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ASSESSMENT OF TRENDS AND CONDITIONS IN THE
INTER-AMERICAN REGION

REPORT

OF A

SPECIAL STUDY MISSION TO VENEZUELA,
BARBADOS, BRAZIL, AND COSTA RICA
JANUARY 13-20, 1980

TO THE

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D.C.

This report has been submitted to the Committee on Foreign Affairs by Representatives Gus Yatron and Tennyson Guyer, who undertook a special study mission to Venezuela, Barbados, Brazil, and Costa Rica between January 13 and 20, 1980.

Other participants in the study mission were Representatives Edward J. Patten, Lionel Van Deerlin, and Clarence E. Miller. They were joined by a congressional delegation led by Representative Richard L. Ottinger of the Science and Technology Committee, who was accompanied by Representatives Hamilton Fish, Jr., and Barry M. Goldwater, Jr. Committee staff who participated in the study mission were Gene Friedman, J. Edward Fox, Mathew H. Moser, and Nancy A. Agris.

The findings and recommendations in this report are those of the members of the Committee on Foreign Affairs who participated in the study mission and should not be construed as necessarily reflecting the views of other members on the committee or of the House.

CLEMENT J. ZABLOCKI, *Chairman.*

(III)

The first part of the paper discusses the importance of maintaining accurate records of all transactions. It is essential for the business to have a clear and concise record of all income and expenses. This will allow the business to track its financial performance over time and identify areas for improvement. The second part of the paper discusses the importance of maintaining accurate records of all assets and liabilities. This will allow the business to track its net worth over time and identify areas for improvement. The third part of the paper discusses the importance of maintaining accurate records of all taxes paid. This will allow the business to track its tax liability over time and identify areas for improvement. The fourth part of the paper discusses the importance of maintaining accurate records of all debts owed. This will allow the business to track its debt liability over time and identify areas for improvement. The fifth part of the paper discusses the importance of maintaining accurate records of all equity owned. This will allow the business to track its equity over time and identify areas for improvement. The sixth part of the paper discusses the importance of maintaining accurate records of all other financial information. This will allow the business to track its overall financial performance over time and identify areas for improvement.

LETTER OF TRANSMITTAL

Hon. CLEMENT J. ZABLOCKI,
Chairman, Committee on Foreign Affairs, U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN. I enclose a report of a study mission to Venezuela, Barbados, Brazil, and Costa Rica, from January 13 to 20, 1980, which I conducted with Representative Tennyson Guyer of the Committee on Foreign Affairs; Representatives Edward J. Patten and Clarence E. Miller of the Committee on Appropriations, and Lionel Van Deerlin of the Committee on Interstate and Foreign Commerce. We were joined by Representatives Richard L. Ottinger, Hamilton Fish, Jr., and Barry M. Goldwater, Jr. of the Committee on Science and Technology.

The purpose of the mission was to exercise our oversight responsibilities in the area of our economic and security assistance programs, trade, energy, and narcotics control and to discuss matters of mutual concern with key government officials and private citizens.

This report is intended to assist Members of Congress in evaluating such immediate policy questions as increased U.S. economic assistance to the Caribbean and provide an account of the good will and fact-finding mission gleaned by my fellow Members and congressional committee staff. A number of recommendations have been made as a result of the visits.

The variety of congressional participants enabled the study mission to examine several key aspects of conditions in the countries visited with particular thoroughness.

We thank you, Mr. Chairman, for authorizing this mission, the other members and staff who participated and assisted in organizing and preparing for it, and the many U.S. diplomatic and armed service personnel, who provided support, information, and other assistance.

Your comments and those of any of our colleagues will be most welcome.

Respectfully submitted.

GUS YATRON,
Chairman, Subcommittee
on Inter-American Affairs.

CONTENTS

	Page
FOREWORD.....	III
LETTER OF TRANSMITTAL.....	V
INTRODUCTION.....	1
RECOMMENDATIONS.....	2
VENEZUELA:	
Background.....	5
Current issues.....	6
Businessmen's views.....	7
Foreign affairs.....	8
Financial outlook.....	9
Congressional views.....	10
Oil production.....	10
Presidential talk.....	11
Energy.....	12
BARBADOS:	
Background.....	13
Current issues.....	14
Official views.....	14
Economic development.....	16
BRAZIL:	
Background.....	17
Current issues.....	18
Congressional view.....	19
Foreign policy.....	19
Political outlook.....	21
Energy.....	22
COSTA RICA:	
Background.....	24
Current issues.....	25
Presidential views.....	25
APPENDIXES:	
A. Schedule of official meetings.....	29
B. Official communique of the Government of Costa Rica, January 2, 1980.....	30
C. Excerpts from President Carazo's address to the people of Costa Rica, January 14, 1980.....	31

INTRODUCTION

The countries of South America, the Caribbean, and Central America are too often regarded by Americans as merely a nice place to visit for vacations, rather than an area having mutual problems and concerns.

