EXECUTIVE SECRETARIAT

Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
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6	DDA				
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8	DDS&T				
9	Chm/NIC	✓			
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	ANIO/ECON	✓			
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SUSPENSE ______________ Date

Remarks:

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Executive Secretary

3/30/83

Date

3637 (10-81)

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

March 29, 1983

~~UNCLASSIFIED~~
(With ~~Secret~~ Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE
CHAIRMAN, EXPORT-IMPORT BANK

SUBJECT SIG-IEP Meeting on Thursday, March 31, at 3:00 p.m.

Attached for the meeting of the SIG-IEP scheduled for Thursday, March 31, at 3:00 p.m., in the Roosevelt Room, are background papers on Export-Import Bank credits to Angola. Consideration of Agenda Item 4, Netherlands Antilles Tax Treaty, is being postponed.

David E. Pickford
David E. Pickford
Executive Secretary

Attachments

~~UNCLASSIFIED~~
(With ~~Secret~~ Attachments)

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EXIMBANK PRELIMINARY COMMITMENT TO ANGOLA:
TAKULA OIL FIELD DEVELOPMENT PROJECT

Issue:

Eximbank received a request from Gulf Oil to support $300 million of U.S. exports for the Takula oil field development project in Angola. Should the President deny this application on foreign policy grounds?

Options

(1) Deny the application on foreign policy grounds.

(2) Determine that there are no foreign policy objections to Eximbank support of a first tranche ($60 million) for this project, and authorize Eximbank to tell U.S. exporters that the remainder will be considered at an appropriate time.

(3) Determine that there are no foreign policy objections to Eximbank support for $300 million of U.S. exports for this project.

Discussion

-- The issue is fleshed out in the attached papers: (1) the Eximbank summary of the deal; (2) the NSC recommendation to defer approval; and (3) State's recommendation that Eximbank offer a first tranche ($60 million) at this time.

-- The Export-Import Bank Act provides that Eximbank should not "deny applications for credit for nonfinancial or noncommercial considerations" except in cases where the President determines that such action "would be in the national interest" (the "Chafee amendment"). The Eximbank Board is awaiting a determination by the Secretary of State that there are no political objections to this application.

-- The equipment to be exported is not unique. U.S. suppliers face intense competition on this sale primarily from France. Eximbank support will not be a determining factor on whether the project goes forward, but will significantly affect the competitiveness of U.S. exporters.

-- A decision must be made quickly; equipment awards of $60 million will be made soon, and U.S. suppliers have been short-listed for such procurement. Treasury and Eximbank staffs feel that the deal offers reasonable assurance of repayment on technical, financial and economic grounds. Direct credit support would be at the Bank's 10.0 percent interest rate for relatively poor countries.

-- The NSC recommends deferring approval and, if necessary, invoking the Chaffee amendment. NSC argues that approval would vitiate the strategy of requiring concessions from Third World Marxist-Leninist regimes before offering new U.S. bilateral assistance. The United States should not provide our limited "carrots" to the MPLA regime, when there is no indication that Cuban combat forces will be withdrawn.

-- Since the approval of the entire project at this time might cause foreign policy difficulties, State recommends approval of a first $60 million tranche as a reasonable balance between our commercial and political interests. This would avoid a contentious Chaffee amendment decision and erosion of our commercial competitive position. Eximbank is prepared to consider the first tranche now and to tell exporters it will consider the remaining portion at an appropriate time.

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

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MEMORANDUM

March 25, 1983

To: Mr. Donald T. Regan
Secretary of the Treasury

From: Mr. William H. Draper III
President and Chairman

Subject: Angola - Takula Oil Field Development Project

Eximbank received in early December 1982, a preliminary commitment request to support $300 million of U.S. goods and services for the Takula oil field development project located offshore Cabinda, Angola. The applicants and proposed borrowers for the undertaking are the joint venture partners, Sociedade Nacional de Combustiveis de Angola (Sonangol), the Angolan national oil company, for 51%, and Cabinda Gulf Oil Co. (Cabgoc), a wholly owned Gulf Oil Corporation subsidiary, for 49%. The transaction would be guaranteed by the Government of Angola, through Banco Nacional de Angola, the central bank, for the Sonangol 51% share, and Gulf Oil Corporation, for the Cabgoc 49% share. Total project costs are estimated to be $589 million. U.S. suppliers face intense foreign competiton on this sale primarily from France, which has already received $125 million of equipment awards on the project (Phases I and II).

