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 INFO AMEMBASSY BRIDGETOWN
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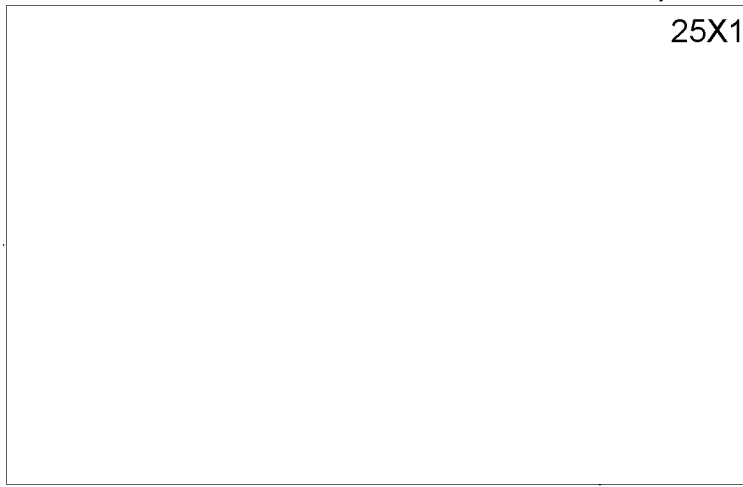
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EJMD. 12356: DECL: OADR
 TAGS: PGOV, ECON, EINV, US, GJ
 SUBJECT: GAIRY SUMMONS US INVESTOR

1. CONFIDENTIAL ENTIRE TEXT.
2. ON 16 AUGUST MR. WILLIAM INGLE OF INGLE'S TOYS, MET WITH EMBASSY OFFICIALS TO DISCUSS HIS INVESTMENT PLANS IN GRENADA AND ASK ABOUT GOG ACTION ON HIS REQUEST FOR SPECIFIC EXEMPTION FROM GOG LAWS PRECLUDING OPIC DISBURSEMENT OF FUNDS. AS HE PROMISED EARLIER, MR. INGLE ALSO BRIEFED EMBASSY OFFICERS ABOUT THE MEETING HE HAD WITH SIR ERIC GAIRY THE NIGHT BEFORE (AUGUST 15). INGLE HAD BEEN INVITED BY INTERMEDIARIES EARLIER IN THE WEEK TO MEET WITH GAIRY ON THE EVENING OF THE 15TH. THE MEETING HELD AT GAIRY'S HOME ABOVE ST. GEORGE'S LASTED APPROXIMATELY TWO HOURS. AS INGLE ENTERED HE WAS "PATTED DOWN" BEFORE BEING ALLOWED TO SEE GAIRY. HE SAW APPROXIMATELY 20-30 BODYGUARDS AT THE HOUSE.
3. AMONG THE MORE INTERESTING ASSERTIONS GAIRY MADE DURING THE MEETING WAS THAT GAIRY CONSIDERS THE CURRENT INTERIM GOVERNMENT AS "ILLEGAL." GAIRY CONTINUED THAT WHEN (NOT IF) HE WAS ELECTED PRIME MINISTER HE WOULD NOT CONSIDER THE DECISIONS OF THE CURRENT GOVERNMENT AS BINDING. IN THIS REGARD GAIRY ASKED INGLE ABOUT THE CONCESSIONS HE HAD RECEIVED FROM THE INTERIM GOVERNMENT TO START HIS BUSINESS AND IMPLIED THAT INGLE MIGHT MAINTAIN SOME BUT NOT ALL OF THE CONCESSIONS UNDER A GAIRY GOVERNMENT.
4. GAIRY ALSO TOLD INGLE THAT HE SHOULD FIRE HIS CURRENT GROUP OF FACTORY EMPLOYEES AND HIRE MEMBERS OF THE MENTAL, MANUAL AND TECHNICAL WORKERS UNION (GAIRY'S UNION). BY HIRING MEMBERS OF GAIRY'S UNION, MR. INGLE WAS TOLD HE COULD ENSURE THAT HIS FACTORY WOULD BE FREED FROM STRIKES, ELECTRICAL AND WATER CUTOFFS AND SABOTAGE, AND OTHER INCIDENTS THAT MIGHT HINDER HIS PRODUCTION. GAIRY INSTRUCTED INGLE TO MEET WITH MR. ALBERT FORSYTH, THE LEADER OF GAIRY'S UNION, ON 18 AUGUST TO DISCUSS THE HIRING OF GAIRY WORKERS.
5. IN RESPONSE TO A QUESTION FROM AN EMBASSY OFFICER, INGLE SAID THAT GAIRY ASKED FOR A US\$5000 CAMPAIGN CONTRIBUTION, TO BE DEPOSITED TO GAIRY'S ACCOUNT IN MIAMI.
6. INGLE SAID HE WOULD GET BACK TO THE EMBASSY AFTER HIS MEETING FORSYTH ON SATURDAY. EMBDFSS SUGGESTED THAT BEFORE

