The Director of Central Intelligence

Washington, D.C. 20505

Executive Registry
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11 October 1984

Dear [redacted] STAT

I just wanted you to know that I read your piece about the economic crisis in the Dominican Republic with interest. I have discussed the matter with [redacted] He, too, is concerned about the situation there, [redacted] I'm told State is following this closely.

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I return herewith the papers you left with me. Warm regards.

Yours,

Bill

William J. Casey

[redacted]

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THE DOMINICAN REPUBLIC

I. The Current Crisis

Last April more than 60 Dominicans were killed and scores injured as the Police and Army quelled a mass protest against sharp increases in the price of food, medicine and other necessities. Whether this uprising was orchestrated and fueled by the radical Left as a "dress rehearsal" or was a popular demonstration against the Government's economic austerity policy that ran out of control -- or both -- underscores again the fragile situation in this vital Caribbean nation.

Last week the Government took protective military measures to assure that there would be no repetition of the April violence when it announced that oil and gasoline prices would also be sharply increased. Because of the enormous distortions in the Dominican economy -- brought about typically by low prices for its principal exports such as sugar and high imported oil costs -- the Jorge Blanco Government has been preoccupied for months in attempting to work out a rescue plan with the IMF. Political considerations have taken precedence over economic considerations accounting for a virtual paralysis in the nation's economy, already beset even in better times by high unemployment and a burgeoning population.

Reports concluding that a radical Leftist takeover "cannot be ruled out" such as that issued by the First Boston Corporation to a group of potential Dominican investors (see Enclosure #1) are not realistic, according to the State Department. But again they illustrate that the fabric of the Dominican political system is not sturdy and that any future course of events, if the economic contraction continues, cannot be taken for granted.

II. Foreign Investment as a Stabilizer

Central to the revival of the Dominican economy -- and the consequent strengthening of the political fabric -- is the retention and development of foreign investment. This fact is at the core of President Reagan's Caribbean Basin Initiative. With the departure of Alcoa and the imminent phase-out of Falconbridge, the last major foreign investor is Gulf+Western. But that company, in a streamlining move announced last June, has stated it is getting out of the sugar business both in the Dominican and Florida, a decision accelerated, as will be explained below, by the actions of the Dominican Government.

Unless properly filled, the departure of Gulf+Western may leave a huge void in the economy. The company has been for the past seventeen years the Dominican's largest taxpayer, employer and developer of agricultural technology, and pioneers in the new tourism industry. As the owner and operator of the most efficient sugar mill perhaps anywhere in the world, it has become a main source of foreign exchange for the nation. Recent articles in The New York Times, the Miami Herald and just last week in the Chicago Tribune (see Enclosure #2) have highlighted the impact of this move.

III. The Issues

Caught up in the current economic squeeze, the Dominican Government has reacted in unpredictable and arbitrary ways.

- They retroactively impaired the value of Gulf+Western's and other U.S firms'dividends which had been earned in prior years and which ironically were never remitted at the request of the Dominican Government. As a result, Gulf+Western lost $22 million, has had to file an inconvertibility claim with OPIC and sue the Dominican Government in local courts.
- They imposed an artificial exchange rate on sugar, which is crippling their main source of foreign exchange.

Against this scenario, the question is what can be done to restore confidence in foreign investment and help stabilize the economy. Because of the clouded situation, Gulf+Western is experiencing difficulty in selling its Dominican operationsto a responsible and suitable buyer, creating a great deal of uncertainty in the Dominican.

IV. Six Steps to Stability

1. Impress on the Dominican Republic Government the need to clean up their remittance policy. State (Motley) has taken a pro-active role in this and has been most supportive.

2. Impress on the Dominican Republic Government the absolute necessity of linking the sugar exchange rate (largest export item) to the oil exchange rate (largest import item). This is the IMF strategy, but the Dominican Republic Government is dragging its feet.

