests are different from objective interests in both cases, and are inconsonant. This inconsonance derives from: (a) Latin American nationalism directed mainly against the United States, (b) different perceptions of the external threat, (c) the different priorities or weights that each side gives to its interests, and (d) inter-interest conflicts for both.

IV. The Special Relationship

A special relationship exists between the United States and Latin America in the generally accepted sense of United States special responsibilities in Latin America, and in the degree of mutuality of objective, although not perceived, interests. This special relationship is based on factors which make Latin America different, for the United States, from other developing areas. Those factors are geographic proximity, a degree of common heritage, tradition, the level of our economic interests in Latin America, and regional institutions and accords.

V. Policy Implications

However, United States interests in Latin America are as important to us as they are primarily because of the existence of a hostile superpower -- the USSR. Our current intelligence assessment is that Latin America will remain a relatively low priority area for the USSR, but that the USSR will continue to engage in a broad range of activities and not neglect promising opportunities there. Those opportunities have arisen in the past, and will arise in the future, primarily for three political-psychological reasons: (a) Latin America's reactive nationalism directed against the United States; (b) Latin America's experimentation with left extremism; and (c) -- mainly because of the effect of the first two reasons and the Soviet Union's own low profile thus far -- Latin America's current failure to think of the USSR as a significant threat to it.

Latin America's reactive nationalism directed against the United States and experimentation with extremism are the products, in turn, of Latin America's frustration and sense of inadequacy deriving from (a) its failure to achieve its aspirations for economic and social progress, (b) its dependence upon the United States, and (c) the confusion and uncertainty produced by rapid change itself and by the mass of information and welter of new concepts and value signals flowing to it over modern communications media.

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U.S. Investment in the Caribbean

(Book Value in US $ millions at end of 1969)*

Bahamas and Bermuda	$1,000
Jamaica, Trinidad & Tobago, Barbados, Windwards & Leewards	750
Dominican Republic & Haiti	198
All others	352
Total	$2,300

*NOTE:

These figures, for which a more detailed breakdown is not available, differ from those for bauxite investment cited in the text, which are gross value figures, furnished by the Office of Emergency Preparedness.

Source: Department of Commerce

UNCLASSIFIED

US IMMIGRANT VISAS ISSUED

	1965	1966	1967	1968	1969	(1960-) 10-Yr.Total
Barbados			533	2,186	1,822	4,541
Dominican Republic	10,851	16,373	11,717	9,199	10,279	85,658
Haiti	3,763	3,937	3,824	6,981	6,407	32,306
Jamaica	1,780	2,983	11,204	19,925	15,252	54,021
Trinidad & Tobago	419	809	2,294	5,480	7,442	17,083

Source: 1969 Report of The Visa Office

SECRET

British Colonies, Dependencies and Associated States

These British islands in the Caribbean, plus British Honduras, have a total land area of 16,000 square miles (half of it in British Honduras), and a population of about 870,000 (two-thirds of it in the Associated States). They consist of colonies with varying degrees of internal self-government and the semi-independent but politically fragmented Associated States (associated with the UK, not with each other).

A. British Honduras

British Honduras is a colony on the Caribbean coast of Central America south of Mexico and east of Guatemala. Its 8,900 square miles represent over one-half the territory of the British lands in the Caribbean. The population of 120,000 is 50 percent black or mulatto, the remainder mostly Indian. The economy, almost completely agricultural, depends heavily on sugar and citrus fruits. Per capita GNP is about US $375. The colony is internally self-governing except that the Governor retains responsibility for internal security and the civil service. The British are also responsible for foreign relations and defense. The local government has for several years been eager to achieve independence but has been frustrated by the inability to resolve the claim of Guatemala to sovereignty over the entire territory and the refusal of the British to agree to a defense guarantee.

