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2 January 1974

MEMORANDUM FOR THE RECORD

SUBJECT: US Leverage on Guyana and Jamaica

The attached paper was forwarded to Foster Collins, Special Assistant to the Secretary for National Security, Department of Treasury at his request on 28 December 1973 for passing on to Assistant Secretary John Hennessey. Paragraphs 8 and 12 were drafted by OCI and the remainder was drafted by OER. Questions or comments may be addressed to the author, [Redacted]

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Chief
North America/Caribbean Branch

Attachment:
As stated

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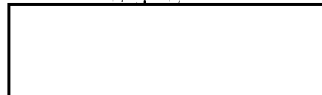
US LEVERAGE ON GUYANA AND JAMAICA

Conclusions

1. The United States has a fair amount of leverage in dealing with Guyana, though not necessarily enough to head off nationalization of US property. The recent renewal of Guyana's threat to Reynolds' bauxite subsidiary may mean that Burnham is prepared to accept the serious effects that nationalization could have on the economy.


2. We appear to be in a strong position with respect to Jamaica. The country badly needs receipts from US tourists, US economic assistance, and the large US market for its bauxite. Although the United States currently relies on Jamaica for about half of its bauxite supply, interruption of this trade -- either temporarily or for a protracted period -- almost certainly would hurt the Jamaicans more than it would us.

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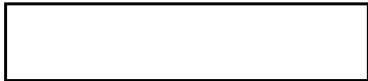
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Introduction

3. Guyana and Jamaica have sought in the last several years to substantially increase their revenues from foreign companies' exploitation of bauxite deposits -- the principal mineral resource in both countries. Guyana has taken the stronger action. In 1970, Prime Minister Forbes Burnham demanded a 51% government equity share in the subsidiary of the Aluminum Company of Canada (Alcan). When the company refused, he nationalized its bauxite and alumina properties. In December 1972, Burnham made a similar demand on the Reynolds subsidiary. He soon backed off, however, because of the threatened loss of US economic aid and the weak world bauxite market, which was hampering government bauxite sales. Despite divided counsel within his cabinet, Burnham last week renewed his demand to purchase a 51% equity share of the Reynolds bauxite properties, an arrangement unacceptable to the company.

4. Jamaica's efforts have been limited to (a) tax and other measures aimed at the profits of foreign-owned bauxite operations and (b) moves toward state ownership of unexploited bauxite reserves now in foreign hands. Thus far, the Manley government has not publicly demanded nationalization or partial government ownership of any bauxite operations. To eventually increase its revenues,

- 2 -


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however, the government established a bauxite commission in June 1972 to recommend appropriate steps. In November 1973 Kingston demanded that the companies make confidential financial information available to the commission. Although the thrust of the commission's initial recommendations -- expected to be completed within the next several months -- is uncertain, concern already has arisen concerning the outlook for US investments.

Leverage on Guyana

5. If Burnham persists in his demand for a 51% equity share and if Reynolds remains adamant, the confrontation could well lead to full nationalization of its properties. About the only US economic leverage available to head off the danger is a renewed threat to end US economic assistance and a threat to try to use US voting power in international financial institutions to deny assistance to Guyana. The economy is vulnerable to the ending of US aid, which in FY 1972 amounted to \$18 million, or about 55% of public investment outlays. So far at least, Guyana has had little success in reducing its dependence on the United States for assistance. Although Burnham probably has approached several Communist countries for aid, he has obtained only a \$26 million credit from China, to be used over five years.

- 3 -

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6. Even so, it is uncertain how Burnham would respond this time to a threatened loss of US aid. One factor working against a backdown by him is his election pledge last summer to renew the demand for partial ownership of the Reynolds unit. US pressure would have the best chance of succeeding if combined with some face-saving out such as last year's promise by Reynolds to retain numerous unneeded workers.

7. The United States has little other economic leverage to bring to bear against Guyana. A threat to end its quota in the US sugar market is unlikely to be effective, because about 85% of Guyana's sugar exports go to the United Kingdom. In view of the present strong demand in the free market, any sugar excluded from the United States could readily be sold in that market at premium prices. Threat of an overall trade embargo probably would not very persuasive. Only about one-fourth of Guyana's imports come from the United States, and these goods probably could easily be obtained from the United Kingdom and other countries. Moreover, exclusion of Guyanese bauxite from the US market might hurt us more than Guyana. Our small imports are mainly calcined bauxite used for refractory purposes -- a material in which Guyana has a virtual world monopoly.

- 4 -

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8. Although Burnham wants cordial relations with the United States, he will not sacrifice what he sees as important Guyanese interests to cultivate them. Our ability to influence his actions through political leverage thus appears to be small. Burnham has been loath to reverse his stand on issues at the behest of the US, even in cases (such as UN votes) where the outcome has meant little to Guyana. Burnham does not feel he owes the United States anything politically for the aid provided. One possible point of political pressure would be a threat to support Venezuelan territorial claims against Guyana.

Leverage on Jamaica

9. In case Jamaica's bauxite commission were to recommend that the government acquire partial or full ownership of bauxite properties through purchase, the United States has certain economic levers that might serve to head it off. US economic aid averages about one-quarter of public investment spending. Washington conceivably could threaten to cut off US tourist visits, although such a threat would seem inappropriate short of nationalization without compensation. Gross receipts from this source amount to some \$80 million annually, which equals about 20% of current account earnings and 8%-9% of

- 5 -

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GNP. An embargo on deliveries of US goods would affect a little more than one-third of Jamaican imports, including the bulk of grain and flour supplies.

10. US pressure on Jamaica is constrained but not ruled out by the fact that we now obtain about 55% of our total bauxite supply from it. This trade is even more important to Jamaica than it is to the United States. The Jamaican economy is heavily dependent on the bauxite and alumina industry. Its production accounts for 15% of GNP, and bauxite and alumina make up about two-thirds of exports. About three-quarters of bauxite and alumina exports go to the United States. Prolonged stoppage of US sales would have a serious adverse effect on the economy. With foreign reserves of \$140 million -- equivalent to about 3 1/2 months' imports -- such a stoppage would soon force a sharp curtailment of imports.

11. The United States is in a better position than usual to temporarily get along without Jamaican bauxite, in the unlikely event that this should prove necessary. The present curtailment of US aluminum output because of electric power shortages, combined with excess bauxite stocks in the United States and various other countries, might enable us to get along without Jamaican bauxite for several months. In time, the United States could satisfy its bauxite needs from other sources.

- 6 -

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12. Prime Minister Manley desires an amicable relationship with the United States but nevertheless takes an independent stand sometimes. The current effort to develop closer ties with the Cuban government is one example of his willingness to ignore US desires. A specific threat of hostile action, however, probably would dissuade Jamaica from a strong nationalistic course. Manley is aware that a sharp confrontation with the United States would severely hurt the Jamaican economy and undermine the foundations of his political support.

CIA/OEP
28 December 1973

- 7 -

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