Gulf Oil Corporation reports that $60 million of equipment awards are due to be imminently awarded (Phase III), and that one or more U.S. suppliers have been shortlisted for such procurement. The balance of equipment awards are expected to take place between September 1983 (Phase IV in the amount of $95 million) and June 1984 (Phase V for the balance of $145 million).

The Eximbank Board has not yet acted on the $300 million request, however the Eximbank staff does feel that the transaction offers a reasonable assurance of repayment on technical, financial and economic grounds and would be prepared to recommend offering several financing options. The first option would consist of an Eximbank credit of $195,000,000 (65% of U.S. Costs) with interest rate at 10% per annum, the second option would consist of an Eximbank credit of $225,000,000 (75% of the U.S. Costs) at 10% interest in conjunction with a loan from the U.S. supplier of $30,000,000 (10% of the U.S. Costs), and the third option would be comprised of an Eximbank Guarantee of a loan for $255,000,000 (85% of the U.S.Costs).

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Because of current political circumstances involving Angola, the State Department indicated that approval of the entire project at this time might cause serious foreign policy difficulties but that a smaller amount might be a reasonable balance between our commercial and political interests. In response to this suggestion, Eximbank is prepared to consider financing for a portion of the amount requested ($60 million for Phase III) and to indicate to the applicant, without making a commitment, that it will be prepared to consider the remaining portion at an appropriate time in the future.

Section 2(b)(1)(B) of the Export-Import Bank Act of 1945, as amended (the "Chafee Amendment"), provides in part that Eximbank should not "deny applications for credit for nonfinancial or noncommercial considerations" except in cases where the President determines that such action "would be in the national interest." (This authority has been delegated by the President to the Secretary of State.) We believe that the proposed action by Eximbank would be in compliance with the Chafee Amendment.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

March 25, 1983

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MEMORANDUM FOR NORMAN A. BAILEY
Executive Secretary
SIG-IEP

The State proposal that in response to a request by Gulf Oil and the Angolan parastatal firm Sonangol (an arm of MPLA regime) for Export-Import Bank financing of a $300 million dollar package to develop a major new oil field over the next few years is that this application be approved in tranches, with approval for a first tranche of $60 million. This proposal has several serious disadvantages. These are in brief:

-- Such an approval would vitiate the strategy of requiring some concession on the part of Third World Marxist-Leninist regimes in parallel with any new commitment of U.S. bilateral assistance. This is in fact implicitly acknowledged by State in rejecting approval of the entire $300 million request. In point of fact, while we are currently pressing the Angolan MPLA regime for withdrawal of Cuban combat forces from Angola, there is no indication at this time that any such withdrawal -- even partial withdrawal -- will be put forward by the MPLA regime. In fact, the U.S. has already made a very positive up-front signal in approving a March 1981 Ex-Im credit to the same applicants for a gas-injection system for certain oil wells in the sum of about $100 million, a scheme which has been implemented and has substantially added to MPLA revenues, without receiving any substantive "quo" in return. It would seem foolish to provide yet another of our limited "carrots" to the MPLA regime without any solid prospect of a return.

-- Further to the above point, the concept of tranches carries the implication that further Ex-Im funding will be made available in the future, thereby even further weakening our ability to use this tool for leverage with the Angolans.

-- Such a loan would provide a very negative signal to our non-communist friends and allies in Africa and elsewhere. One can imagine the impact such a loan would have on Zaire, where we are making demands for fundamental economic changes for a relative pittance of bilateral assistance. One can also

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imagine the impact such a loan would have on the non-communist forces of Jonas Savimbi's UNITA movement in Angola.

-- There is evidence that the private U.S. banking community is watching this application closely as a guide to whether new loans to the MPLA regime, some applications of which are being held in abeyance by the banks, should be approved. In granting approval to this application, even in part, we would lose even more leverage with the MPLA regime by signalling international Western banking that further lending is okay.