3. Assure the passage of the Farm Bill, which will provide the mechanism for continued U.S. quotas for Dominican sugar(Quota price: 21¢; World price: 5¢). Without this support, the most effective direct form of U.S. economic assistance, the already depressed Dominican economy will go into a tailspin. The Farm Bill runs through this coming and the next U.S. Government fiscal year but will expire unless Congress acts later in the 1985 session.

4. Try to see that sugar quota shortfalls of other nations are allocated to the Dominican Republic or the Caribbean Basin. (Agriculture/State STR)

5. Stop the flow of Canadien blended sugars coming into the U.S. which are limiting the growth of any quota from countries like the Dominican Republic (State/Agriculture).

6. Press the Dominican Republic Government to complete its negotiations with the U.S. on the tax exchange information agreement, allowing U.S. tax deductions for conventions held in the Dominican Republic. This is a key provision of the Caribbean Basin Initiative and will help boost Dominican tourism.

# # #

September 10, 1984

Memorandum

First Boston

August 1, 1984

4. The Outlook

The Dominican Republic is a deeply troubled country. Even after a compromise stand-by arrangement is reached with the IMF, likely to be accomplished in the near future, it will take a long time for economic conditions to improve, and to achieve significant gains in real per capita income.

Because of the precarious economic situation, political instability will continue and political tensions are likely to intensify. An overthrow of the present Government and a take-over by radical political forces cannot be ruled out. Such a take-over could lead to full-scale civil strife and would most likely lead to the nationalization of all major private enterprises and foreign investment.