B. Bahamas

The Bahamas have a land area of 5,380 square miles, with a population of 175,000 (86 percent black) mainly concentrated on New Providence and Grand Bahama Islands. The economy is mainly dependent on tourism from the U.S. Per capita GNP is US $1500. The Bahamas are internally self-governing and share responsibility for internal security, external affairs, and defense with the British colonial Governor. The Bahamian Government officially seeks independence but is uncertain as to when it will be ready.

SECRET

Prime Minister Pindling has expressed interest in possible "association" with the US. A number of US missile tracking stations, the Navy's Atlantic Undersea Test and Evaluation Center (AUTEC), and other Navy and Coast Guard stations are located in the Bahamas.

C. Associated States

Running from north to south, the Associated States are: (1) St. Kitts-Nevis-Anguilla, (2) Antigua and Barbuda, (3) Dominica, (4) St. Lucia, (5) St. Vincent and the Northern Grenadines, and (6) Grenada and the Southern Grenadines. These six entirely self-governing and almost-independent states are not associated with each other in any way. Their association with Great Britain does not give the latter the right to interfere in internal problems.

The northernmost of these states, St. Kitts-Nevis-Anguilla, and Antigua and Barbuda, are located in what is known geographically as the Leeward Islands (a term without political meaning). They have a total land area of about 325 square miles and a population of some 135,000, almost all black. The economies are agricultural with heavy dependence on sugar exports. Per capita GDP averages about US$240. The governments are labor-dominated. Although Anguilla is a part of the Associated States of St. Kitts-Nevis-Anguilla, it has strong separatist feelings. There is a US missile test center and an oceanographic research center in Antigua.

The other Associated States, lying to the south in the Windward Islands geographic region, have a total land area of about 1,000 square miles and a population of 400,000 almost entirely of African origin. The economies are also agricultural, and highly dependent on banana exports. The GDP averages slightly over US$200 per capita. The governments are controlled by Labor parties.

D. British Virgin Islands and Montserrat

With populations of 11,000 and 14,000 and land areas of 59 and 32 square miles respectively, the British Virgin Islands (BVI) and Montserrat are British colonies with a high degree of self-government. The BVI enjoy a per capita GDP of US $300, based on tourism and agricultural exports to the US Virgin Islands. Montserrat is agricultural with a per capita GDP of US $180.

E. Turks and Caicos

The Turks and Caicos Islands, a colony under the Governor of the Bahamas at the east end of the Bahamas group, have an area of 166 square miles and a population of about 7,000. Per capita GDP is unknown. We have a missile tracking station and navy facility at Grand Turk.

F. Cayman Islands

The Cayman Islands (a colony) south of Cuba, have a land area of 100 square miles and a population of about 9,000. Per capita GDP is unknown.

ANNEX H - BAUXITE OUTLOOK

A. The Situation in Guyana

1. ALCAN subsidiary nationalized. After five months of negotiations, the Government of Guyana finally nationalized the Canadian-owned Demerara Bauxite Company (DEMBA) on July 15. Guyana's largest industrial firm and the major world producer of refractory grades of calcined bauxite, DEMBA was an wholly-owned subsidiary of ALCAN Aluminium Ltd. of Canada and had operated in Guyana for more than 50 years. It supplied 27% of ALCAN's metallurgical bauxite requirements and about 11% of its alumina.

2. Compensation terms flexible. ALCAN has accepted a compensation settlement of $53.8 million payable over a 20-year term and with an annual, after-tax interest rate of 4½%. The agreement permits Guyana to defer up to 40% of the scheduled payment in the first year and up to 30% in each subsequent year, provided that such deferrals are paid up at the end of the fifth, tenth, fifteenth and twentieth years. Despite Guyana's earlier insistence that compensation be tied to the future profits of the nationalized firm, payment of the $53.8 million will be a legal obligation of the Government of Guyana.