THAT MEETING INGLE SHOULD SPEAK TO THE AIFLD .
 CHARLES WOOD SO INGLE WOULD BE PRIMED WITH FACTS
 GRENADA'S UNION HISTORY INSTEAD OF THE MISINFORMATI.
 PROBABLY RECEIVE FROM FORSYTH.

7. EMBASSY COMMENT:..
 (A) POLITICAL COMMENTS: WE HAVE HEARD THAT GAIRY HAS BEEN SHAKING DOWN LOCAL BUSINESS AND WE HAVE REPORTED HIS THREATS TO MEMBERS OF THE HOTEL ASSOCIATION. THIS IS THE FIRST INSTANCE WE KNOW OF USING SIMILAR TACTICS WITH A FOREIGN INVESTOR. MR. INGLE WISELY STAYED AWAY FROM CONFRONTATION WITH GAIRY, BUT CLEARLY WAS DISTURBED BY THE ENCOUNTER. AS HE APTLY PUT IT, HE FELT LIKE HE WAS MEETING WITH THE HAFIE.
 (B) ECONOMIC COMMENT: IF THERE ARE ANY MORE INCIDENTS LIKE THIS AND ONE OF THE INVESTORS GOES TO THE PRESS IT WILL UNDERCUT MANY OF OUR INVESTMENT PROMOTION EFFORTS PRIOR TO THE ELECTIONS. SHOULD THE MIDDLE NOT COALESCE AND GAIRY WIN THE UPCOMING ELECTION THERE MAY BE LITTLE NEED FOR A FULL-TIME ECONOMIC/ COMMERCIAL EFFORT IN GRENADA.
 LAWRENCE



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C O N F I D E N T I A L GRENADA 2886

E.O. 12356: DECL: OADR
TAGS: ECON, EAID, ECIN, EFIN, GJ
SUBJ: ECONOMIC POLICY ISSUES SCHEDULED FOR DISCUSSION AT THE AUGUST
16 GRENADA ADVISORY COUNCIL MEETING

REF: GRENADA 2885

1. CONFIDENTIAL ENTIRE TEXT.

2. BEGIN SUMMARY. IN MEETINGS BETWEEN US MISSION OFFICIALS AND GOG
DEPUTY CHAIRMAN ALLAN KIRTON AND DIRECTOR GENERAL OF FINANCE
LAURISTON WRSON, GOG INTERLOCATORS SAID THE ADVISORY COUNCIL MEETING
OF AUGUST 16 WOULD DISCUSS THREE IMPORTANT ECONOMIC POLICY MATTERS,
DIVESTITURE, THE USURY LAW AND THE REVISED INVESTMENT CODE. A
DISCUSSION OF THOSE ISSUES FOLLOWS. END SUMMARY.

3. DIVESTITURE--GOG ACTION ON DIVESTITURE WILL FOLLOW AN INTERNAL
REVIEW OF THE SINGH COMMITTEE REPORT (SEE GRENADA 2885) AND DELIBER-
ATION OVER WHICH STATE-OWNED ENTERPRISES SHOULD BE DIVESTED AND AT
WHAT SPEED. WE BELIEVE THAT SOME RESULTS OF THIS INTERNAL REVIEW
SHOULD BE AVAILABLE TO THE GOG BEFORE 16 AUGUST. ALTHOUGH NO PROMISES
HAVE BEEN MADE, DIRECTOR GENERAL OF FINANCE WILSON HAS HINTED
BROADLY THAT AGREEMENT COULD BE REACHED BY THE ADVISORY COUNCIL TO
DIVEST MOST OF THE LIST OF ENTERPRISES NAMED IN THE SINGH REPORT;
THE GRENADA DAIRIES, THE GRENADA RESORTS CORPORATION,
PROCESSING PLANT, THE COFFEE PROCESSING PLANT, THE NATIONAL FISH-
ERIES CORPORATION AND THE AGRO PROCESSING PLANT.