The importance of the area has been continually cited by administration officials, including then Secretary of State Cyrus R. Vance, who stressed the need to personally meet with leaders of these countries to discuss our joint problems of energy, inflation, narcotics, and security.

We had hoped to spend more time in the Caribbean to visit the various islands, which have become a target of Cuban influence, but the availability of airplanes shortened the time to the brief visits by the delegation.¹

The text of the report consists of discussion summaries based on notes, and, therefore, should not be considered a verbatim transcript.²

Accompanying the subcommittee were members of the Committee on Science and Technology, who issued their own report.

¹ The congressional delegation had originally been scheduled to visit Haiti, Dominica, St. Lucia, Bolivia and Ecuador in a 14-day trip, but revised the study mission to join the mission with the Science and Technology Committee, which had energy related matters as its principal interest.

² A list of the delegation's official meetings appears in appendix A of this report.

RECOMMENDATIONS

1. The Congress and the administration should reexamine our unilateral arms restraint policy, particularly in supplying spare parts for equipment already in the countries of South America.

Background and comment

The administration has followed a policy of arms restraint in the hemisphere, which has merely opened the market to Europe, Mideast, and Soviet suppliers. The need for spare parts was cited to us in Venezuela and Brazil. As part of the overall efforts to strengthen relations and regional cooperation, increased military cooperation with both Venezuela and Brazil should be reviewed in such areas as providing spare parts, military training, and exchanges.

In light of world conditions, it is not desirable for the United States alone to assume a worldwide military position. It is important to renew relations with allies in the hemisphere and to provide regional cooperation along our shores, so they can play their rightful role of a full partner in the hemisphere and the free world.

2. The United States should increase economic bilateral contact and increase and expand cultural exchanges.

Background and comment

Increased cultural exchanges would provide for better people-to-people contact. It would help identify and expose the future leadership in all segments of society, in all levels, to the United States and the American way of life. The Soviet Union provides scholarships to the working class for study in Russia, which at least makes them sympathetic to their policies. We should never take our past friendship for granted, it is a never-ending process that should continue as part of the United States foreign policy.

3. The United States should avoid permitting tuna boat seizures to become a major issue.

Background and comment

We should encourage the State Department to speedily negotiate a multilateral pact, that will be equitable to all countries involved and not affect bilateral relations with countries. It is a matter of national pride that the various countries are forced to protect their waters to help their economy by providing a fishing industry.

4. The United States should make it standard policy to provide greater United States visibility for bilateral assistance.

Background and comment

There should be more bilateral input to give us increased visibility. We should physically do it ourselves, where practical, to improve bilateral relations.

It would show the United States concern for the country and the presence would be felt. This was pointed out to us in Costa Rica, where it was noted we helped Nicaragua through Red Cross, initially, and did not receive credit for our help. We did not raise the issue, but it was brought to our attention in Venezuela and Costa Rica.

On the political side in providing aid, it is not enough to merely help hungry people, but it shows the world that by associating with the United States and following our principles of economic democracy, you can succeed.

5. The Congress and executive branch should reexamine restrictive guidelines such as per capita income figures which tend to limit eligibility for certain forms of aid and should consider exempting Caribbean basin countries from these restrictive guidelines as part of a broader U.S.-Caribbean policy.

Background and comment

We should reward Barbados and the Dominican Republic to set examples for others. Per capita figures tend to limit eligibility for aid. It is hard to explain why we punish our friends and reward countries like Haiti and Guyana. Both Costa Rica and the Dominican Republic exceed the \$580 poverty level formulated by the International Development Cooperation Agency and adopted as a guideline for United States aid programs. A major portion of the population of these countries fall below the poverty level. The continuing rise of oil prices and the fluctuation of commodity prices create economic crises.

6. The United States should promote and establish a regional coast guard and shipping program with training at reasonable prices for the Caribbean basin.