-- There is very real question of Sonangol's ability to repay. Future oil earnings by the MPLA, if the current situation continues, will be earmarked over 80% to direct repayment of Cuban, Soviet and other assistance. The MPLA regime in recent months, according to intelligence, is unable to meet current accounts.

A denial of this application would not affect Gulf Oil's situation in Angola, since Gulf/Sonangol would merely seek financing elsewhere. [redacted] 25X1

On balance, it would seem advisable to further defer approval of the Gulf application and, if necessary, invoke Chaffee Amendment provisions to do so.

Frederick Wettering
Staff Member

DEPARTMENT OF STATE

Washington, D.C. 20520

CONFIDENTIAL

MEMORANDUM

March 29, 1983

To: SIG-IEP Group

From: AF - Chester A. Crocker

Subject: State Position on Gulf Request to EXIM to Finance Angola Oil Development Project

Gulf Oil has applied to EXIM for a preliminary commitment for a $300 million package, which includes $195-225 million in financing for Gulf (49 percent) and the Angolan state oil company Sonangol (51 percent) to develop the major new Takula oil field in Angola, with the remainder in loan guarantees. The State position is that clearance should be granted to EXIM to proceed only with a first tranche of $60 million, and that a decision on the larger package should be delayed depending on how the U.S. negotiations with the Angolans progress.

The Department has made known its concerns to Gulf and the Angolans. At our request, Gulf Vice President Mel Hill during his late February trip to Angola delivered a message to the MPLA leadership, including President Dos Santos, that improved commercial dealings between the U.S. and Angola (i.e., in this case the full EXIM package) can occur only in the context of progress in our negotiations on Cuban withdrawal and related matters. On March 23 Hill reported to us that the MPLA leadership is fully familiar with the decision pending on the EXIM loan, and is aware that our handling of it will be tied to political considerations. Gulf has agreed to cooperate with our approach, and has informed EXIM that it is prepared to accept a first tranche (covering $60 million)/delay scenario.

Our discussions with the MPLA have entered a critical phase, with some positive signs. Our recent discussions with Angolan Interior Minister Alexandre Rodrigues Kito in Paris frankly explored what is required on Cuban withdrawal, and Kito has returned to Luanda to consult with the MPLA leadership on whether to provide the required specificity on withdrawal in order to move the southern Africa negotiations forward. It is important that we build MPLA confidence that our intention is not to destabilize their government.

In addition to the political considerations involved, American private sector interests must be taken into account in the EXIM decision. The French have offered an attractive

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alternative financing package to the MPLA which Gulf will be forced to accept if the EXIM loan is turned down. This would result in the use of French goods and services to develop the Takula field, and would represent another French commercial success in West Africa at the expense of a major setback to the American private sector in these difficult economic times. Gulf has already solicited and opened bids covering the $60 million development Phase III. McDermott has separately pressed us for a decision so that they will not lose the $10 million contract which they will get if the first tranche of the EXIM financing is approved. Gulf faces strong Angolan pressure to move ahead with the Phase III development, and must make a decision on financing and contracts by Monday, April 4.

We need action as soon as possible in light of current developments in the peace process and economic considerations. The fact that we have made the political point to the MPLA regarding the loan, the decision on Cuban withdrawal being considered by the MPLA leadership, and the possibility of alternative French financing underscore the necessity to approve the first tranche if the loan is to serve the purpose of encouraging the MPLA to have confidence in us and, thus, to make the right decision. Now is not the time to send a highly negative signal to the MPLA leadership which could play into the hands of the Soviets and those within the MPLA who are arguing that the U.S. is inherently hostile to the Luanda government. A key MPLA leader, Petroleum Minister Pedro Van Dunem, is presently in the U.S. and may be meeting with us around April 4. He will be looking for an answer.

We will use the opportunity of a meeting with Van Dunem to underscore the message delivered by Gulf that improvement in the U.S.-Angolan commercial relationship can occur only in the context of progress on the political issues under discussion between us. Approving the first tranche will enable that relationship to continue, but will not send a highly positive signal as approval of the full package would do. Moreover, we will have subsequent opportunities to evaluate whether further financing should be approved in light of the state of play on the political front. In essence, we will be preserving our options for dealing constructively with the MPLA if they cooperate with us in the negotiations.