3. Arthur Goldberg was mediator. Guyana announced its intent to expropriate DEMBA last February 23, but negotiations stalled on a variety of issues including compensation terms, pension fund rights, and future marketing arrangements. As prospects for a negotiated settlement grew dimmer and the scheduled July 15 date for formal takeover approached, an eleventh-hour meeting was held in which Prime Minister Forbes Burnham and ALCAN's Chairman of the Board represented their respective sides. Acting in a purely private capacity, former Supreme Court Justice Arthur Goldberg served as mediator and it was largely through his efforts that an agreement was reached on July 14.

4. The Nationalization Bill. The DEMBA takeover was carried out under authority of a nationalization bill passed on March 1 which empowered the GOG to expropriate all or part of any company engaged in bauxite/alumina production. Compensation under this bill may be paid either (1) out of the company's future profits (a minimum one-eighth that amount after taxes guaranteed as compensation) and based upon "depreciated value for tax purposes" or (2) "in such other manner as may be agreed to in writing between the State and the Company."

5. Reynolds' future is uncertain. The DEMBA expropriation also affects a $31.5 million Reynolds Metals Company subsidiary. The best current indications are that the GOG will not proceed against Reynolds before next year at the earliest, primarily because of the major management problems it confronts in digesting DEMBA. At Reynolds' request, former Supreme Court Justice Arthur Goldberg met in February with Prime Minister Burnham. As Burnham interprets that meeting, Reynolds might be more flexible and imaginative than ALCAN in reaching a settlement short of nationalization. Moreover, Burnham told Goldberg in July (during ALCAN-GOG discussions) that decision to act against Reynolds would remain in "deep freeze" for some time to come. Reynolds' holdings in Guyana are covered by a $16.3 million OPIC investment guarantee.

6. USG Action to Date. Keying our representations primarily to our interest in Reynolds, our Ambassador has on various occasions during the past six months expressed to Burnham the possible adverse consequences of expropriation and informed him of the U.S. position on compensation. Additionally, we have apprised him of the relevant (Hickenlooper) clauses of the Foreign Assistance and Sugar Acts and Ambassador King, on March 22, outlined in detail to Attorney General (and acting Foreign Minister) Ramphal the U.S. position on expropriation and compensation. These and other representations seem to have been a significant, though probably not the major factor (see para 5 above), in Burnham's decision to postpone action against Reynolds pending the outcome of the ALCAN matter.

7. Domestic politics in Guyana. Prime Minister Burnham has fairly wide support in Guyana for his decision to nationalize the ALCAN holdings. The expropriation bill passed with only token opposition and there has been no public indication of anything but approval. We have noted, however, a degree of uneasiness in the private sector (among some labor and business groups) regarding the future implications of the move. A 14-day strike by DEMBA workers over wage and pension fund issues ended in a shaky truce on May 3, but a new walkout of clerical and technical workers began three weeks later. These labor disputes are now settled and GUYBAU, as DEMBA is now known, begins its operation as a government enterprise in relative peace.

Burnham has long been supported by the U.S. as the only feasible alternative to the Communist Cheddi Jagan, the principal opposition leader who, we believe, would ally Guyana closely with the U.S.S.R. if he were in power. Jagan's Peoples Progressive Party concurs in DEMBA's nationalization while at the same time urging that expropriation be extended to Reynolds as well. Indeed, Jagan has charged that the USG public silence on the ALCAN expropriation indicates a Burnham "deal" with the U.S. to protect Reynolds.

There exists the possibility that Burnham may react impulsively to Jagan's criticism, rising worker unrest and continued difficulties with GUYBAU's future operations (see below) by moving against Reynolds and adopting anti-U.S. positions in an effort to reassert his independence and his "progressive" credentials.

8. Burnham faces serious problems in operation of DEMBA. Despite the high level of political rhetoric, the GOG probably did not expect expropriation to result from its talks with DEMBA and no contingency plans were made for the company's operation, although some exploratory efforts were made regarding foreign technicians and alternative markets. Burnham apparently believed he could negotiate majority ownership and control of DEMBA while retaining ALCAN's participation in management, marketing, shipping and procure-

ment. When nationalization became imminent (and politically irreversible), the complexity of bauxite production and marketing emerged as a critical problem for Burnham and his advisers.