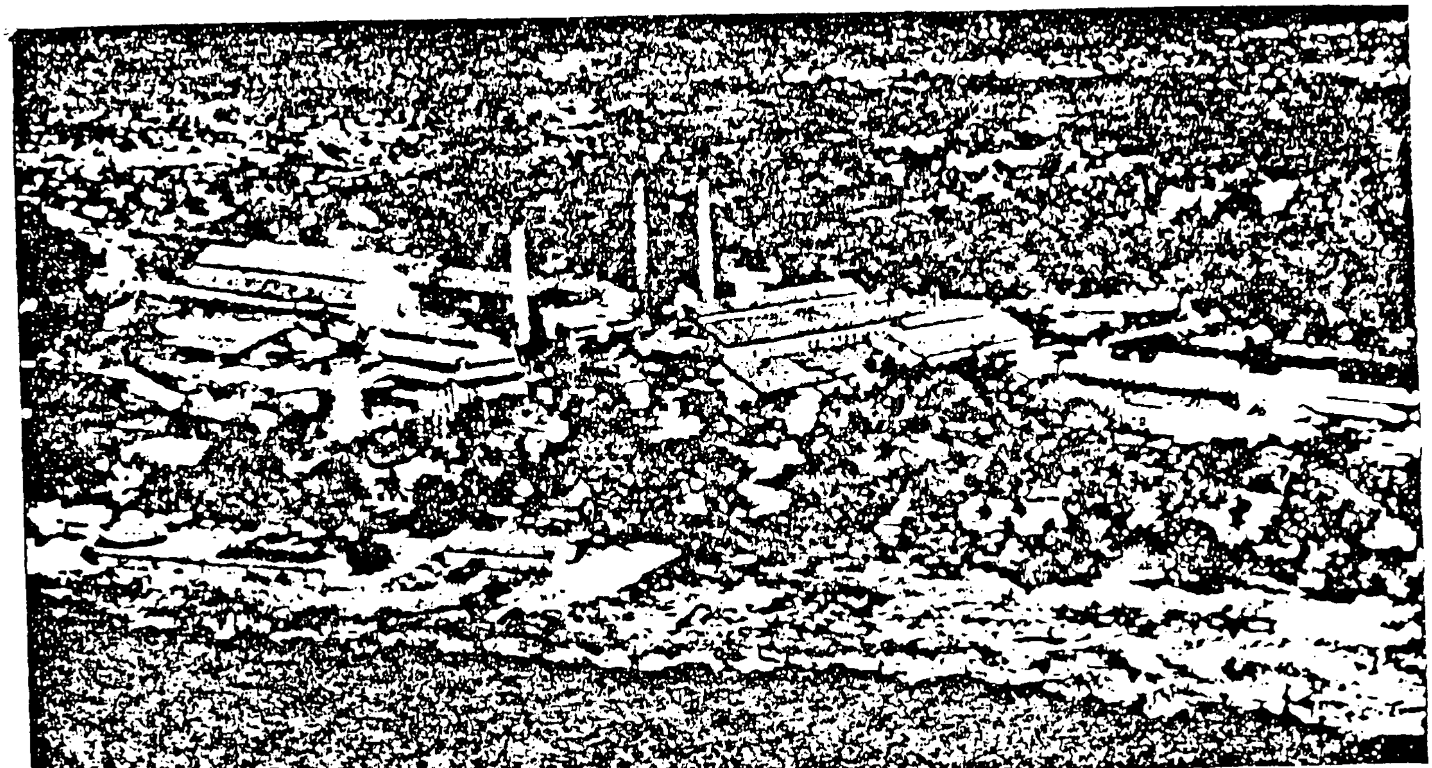
Attachment: Statistical Tables 1 to 6

1. Total Export Earnings and Major Export Commodities
2. Current Account and Balance of Payments
3. National Accounts by Major Components
4. External Public or Publicly Guaranteed Debt
5. External Claims of Commercial Banks in G-10 Countries, Switzerland, Austria, Denmark and Ireland on the Dominican Republic
6. Amounts Owed to U.S. Bank by the Dominican Republic

G+W
CORPORATE COMMUNICATIONS

Chicago Tribune AUG 31 1984

Wednesday, August 29, 1984



Gulf & Western Industries' sugar mill in La Romana, Dominican Republic. "It is a strange multinational in that it has been a good multinational," a local business executive said. "Dominicans are very fond of *La Gulf*."

Town losing amigo in 'La Gulf'

By George de Lama
Chicago Tribune

LA ROMANA, Dominican Republic— This is the land of sugar and *La Gulf*, a sweet combination that turned this seaside city into a symbol of forward-looking, enlightened foreign investment in an age-old Caribbean commerce.

Now, however, the U.S. firm with the good-guy image is thinking of pulling out, and this worried company town is wondering what happens when the company leaves town.

In a larger sense, observers across the Caribbean are thinking hard about what the planned move might say about sugar, the region's traditional economic lifeblood.

La Gulf, as it is known here, is Gulf & Western Industries Inc., one of the most unusual U.S. corporate entities operating in Latin America.

"It is a strange multinational in that it has been a good multinational," said Frank Moya Pons, executive director of the Fund for the Advancement of the Social Sciences. "It has created a lot of employment and put in gear a good program of support for social advances. Dominicans are very fond of *La Gulf*."

AT ITS SUGAR mill here in this city of 100,000, some 75 miles east of Santo Domingo, the capital, G&W has its fingers firml[y]

Spotlight

As the Dominican Republic's chief cash crop, sugar accounts for about 40 percent of all export earnings and directly or indirectly provides work for an estimated 500,000 people. By any standard, La Romana has the world's largest sugar mill operation.

Even in these days of low world prices and slackening demand, that operation still maintains a modest profit, thanks to a preferential U.S. quota price and abolition of a U.S. import tax under the Caribbean Basin Initiative, industry analysts say.

NONETHELESS, on June 12, Martin S. Davis, G&W chief executive officer, announced in New York that the firm was putting its La Romana sugar operation up for sale because "sugar no longer fits in with the company's long-term strategic plan."

Some analysts say the bombshell worries Dominicans, who know that low world prices, the advent of sugar substitutes and new medical concern about the effects of sugar make the industry a dubious bet for the future.

The Dominican Republic produces only 11 percent of annual

chief market. Corn syrup produced in the U.S. already accounts for nearly 40 percent of American consumption, and that figure is expected to increase within a few years, analysts say.

Throw in European beet sugar and the growth of artificial sweeteners, and the outlook for cane sugar dims further. It is not surprising then that G&W announced it was putting its Florida sugar operations up for sale as well.