Background and comment

The vessels would assist in patrolling, and help to curb smuggling and narcotics flow in the region. It would also be a step to improve interisland shipping of cargo. Because of poor connections, Barbados does not have access to locally grown pineapples and is forced to utilize canned fruit during the height of its tourist season.

7. The General Accounting Office should evaluate the impact of U.S. income tax on Americans residing in Latin America and the resulting effect on the U.S. import-export levels.

Background and comment

The foreign income tax situation, brought to our attention by American businessmen in Barbados, Venezuela, and Brazil, indicates it not only impacts on the U.S. economy, but on other developing countries' economies and the United States relations with those countries. We are encouraging export of American jobs, but improving our balance of trade by increasing our exports to take advantage of the growing economy. It would help us to maintain and expand U.S. import-export levels. The businessmen stated they can no longer obtain American employees and the jobs are filled by nationals of other countries, who are unfamiliar with American products and technology, closing the door to previous possible imports.

8. The administration should be encouraged to facilitate settlement of claims by national oil firms in Venezuela.

Background and comment

The host Government has failed to settle the claims, arising from nationalization of the properties 4 years ago. The old tax claims, dating back to 1970, should be resolved to permit the companies to get with the job of technical assistance in developing the heavy oil belt. Although such cooperation is proceeding, the old claims constitute a possible drawback to tying up funds.

9. The United States should consider its monopoly laws in respect to international commerce.

Background and comment

The U.S. companies cannot work together under monopoly laws, while German and Japanese firms are underbidding them. The appropriate committee in Congress and the U.S. Justice Department should review the situation, which put the American firms at a competitive disadvantage.

10. The Congress should consider establishing contracts, possibly on an annual basis, with our counterparts in Brazil.

Background and comment

We should increase our contacts with our Brazilian colleagues in an effort to build a truly closer relationship. Progress has been made. We should encourage a strong independent Congress to take a role in formulating a participating democracy. The mutual advantage to increased contacts between legislators, gives insight into the political thinking of the nation as a whole. It gives an independent aspect of what is happening.

VENEZUELA

BACKGROUND

Venezuela, as a leading Latin nation, is important to the United States in two major areas.

First, at present, it is the fourth largest supplier of oil to the United States. Bilaterally, energy is one of the most important aspects of United States/Venezuelan relations.

Second, Venezuela is a very stable and thriving democracy. It continues as an open political system, and shares many common goals with the United States, including the promotion of democracy and human rights.

Venezuela is a major oil producer, and the proceeds from the industry dominate the country's public finances. Oil accounts for well over 90 percent of Venezuela's foreign-exchange earnings, over two-thirds of Government revenue, and more than 30 percent of its gross national product.

Petroleum production peaked at 3.7 million barrels per day in 1970, and stood at 2.35 in 1979, the decline mostly due to a lack of investment in exploration and development. Venezuela exports one-half of its production to the United States.

It has been said that oil will not run out for Venezuela. While offshore drilling was begun late in 1978, Venezuela will continue to look toward the Orinoco Heavy Oil Belt which contains 1 to 3 trillion barrels of oil, one of the largest reserves in the world.

Venezuela is also rich in iron ore, bauxite, uranium, and vanadium, as well as a large deposit of coal at Maracaibo. Venezuela was one of the founders of OPEC, and it has worked well for them. They are bound and determined to remain a member of OPEC.

Per capita GNP in Venezuela, as of July 1979, was \$2,807, third largest in Latin America, however, income and wealth distribution remain a major problem with a significant percentage of the population still found with inadequate nutrition, housing, clothing, and education.

These problems are enhanced by the rapid population growth. Venezuela doubles its population every 20 years. It currently ranks 6th in Latin America, at 14½ million. Added to the galloping population rate, is the problem of the upsurge of urbanization which has taken place in the last decade.

Food imports are vital to maintaining an adequate food supply in Venezuela. The country, itself, is not agriculturally rich. The agriculture industry supplies only 6 percent of the GNP and employs 20 percent of the labor force. Total production during the last decade has risen, but because of the rapid population growth, per capita production has not increased significantly.

Fourteen percent of national expenditures are devoted to education, and greater progress has been made in recent years. The literacy rate has increased 15 percent in the past decade and stands presently at 80 percent.

As previously stated, the United States and Venezuela share many common goals in strengthening democratic institutions and promoting human rights.