9. Assessment of short and long term outlook. Now that nationalization has actually occurred, Burnham's immediate problem is keeping GUYBAU in operation. The company employs 4,000 workers, accounts for 37% of Guyana's foreign exchange earnings and is the most visible symbol of government resolve to "Guyanize" the economy. Fearful of black power harrassment and uneasy about their future under a government-operated company, most of DEMBA's senior staff--including some Guyanese--have already left the country. This expertise probably cannot be replaced in Guyana, although the government has promoted native Guyanese into the positions vacated.

Initially, at least, the Guyanese government confronts other serious obstacles in its management of GUYBAU. Bauxite production requires sizeable imports of petroleum and caustic soda. ALCAN contracted for these materials in large volume for use in its larger corporate system but GUYBAU will be forced to purchase them at higher prices. Marketing arrangements may be even more troublesome. Production costs in Guyana have been rising in recent years and--quite apart from the nationalization issue--ALCAN had been gradually diminishing its dependence upon Guyana for everything except calcined bauxite. While ALCAN has agreed to purchase GUYBAU's total calcined output and a substantial amount of its alumina and metallurgical grade bauxite for the balance of 1971, the GOG is still trying to firm up alternate markets for its production in future years. Presently the only bright spot in the picture is calcined bauxite which accounts for about 40% of the value of Guyana's bauxite exports. This material is in chronic undersupply in the world market and Burnham will have no trouble finding customers for it if he can maintain production.

Burnham's long term goals for Guyana's economy are ambitious far beyond the nation's resources and capabilities; GUYBAU operations alone may be more than the GOG can handle. Burnham envisions a fully integrated industry under GOG control, an objective he regards as essential to assure the maximum use of Guyana's total resources for the national good. He plans to construct an aluminum smelter to consolidate (under a central direction) the GUYBAU and Reynolds holdings, to build a hydroelectric project, and to substitute Guyanese cassava starch for Canadian wheat flour presently used as a flocculent in the GUYBAU alumina plant. Burnham also plans (this too in the long term) the construction of a railroad network to further integrate the bauxite industry and to open up the "interior" regions of the country, and to produce caustic soda domestically.

Should expropriation result in operating difficulties, Burnham could blame ALCAN and perhaps even gain some short-term political capital by so doing. Nevertheless, he would probably view his nation's problems in operating the company as a personal, psychological defeat; in the longer run, Jagan may be able to gain political capital if Burnham should continue to be unable to operate the industry effectively. Difficulties in operation may lead Burnham to seek Soviet Bloc technicians and/or seek sales contracts with Bloc countries. No such efforts are known to date, except for one reported fruitless overture to Poland on sales. If Burnham were to conclude that the U.S. was in any way contributing to his problems, it would cause a deterioration in our bilateral relations.

In the longer term, it is evident that Burnham's goals for his country's economy will be pursued at an uneven pace. Unless he is deterred by unhappy experiences with GUYBAU, Burnham will likely continue to see Guyana's future as dependent upon state control of much of the private sector.

VI. Jamaica and the rest of the Caribbean.

1. Stakes in Jamaica are much higher than in Guyana. Nearly two-thirds of U.S. bauxite and an increasing amount of alumina imports come from Jamaica. Alternative sources of supply with uncommitted production capacity which could substitute for the Jamaican production do not currently exist, although, as noted in Section IV above, major expansions underway in Australia and Guinea may somewhat reduce U.S. dependence on Jamaican supplies by 1973.

U.S. investments in the bauxite/alumina industry in Jamaica currently total about $650 million and are being increased. OPIC presently provides expropriation insurance coverage totaling $431.4 million, and under existing contractual provisions, this coverage could be expanded to $528 million.