4. USURY LAW--THE USURY LAW IS A DIFFICULT ISSUE FOR THE GOG TO
TACKLE. CURRENTLY INTEREST RATES IN GRENADA ARE CAPPED AT AN UNREAL-
ISTICALLY LOW RATE OF 12-1/2 PERCENT. THE MINISTRY OF FINANCE CLAIMS
IN ITS CONVERSATIONS WITH THE BANKING COMMUNITY, THAT THE BANKERS ARE
AKING FOR THE CEILING TO BE RAISED TO 15 PERCENT FOR "ORDINARY LOANS
WITH LOWER PREFERENTIAL RATES MAINTAINED FOR HOUSING, AGRICULTURE AND
FISHERIES. THE MINISTRY OF FINANCE IS COUNTERING THE BANKER'S PROPOS-
ITION BY PROPOSING A NEW CEILING OF 17-1/2 PERCENT ON ORDINARY LOANS
AND THE MAINTENANCE OF PREFERENTIAL RATES FOR AGRICULTURE, HOUSING
FISHERIES. CONVERSATIONS BETWEEN USAID OFFICIALS AND BANKERS SHOW
THAT ONLY ONE BANK IS SERIOUSLY CONCERNED ABOUT A COMPLETE LIFING OF
INTEREST RATES, A LOCAL COOPERATIVE BANK WITH A LARGE PORTFOLIO OF
LOW INTEREST LOANS. THE OTHER BANKS, ALREADY ENJOYING SPREADS OF 5 TO
7-1/2 PERCENT, ARE UNDERSTANDABLY RELAXED ABOUT A RISE IN INTEREST
RATES.

5. THE GOG SEEMS IMPERVIOUS TO US MISSION SUGGESTIONS THAT THE CAP
ON INTEREST RATES ADVERSLY AFFECTS GRENADA'S ABILITY TO ATTRACT
OVERSEAS FUNDS, WHETHER THESE FUNDS BE FROM LOCAL MERCHANTS EARNING
FOREIGN EXCHANGE, WORKING CAPITAL OF A MANUFACTURING FIRM THAT MUST
BUY INPUTS FROM ABROAD OR THE FUNDS AN INVESTOR MAY BRING IN TO SET
UP AN OPERATION IN GRENADA. THE USURY LAW AND FOREIGN EXCHANGE
CONTROLS ARE A DISINCENTIVE TO THE REPATRIATION OR IMPORT OF
FOREIGN EXCHANGE IN GRENADA. FOR BUSINESS CONCERNS TO HOLD FOREIGN
EXCHANGE IN GRENADA, THEY MUST FIRST OBTAIN FINANCE MINISTRY PER-
MISSION TO HOLD A BANK ACCOUNT DENOMINATED IN A FOREIGN CURRENCY.
FUNDS IN THESE ACCOUNTS DO NOT ACCRUE INTEREST. FOR FIRMS AND

INDIVIDUALS THAT IMPORT FUNDS FOR LOCAL INVESTMENT, THESE FUNDS ARE
SUPPOSED TO BE EXCHANGED FOR EC DOLLARS THAT CAN EARN AT MOST 6-1/2
PERCENT FROM LOCAL BANKS. SINCE THESE MEASURES PREVENT THE PRIVATE
SECTOR FROM EARNING MARKET INTEREST, GRENADA IS DENIED ACCESS TO MUCH
OF THE FOREIGN EXCHANGE EARNED BY ITS NATIONALS AND RESIDENTS.

6. THE GOG DISCUSSION OF THE USURY LAW IS FOCUSING ON THE INTERNAL
EFFECTS A RISE IN INTEREST RATES MIGHT HAVE, BOTH REAL AND PERCEIVED,
ON THE COST OF LIVING. THE FIRST REAL EFFECT WOULD BE AN INCREASE
IN THE COST OF CONSUMER LOANS. LATELY THESE LOANS HAVE FUELED A
SMALL NEW CAR IMPORT BOOM - ADDING MAINLY TO TRADERS PROFITS. WERE
GRENADIANS FACED WITH THE REAL COST OF FUNDS WE WOULD EXPECT TWO
RESULTS: (1) MARKET RATES WOULD ATTRACT MORE CAPITAL AND (2) BY
CHARGING MORE REALISTIC INTEREST RATES, FUNDS WOULD FLOW TO MORE
PRODUCTIVE ACTIVITIES. A WIDELY PERCEIVED
EFFECT OF A RISE IN INTEREST RATES WOULD BE AN INCREASE IN THE
COST OF IMPORTED FOOD. WE SEE LITTLE REASON TO FEAR THIS FOR TWO
REASONS: (1) EVEN IF THE CEILING RATE WERE CHANGED, THE COST OF
MONEY IS A VERY SMALL COMPONENT IN THE COST OF
FOOD; (2) THE
TRADING COMPANIES ARE THE PRIME LENDERS ON THE ISLAND AND AS SUCH
WOULD BE LAST ENTITIES CHARGED THE HIGHEST ALLOWABLE RATE OF
INTEREST. SINCE ALL PROPOSALS FOR RATE INCREASES UNDER CONSIDERATION
BY THE GOG PROVIDE PREFERENTIAL RATES FOR AGRICULTURE, HOUSING AND
FISHERIES, THESE IMPORTANT POLITICAL CONSTITUENCIES ARE PROTECTED
IN ANY EVENT.