FOR LA ROMANA, *La Gulf* has been a way of life ever since it bought the sugar operation here in 1967 from the South Puerto Rico Sugar Co., which left a bittersweet legacy of foreign domination since it came to town at the turn of the century.

Expanding rapidly, G&W set up a free zone here with more than 8,600 workers in 21 different plants. It built the picturesque 350-room Casa de Campo resort, one of the finest of its kind in the region, with two golf courses, horseback riding, tennis, a shooting range, swimming, deep sea fishing, elegant restau-

G&W

Chicago Tribune

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rants and flawless service.

Nearby is the famed Altos de Chavon, a recreated 16th Century stone town affiliated with New York's Parson School of Design. There, poor Dominican children and rich foreigners learn the basics of silk screening, fashion design and ceramics while tourists by the droves admire the architecture and ambience.

ALL THIS WAS brought about by the vision of one man, G&W founder Charles Bludhorn. Bludhorn "saw this corner of the Caribbean and wanted to turn it into a paradise, a monument to the place he loved," said Eduardo Fernandez, former president of the Central Bank, who was an executive at G&W in its early years.

Besides La Romana, G&W owns two plush hotels in the capital, a cattle ranching business, real estate interests and other tourist ventures. No Dominican private company comes close to its extent of holdings.

The announcement of the sale came little more than a year after Bludhorn died of a heart attack. To most observers, the clock started ticking the day he died.

"With Mr. Bludhorn gone, the new management has different concepts, independent of whether sugar has a future," said Hatuey de Camps, the senior aide to President Salvador Jorge Blanco. "It is basically an internal company decision."

For now, G&W said, it will remain in La Romana until a new buyer can be found. The consensus is that it will have to be another multinational that is willing and able to pick up the entire package of G&W holdings here.

De Camps said French, Japanese and Canadian firms had expressed interest, though earlier reports here that Mitsubishi of Japan was the likely buyer are discounted by other sources.

WHOEVER THE eventual buyer is, it will find G&W a tough act to follow. Part of its positive image stems from a concerted plan to Dominicanize its management team, picking up in the late 1960s where the previous owners left off and virtually completing the process a decade later.

"That went a long way towards eliminating resentment of them as a U.S. imperialist company and that sort of thing," said a foreign economist. "The Harvard Business School should really come in here and do a case study on Gulf & Western. I've never seen anything like what they've done here."

Today, G&W's good standing is more solidly based on the simple fact that its sugar operation here pays its 16,000 permanent employees better than any other sugar concern in the country and provides them with a wide range of social services.

IN CENTRAL La Romana, the G&W mill here, any prospective buyer would be getting a powerhouse. In 1981-82, the plant crushed 4.09 million tons of cane and produced a single-mill world record of 480,086 tons of sugar, an amazing sugar-to-cane yield of 11.74 percent.

The mill refines sugar at a cost of 14 to 17 cents per pound, better than any other cane operation in the world. Unfortunately, sugar sells for about 6 cents a pound on the world market.

There are other problems for potential buyers, too, besides meeting high expectations amid the sugar industry's uncertain future. For one thing, new peso exchange restrictions on revenues have put a damper on large foreign corporate investment.

At the behest of the International Monetary Fund, the government changed the exchange rate governing multinational remittances, obliging foreign firms to repatriate dividends at the parallel rate of almost three pesos to the dollar

instead of at the official rate of one. G&W said the move accelerated its decision to sell.

ONE WAY OR another, the sale of La Romana's sugar operation and a new awareness of the limits of sugar as the nation's economic mainstay signal an end to an era.

The Dominican government is beginning to embark on an ambitious, politically touchy program of diversifying its economy, converting old sugar fields to more profitable crops like pineapple, and slowly trying to modernize its equipment.

Now, with the government caught in the midst of a crippling financial crisis that includes a huge foreign debt and trade imbalance, the last thing it needs is for its largest investor to indicate a lack of confidence in its chief industry and in the country's future as a favorable investment site.

Asked about the political implications of G&W's planned departure, de Camps answered slowly. "It remains to be seen," he said.