2. Importance of Bauxite to the Jamaican Economy. As significant as Jamaican bauxite is to the U.S., the industry is even more important to Jamaica's economy. Bauxite and alumina are the major export products; together they represented $142 million, or 56% of total merchandise exports in 1969, although according to a 1970 IMF report estimated local payments by the industry (including taxes, royalties, wages, etc.) amounted to only about $66 million, less than half the export value.

The industry is a major source of royalty and tax revenue for Jamaica; the revenues from bauxite and alumina in 1970 amounted to US$38 million, about 17% of total government revenues. These revenues are projected to increase to $48 million by 1972 and $60 million by 1973. The exact amount of the revenues will be influenced by the transfer price on alumina established for tax purposes. The GOJ is currently negotiating with the U.S. Treasury to try to reach agreement on higher transfer prices in order to maximize Jamaican revenues. Jamaican Finance Minister Seaga met with Secretary Connally on this issue on March 24 and every effort is being made to reach an early agreement.

A major expansion of bauxite and alumina capacity is currently underway. In contrast to Guyana where companies have been reluctant to make new commitments, in part because of higher mining costs, major new investments in Jamaica will sharply increase alumina capacity from 1.95 million long tons at the end of 1969 to 2.9 million in 1973. This investment follows the pattern established since 1966 of upgrading output by increasing alumina production rather than merely expanding bauxite mining.

Jamaica views bauxite as a wasting asset that may be depleted before the end of the century, and has long sought to maximize the returns from bauxite by achieving more in-country processing and seeking to the fullest extent possible the development of an integrated industry. Both the current government and the opposition place high priority on the ultimate establishment of an aluminum smelter and other related industrial activities that would spur development. Both recognize the importance of foreign capital to the accomplishment of their objectives. The Jamaican approach has been to seek to achieve its goals at the bargaining table rather than through any unilateral action, and to date Jamaica has a good record for upholding its agreements.

3. Jamaican Reaction to Burnham's Steps to Nationalize DEMBA. Jamaicans are, of course, well aware of changes in ownership patterns occurring in the extractive industries, and interest in equity participation existed before Burnham initiated negotiations with DEMBA.

In March of 1970, Prime Minister Shearer stated in a public speech: "The Government and the companies from time to time will have to discuss ways and means by which the Government can participate more effectively in the bauxite and alumina operations, whether by way of ownership of equity or by some other means."

Michael Manley, Leader of the Opposition in a recent article in Foreign Affairs states: "The key therefore, must lie in joint ownership. It is only when control and ownership are shared reasonably between those who supply the initial capital and know-how on the one hand, and those who supply the

raw material and labor on the other, that mutuality of interest can exist." However, both Shearer and Manley have disavowed nationalization as the way to accomplish their goals.

Our Embassy in Jamaica considers that Jamaican equity participation in the local bauxite/alumina industry is inevitable, but that the time frame for such participation is unknown. The Guyana nationalization decision has stirred much interest in Jamaica. Although precipitous action like the Burnham move in Guyana is privately denounced by Jamaican leadership, certain university professors are advocating following Guyana's lead, and the man in the street tends to favor nationalization as do some middle level figures in the Jamaican establishment.

The Embassy states that the positive or negative results in Guyana of the nationalization of DEMBA will play a direct part in determining how, when, where, what and how much equity participation will be sought in Jamaica. The Embassy in the past has indicated that any success on Burnham's part in successfully producing and marketing bauxite/alumina would make pressures for nationalization in Jamaica almost irresistable. Jamaica faces an election within the next year and there is the danger that bauxite could become a major election issue and that positions would be taken for solely political and emotional reasons. To date, however, this has not occurred and the leadership of the two parties has disavowed any intention to make nationalization of bauxite an election issue.