They have also worked toward and supported the goals of nuclear nonproliferation in the hemisphere, conventional arms restraint, anti-terrorism, and the promotion of hemispheric economic development.

Although Venezuela stands beside us in many international issues, it continues to harbor the strong sense that we do not care. This feeling, coupled with past experiences, our wealth and our influence in the area, all serve to be an irritant to Venezuelan/United States relations. They wish to work toward common goals, but do not want to be seen as surrogates of the United States.

CURRENT ISSUES

Venezuela is described as a stable democracy with a two-party system and the resources to keep it going.

They have serious problems, resulting from 80 percent rural population moving to 80 percent urban. The country also has an alien problem with 30 percent of the work force being immigrants and mostly illegal.

The country wants to spread democracy. The oil will not run out, although they have no offshore development. They need help in developing the oil belt.

As to trade, the United States and Venezuela have a favorable balance of trade, selling them more than we purchase in oil. They buy more than Brazil. Also, Venezuelans travel to Florida and New York, supplying more tourists and spending more. As a commercial partner, they are deemed essential.

Venezuela never participated in an oil embargo and look to us as friends. They know our history and power, but are concerned about our reciprocation of the friendship. A change in our attitude is evidenced, based on the Caribbean, Panama, and Nicaragua.

They view Cuba as a serious threat to the hemisphere, seeing the Caribbean basin as a deteriorating neighborhood, affecting the international process. Concern has been voiced about polarizing, choosing one or another. Their objectives are the same as the United States, but they want to work independently.

Venezuela has a strong army, but is seeking to improve its naval forces. The air force has French Mirages. The United States supplies only spare parts, but there is no big military relationship, because of the high prices we ask.

In the last 10 years, women have moved into the employment market and are taking the key positions, including being active in politics. The mayor of Caracas is a woman.

The country is 99 percent Catholic, providing a free education through high school. The church's influence remains strong among the upper and middle class segments, however, the church has been less effective with the poor. The Evangelical religion is expanding.

On the subject of narcotics, Venezuela is viewed as a transient area, making many cocaine seizures. Since 1978, when an agreement was signed, two drug enforcement agents have been assigned and there is a good working relationship. They permit the U.S. Coast Guard to board ships as their agent.

BUSINESSMEN'S VIEWS

In a working breakfast with the executive board of the Venezuelan-American Chamber of Commerce, it was stated there were bad relations 5 years ago, when Venezuela felt it was unjustly included in the general system of preference embargo. The embargo has since been lifted against Venezuela and Ecuador.

An oil company representative stated that crude oil production peaked a decade ago with production now down to 2.2 million barrels per day. He said exports to the States will be reduced, largely for political reasons. Venezuela's first project is 8 years away, during which time she will need help with technology.

"The oil belt belongs to Venezuela and they must decide how it is to be developed. We are available to help," he said.

Steam injection will be the primary process, rather than the secondary method used in the United States, when fields are exhausted. It will be more expensive than conventional oil, but with less taxes, it is the cheapest oil in the hemisphere, he said.

Questioned why production had dropped from 3.7 to 2.2 barrels per day, he said: "Just like me, they are getting old and tired. They are worn down. There has been no exploration for 20 years. You may be told it was conservation, but that is not true. Last year it was up to 2.48 million barrels per day," he explained.

Over half the amount went to the United States, but it will be one-third next year. Venezuela has increased shipments to Colombia, Italy, and Brazil. A new contract calls for only 200,000 barrels per day for the United States.

On the economic side, Venezuela has had a tenfold increase in price and is still trying to find itself. Uncontrolled Government spending, restrictive labor laws, coupled with rapid expansion of plants and the inflation spiral of the construction industry has created a tight labor situation. It created lower productivity, another industry spokesman said.

The application of the Andean private markets dried up foreign investment, he continued. The recent salary increases and high inflation created the situation for the private sector.

People are standing at the gates for the the first time in 5 years looking for work. This could create a problem, he said. The Government has taken some steps, including selective price decontrol, to reduce prices. Prices did go up after a 5-year freeze. There will be a continued restriction on foreign investment.

"We feel 1980 will be a stabilizing year, rather than a recession," he said. "1981 will be a turnaround. There should be a modest growth of 4 to 5 percent. They said the free market system will be forced to work."

Venezuela has a viable economic community, with key industries managed by the government, which exerts considerable influence on all aspects of the private sector.