7. THE US MISSION HAS NO PREDICTION WHAT THE GOG WILL DECIDE
TO DO WITH THE VARIOUS USURY LAW PROPOSALS. WHAT WE DO FEAR
IS THE GOG WILL INSTITUTE A HALFWAY MEASURE THAT WILL INCUR
THE WRATH OF THOSE WHO THINK THEY WILL BE AFFECTED BY A CHANGE,
WITHOUT PROVIDING GRENADA THE BENEFICIAL EFFECTS OF A SUBSTANTIAL
INTEREST RATE REFORM THAT WOULD ATTRACT GRENADIAN FUNDS, PRIVATE
AND BUSINESS HELD, PLUS FOREIGN FUNDS, FROM ABROAD.

8. IN US MISSION DISCUSSIONS WITH THE GOG ON THE TERMS AND
CONDITIONS FOR THE NEXT ESF GRANT, WE HAVE RAISED THE USURY LAW
AND FOREIGN EXCHANGE CONTROLS AS TWO AREAS NEEDING REFORM. WE
HAVE NOTED THAT WE PREFER NO USURY LAWS, VIEW A NON-BINDING
CEILING AS A SECOND BEST ALTERNATIVE AND FURTHER THAT WE DO NOT
CONDONE PREFERENTIAL RATE STRUCTURES. THE US MISSION AND THE GOG
HAVE AGREED TO CONTINUE DISCUSSIONS ON RELAXATION OF FOREIGN
EXCHANGE CONTROLS TO REMOVE THIS IMPEDIMENT TO CAPITAL FLOWS.

9. INVESTMENT CODE--THE GOG IS SUPPOSED TO HAVE REVISED ITS INVESTM
GUIDE IT CIRCULATED IN LATE MAY. THE US MISSION HAD MADE NUMEROUS
APPROACHES TO THE GOG ON THIS ISSUE NOTING THAT THE LAST VERSION,
WITH ITS RESERVATION OF 21 SECTORS FOR GRENADINA ACTIVITY WAS
DIFFICULT TO SELL AS AN INDUCEMENT TO FOREIGN INVESTMENT. WE HAVE
SUGGESTED INSTEAD THAT GRENADA USE THE CARICOM FISCAL INCENTIVE
GUIDELINES, FROM WHICH GRENADA'S 1974 INVESTMENT LAW WAS DERIVED;
AS THE BASIS FOR ANY FUTURE INVESTMENT GUIDELINES. IN THIS MANNER
GRENADA'S LEGISLATION WOULD BE NO MORE RESTRICTIVE THAN THAT IN
NEIGHBORING ISLANDS. US MISSION OFFICIALS LEFT A DRAFT EMBODYING
THESE SUGGESTIONS WITH GRENADIAN OFFICIALS IN LATE JUNE. WE HAVE
NOT SEEN ANY GOG REVISED COUNTER-DRAFTS.

10. WE HAVE MADE THE US POSITION VERY CLEAR TO THE GOG; THAT
THE GOG'S LEGISLATION SHOULD BE NO MORE RESTRICTIVE THAN ITS
NEIGHBORS AND IT SHOULD REPRESENT A REAL INCENTIVE TO INVESTMENT
BOTH DOMESTIC AND FOREIGN. FURTHER WE HAVE MADE VARIOUS
REPRESENTATIONS ON THE NEED TO STREAMLINE THE GOG INVESTMENT
REVIEW PROCESS. OPIC HAS ASSISTED US IN THIS PROCESS BY PRESENTING
SPECIFIC INSTANCES WHERE INVESTMENT HAS BEEN DELAYED BY INTERNAL
PROCEDURES. WHEN THE NEW VERSION EMERGES AFTER GOG CONSIDERATION
WE WILL REVIEW IT IN LIGHT OF THE ABOVE AND REPORT.
LAWRENCE

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