More recently Embassy reports that Prime Minister Shearer's parliamentary address of July 21 appeared to rule out--for the future at least--even the possibility of equity participation. Shearer emphasized repeatedly (a) that Jamaica was going to retain its reputation for responsible relationships with foreign investors, (b) the necessity of policies which would favor the inflow of foreign capital and (c) his government's intent to increase Jamaica's revenue take from the bauxite companies, largely through increased alumina production. He said further that Jamaica would not tolerate any harrassment of the bauxite companies such as strikes or excessive wage demands.

The Embassy has recommended that the USG use all influence we have to keep ALCAN from making any deal to market DEMBA bauxite, urge aluminum companies to stick together and present a common front, and reinforce the position of moderates in Jamaica by helping bauxite/alumina industry make progress in the realm of good corporate citizenship.

4. USG Action to Date. In December 1970 , after receiving advice that Prime Minister Shearer had informed the bauxite companies that whatever happens in Guyana will have to be duplicated in Jamaica, the Department instructed Ambassador de Roulet to meet with Prime Minister Shearer and make the following points:

(i) Burnham's effort is a gamble for political gains without adequate evaluation of economic consequences.

(ii) Foreign investment is much more important factor in Jamaican economic growth than is the case in Guyana. The negative impact of the government taking over control on new foreign investment and on the flourishing tourist industry could be great in Jamaica.

(iii) We are cooperating with Jamaica's efforts to improve the well being of its people and hope GOJ would keep in mind the effect of any action relative to the bauxite industry on general economic prosperity.

(iv) The constructive relationship between the GOJ and bauxite companies was emphasized and GOJ statements that the government intended to respect the right of contracts were noted.

The Embassy has maintained a continuing dialogue with leaders of the Government and the Opposition, cautioning them against taking precipitous action with respect to the bauxite industry. Our Embassy in Kingston has reported that the only effective line taken in Jamaica over and over again with the GOJ officials informally and otherwise is "Let's wait and see what happens to Forbes (Burnham)."

The Embassy has also continued to use its good offices to encourage good corporate citizenship such as the recently announced industry assistance to the Government in establishing technical training institutes.

The USG has over the past year attempted to further strengthen its good relations with Jamaica. President Nixon received Prime Minister Shearer for an unofficial visit last August. As a result of that meeting, a Development Commission

headed by Ambassador Bernbaum went to Jamaica last December and has recommended consideration of assistance for several development projects. AID has authorized two of these projects (Rural Feeder Roads $10 million and Secondary Mortgage Bank $10 million) for negotiation in FY 1972.

The U.S. Treasury is cooperating with the GOJ to resolve an outstanding matter relating to alumina transfer pricing for tax purposes. The GOJ maintains its right to establish alumina transfer prices, but under the terms of its contract with ALPART the ultimate determination will be made by the U.S. Treasury. The GOJ wants an agreed price which will be acceptable to both governments. It has adopted a formula relating alumina price changes to the price of aluminum ingot pig, and has increased its alumina price from a 1966 base of $72.00 per long ton to $84.70 per ton for 1970. The GOJ is seeking agreement on these prices and wants the same formula to be used in computing prices through 1972. To this end the Jamaican Minister of Finance met with the Secretary of the Treasury on March 24 and was given assurance of prompt attention by the Treasury and IRS. There have been a series of meetings since that date to discuss the issue. There are several implications arising from the final Treasury position on this issue. A negative position by the U.S. may lead the GOJ to raise its taxes unilaterally, or it may give the Opposition Party an opportunity to discredit the present government for failing to get fair treatment from the U.S. A positive Treasury position may relieve the pressure on U.S. producers or at least facilitate negotiations for a mutually satisfactory settlement. However, Treasury agreement to recognize the Jamaican right to set transfer prices for tax purposes may establish an undesirable precedent and cause difficulties with other mineral producers.