A spokesman for an automobile manufacturer said his industry was frozen by price controls. It will be a natural market.

"Our industry is like an ugly girl. You keep looking at her and hope it will get better," he concluded.

In reference to the number of large automobiles seen on the street, he said fuel conservation is coming. "Bottled water costs more than gas. There is no incentive now to buy a small car. There will be a tendency to sell smaller cars," he replied.

Another industry spokesman explained decision 23 on foreign investment, which restricts the remittance of profit. On December 31, 1973, they allowed 3 to 5 percent a year. "There is tremendous red-tape to make a new investment. New foreign investment has virtually dried up. They say \$50 million was approved last year for investment, but from all over, not just the United States," he said.

It was explained that the Japanese negotiated an integrated contract, this contract not only included the financing, construction, maintenance, and operation of the new aluminum factory, but also included a long-term purchase agreement of the final product.

"We have not been competitive, because our products do not have competitive prices. We have not been in the ball game for a decade. Reynolds is the only big investor, but steel has lost out. The Germans sold modern technology. The Japanese come in with four or five companies and outbid us everytime," another man injected.

In answer to how the United States could be helpful, another spokesman suggested the visiting delegation could be helpful in three main problems left over from the nationalization of the oil industry 4 years ago.

One, clean the slate of old taxes before nationalization, which was promised.

Two, return of the guaranteed loan. It was said it would return in 6 months, but the companies are still waiting. The fund was put up to guarantee the facility was in good shape.

Three, dating back to 1970, there was a claim of \$300 million against one company.

He said they were old issues that should be cleaned up, so that they can get on with the job of technical assistance in the heavy oil belt.

FOREIGN AFFAIRS

A lengthy discussion was held with Dr. Gonsalo Garcia Bustillos, Acting Foreign Minister and Minister of the Presidency.

When asked his opinion of the current situation in Nicaragua and the prospects for the future of that country under Sandinist leadership, Bustillos said the fall of Somoza opened up an opportunity.

He stated that the question mark is reversal of influence. "We have a policy of nonintervention. My government sent me to talk to Castro and to talk to members of the junta. We are aware of the ideology of certain members of the junta. We want a guarantee for respect of the democratic system, including free elections. We should help the democratic sector of Nicaragua, the political sector," he declared.

Questioned about his thoughts on the Nicaraguan \$75 million aid package, then pending in the U.S. Congress, Bustillos said: "I believe in the case of Nicaragua, it is only an example, we should not only consider aid to Nicaragua, but we must think of the Caribbean. Central America is part of the Caribbean, bordering on the Caribbean Sea.

"We should consider not only economic aid, but humanitarian needs. In Venezuela, we have to consider others. We should supply both monetary and humanitarian assistance needs. One should not supply money and the other supply ideology, we told Castro," he said.

On the subject of energy and whether Venezuela will continue to supply the United States, Bustillos stated:

First, on oil technology. We are developing the Orinoco belt and have certain ideas. We must start exploration. It is a very heavy oil, difficult to extract.

On marketing, we do not intend to change our traditional market, that means the United States is our main client. Other markets are not appropriate. We do not intend to go to the spot markets. We have never participated in the spot market.

On the other countries, as a part of international social justice, a lot of the countries in South America cannot afford oil at the present prices. These countries are brother and sister countries. We intend to sell them at reasonable and just prices, that will not raise havoc with the balance of payments. We mention Nicaragua, the greater benefit, the greater responsibility to see the less developed do not go under.

I want to explain further on special prices. It can be extended without violation of our OPEC guidelines. It permits exchange of goods, bartering. We sell oil to Nicaragua for some agricultural products and help the development.

In answer to whether any plans were being made to conserve energy by using smaller cars and putting the oil on the world market, Bustillos said:

We must have a new automobile policy. We will not allow cars of more than six cylinders. This is a losing country. We face the problem of internal gas prices. They are very cheap and we are subsidizing prices. We are incurring losses to our people. A quart of gas is cheaper than mineral oil and water. We are experimenting with liquefied gas. We cannot afford the luxury of big cars and cheap gas. As politicians, we realize we have trouble telling people we are going to raise prices.

A concluding request was made that Venezuela consider Indo-chinese resettlement. Bustillos said he would refer it to the official responsible for international affairs to seek a solution.