The GOJ has a separate and unresolved claim against the U.S. for more than $80 million in taxes which have been paid by the U.S. bauxite companies to the IRS but which the GOJ claims should have been paid to Jamaica. This claim arises from differences over the bauxite transfer prices used in calculating the profit on inter-company sales between subsidiary and parent. The Jamaican Minister of Finance met with Mr. Samuels in October 1969 and presented a claim against the USG for $28.6 million for the period 1957-1961. In addition the GOJ claimed that information supplied by the bauxite companies indicated an additional short-fall of $53 million in

connection with the years 1962-66, for which final IRS assessments were not yet completed. The Minister was invited to prepare a formal presentation for the Treasury, but this was not provided and there have been no further attempts to resolve this issue.

5. Surinam. The Surinam Government continues to respect existing agreements relative to foreign investment and Guyana's nationalization of DEMBA has not changed attitudes of either government leaders or major parliamentary opposition. Only one U.S. aluminum company (ALCOA with holdings valued at $250 million) presently operates in Surinam, although Reynolds recently signed a joint venture agreement with the GOS for a long-term future investment of approximately $400 million. The Reynolds project will involve bauxite mining, alumina production and--eventually--construction of a smelter, all in West Surinam. Although the ALCOA investment is not covered by investment guarantees Reynolds has recently applied for such coverage on its planned investment, but no action has yet been taken. Dutch bauxite investments in Surinam total $150 million.

There is a generally favorable attitude in Surinam toward bauxite companies operating there and a good relationship has existed between the industry and a succession of governments. During his recent (May 1971) visit to the United States, Surinam's Prime Minister told us that his government looks to private foreign investment as a main chance for economic development, strongly opposes the nationalization of foreign businesses, and plans to issue a public policy statement to this effect in the near future. He said that the joint venture arrangement accepted by Reynolds is responsive to the government's desire for participation in the country's basic industry, and that such agreements will be government policy for all future bauxite agreements.

Despite both the Prime Minister's statement and the absence of any internal political pressures against foreign companies, ALCOA feels threatened by expropriation in Surinam which Board Chairman Harper believes will occur unless

a strong public stand is taken by the USG regarding the DEMBA nationalization in Guyana. We regard Reynolds willingness to undertake such a large bauxite project in Surinam as inconsistent with ALCOA's vaguely expressed concern with nationalization and we have, on various occasions, attempted to reassure Mr. Harper and other ALCOA representatives about Surinam's investment climate.

6. Haiti and Dominican Republic. There has been no impact in these countries from the Guyana action. There is no current threat to U.S. bauxite investments in these countries.

B. Company Positions

We have had discussions to date at various levels with representatives of Reynolds, Kaiser, ALCAN and ALCOA, and have found that because of differing interests, the companies' positions do not completely coincide.

In discussions early last fall before negotiations were initiated in Guyana, Reynolds suggested that we make known to the Government of Guyana the possible adverse implications of any expropriation. However, once it became clear that the GOG would initiate action with ALCAN and defer negotiations with it, Reynolds has preferred to maintain a low posture and has not requested us to make representations on their behalf beyond what we have already done. ALCAN, while keeping us reasonably well informed, did not request USG assistance or representations, recognizing that such action would be the responsibility of Canada.

Mr. Harper, Chairman of the Board of ALCOA, has been urging a strong public statement by a high-level USG official condemning the expropriation trend in Guyana as a means of deterring similar steps in Jamaica and Surinam. He has expressed the opinion that the leadership of these other countries would welcome a public USG statement to strengthen their position vis-a-vis more radical elements. In a meeting of company heads with Under Secretary Irwin on April 9, the other aluminum companies, while encouraging vigorous diplomatic efforts to protect their interests, disagreed with

Mr. Harper on the desirability of a public statement. Reynolds specifically believed that such a statement could adversely affect its position in Guyana.

He has also informed us that the aluminum companies are considering a joint approach in Jamaica and have requested John J. McCloy to attempt to resolve with the Justice Department any anti-trust problems.

C. Possible future cooperation among Caribbean bauxite producing countries.

If the bauxite companies decide to pursue a common policy in their dealings in Guyana and Jamaica, they and the USG should be aware that this conceivably could serve as a stimulus to closer cooperation between bauxite-producing countries.

To date, the Caribbean bauxite-producing countries have not found a common basis for cooperating in a united front in negotiating with the bauxite companies. However, there are advocates of this approach in Guyana, Jamaica and the Caribbean Free Trade Association (CARIFTA) Secretariat. A confidential report dated June 25, 1970, was prepared for the CARIFTA "Consultative Committee on Ownership and Control of Caribbean Resources." This report recognizes the need for foreign private capital inflows but recommends maximizing benefits from these inflows by CARIFTA governments acting jointly in the formation and implementation of policies relative to foreign investment. The report recommends a start be made immediately in the direction of local ownership and control and suggests an arrangement under which the Government pay for the equity acquired in mining companies out of future profits of the company such as was done by the Government of Zambia. The report did not recommend nationalization but noted that 51% equity ownership was necessary for control and observed in some cases a proportion less than this was all that may be practicable.

The Government of Jamaica publicly disassociated itself from the CARIFTA report when the existence of the report became known. The GOJ has not seen it in its advantage to cooperate with Guyana and there is an existing rivalry between Prime Minister Shearer of Jamaica and Prime Minister Burnham of Guyana. However, the opposition party in Jamaica has long endorsed Caribbean regional cooperation. In his recent Foreign Affairs article, Michael Manley, Leader of the opposition, advocated regional cooperation and common economic diplomacy, with specific reference to the bauxite industry.

Barcelona Traction Company Case

On February 5, 1970 the International Court of Justice ruled that under established rules of international law a state may not extend diplomatic protection to its national who is a shareholder in a foreign corporation that has been injured by a third state. This ruling would not have the effect of negating treaty rights, however, where such exist. Moreover, it does not apply to those rare cases where the injury is to the shareholder rather than to the corporation, and may not apply where the corporation has ceased to exist or where there is a lack of genuine links between the state of incorporation and the corporation. The decision does not expressly deal with the two-state situation in which the corporation is a national of the respondent state.

In the light of this decision, the Department will not formally espouse a claim based on injury to a corporation that is a national of a third state. We would continue to provide unofficial good offices to bring about a settlement, but our arguments to the state would be couched essentially in economic, rather than legal terms. We should also be prepared, on request, to join with the state of incorporation in making representatives to the respondent state. If the Department's good offices do not succeed in bringing about a settlement, we should encourage the shareholders to seek formal intervention by the state of incorporation and support the shareholders' request for protection with the state of incorporation.

NSSM 117

NACHMANOFF

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

SECRET

February 16, 1971

National Security Study Memorandum 117

TO: The Secretary of State
The Secretary of Defense
Chairman, Joint Chiefs of Staff
The Director of Central Intelligence

SUBJECT: Review of U. S. Policy in the Caribbean Area

The President has directed that a comprehensive review of U. S. policies and programs in the Caribbean be undertaken. The study should take into account, but not necessarily be constrained by, studies prepared in response to NSSM 108. It should identify U. S. interests in the area and consider inter alia the implications of the following factors and developments for those interests:

-- pressure being exerted on the foreign bauxite interests in Guyana and its effect on U. S. bauxite investments in Jamaica;

-- the intention of the British Government to reduce its obligations and costs in the Caribbean;

-- the interest of some Caribbean governments in regularizing trade and/or diplomatic relations with Cuba;

-- the growth of black power or black nationalism in the area;

-- increased Soviet military activities in the region.

The study should include recommendations or options, as appropriate, for U. S. policies and programs in the Caribbean area to advance or protect U. S. interests.

SECRET

The President has directed that the NSC Interdepartmental Group for Inter-American Affairs conduct the study, which should be submitted to the Senior Review Group by April 15, 1971.

Henry A. Kissinger

cc: Administrator, Agency for International Development
Director, United States Information Agency