FINANCIAL OUTLOOK

In a meeting with Finance Minister Luis Ugueto, he said they finished one of their major problems by direct negotiations with the United States and the members of the Andean Pact. "We are glad you were willing to speak to us as a group," he said.

Ugueto stated: "Its confirmation makes the path of Latin America more easily discernible as a unit. It permits five countries to reach a common position on both economic and political affairs.

"All five of the Andean countries are on to a democratic system of government. We were able to keep Bolivia in the fold, when we feared they were going back to old ways," he said.

From the economic point of view, Ugueto continued, the Andean Group has a goal of making a bigger market, a common tariff for the group. "We are taking major steps industrially and commercially. A common market is the common point of interest," he said.

"Second, we are trying to make some major changes in the way the economy operates. We are now stuck with a perpetually over-valued currency, because of oil. If the rate of exchange was geared to others, it would be twice that now, but we are geared to oil. If you had a choice of using a machine or technology, oil forces you to use the machine.

"Third, the urban impact is greater due to oil, concentrating on larger cities. We have an interest in migration toward cities. These elements are not common to others. Because of that, we have to open up the economy. Venezuela is not big enough to operate by itself. Our natural tendency is to buy from others. You are our largest non-oil purchasers. It is almost nil," he added.

Questioned what products Venezuela could sell, Ugueto said: "We cannot. We can sell some iron. We are not a rich agricultural country. We have been called the Chicago boys. We hope to have an economy which is more responsive to our needs. It is the greatest advance in 20 years.

"We have had an operating democracy for two decades. We have to have an operating economy," Ugueto said.

In answer to how the United States could cooperate, he stated: "Tell us how to drain our lands. We have to learn how. On the other hand, I do not believe we can apply your technology. You are much too efficient for us."

An agreement on agricultural technology is expected to be signed within the next 2 months, noting that Venezuela is one of our biggest customers. "We will put more money to the agricultural program than any other in the next 2 years," it was stated.

As to Chile choosing to leave the Andean Pact, Ugueto stated: "They did that out of politics. They want to go back to the Southern Cone with Argentina. I think they made a very major mistake."

CONGRESSIONAL VIEWS

A working luncheon meeting was held with Venezuelan President of the Congress Godofredo Gonzales. He stated: "We have ties that cannot be destroyed. We are united, that no man could destroy by ideas. We are united by history. We are inspired by the same ideas. We are united for economic reasons."

An initial discussion was held on energy and oil, but the subject of the United States releasing tin from the stockpile was raised. "It is important to Bolivia. It is important to Latin America. It is an issue that should unite us," Gonzales said.

On the matter of continuing to supply oil, he added: "No matter what place the United States or Venezuela have in oil statistics, we are the two greatest producers in the continent. During World War II, we supported the needs, that led to victory.

"The thing that unites us most is the same ideology, the same principles. We have Democrats and Republicans at the same table. We both share the same support for freedom of thought. We both believe in human rights," he concluded.

OIL PRODUCTION

In an hour-long session with Alirio Parra, director of Petroleos de Venezuela, he explained his company was the parent company of the country's petroleum industry, which has four operating subsidiaries. It was established by Presidential decree August 30, 1975.

He said the basic objective was to achieve optimum exploitation of Venezuela's hydrocarbon resources. It involves planning, coordination, supervision, and control of activities of its operating subsidiaries.

"It is a strong parent company, that is active in establishing policies and objectives. It provides guidelines to subsidiaries and approves their plans and programs. We pay taxes and are subject to control," Parra said.

In regard to setting policy, Parra said they follow guidelines given to them on a yearly basis. The guidelines point out the level of production, and the mix to heavy to light with the amount of gas.

He added that his company did not set prices, that it was set by the Government, although the company has "inputs."

The subsidiaries are Exxon, Gulf, and Shell, while the fourth is made up of former smaller companies. In addition to the four subsidiaries, the company explores, refines, and sells abroad. There had been 14 companies, which were fused to 4 and may be reduced to 3.

Parra said he believed the price would go up significantly this year. On direct sales, he said 35 percent would go to the United States, 10 percent to Canada, and 23 percent to Aruba and Curacao.

In answer to when prices will stabilize in the United States, where homeowners are paying 80 to 90 cents per gallon to heat their homes, Parra said: "Our prices are in very reasonable levels, \$26 compared to \$32 from Mexico. When will it cease? When the world supply and demand are more in line. We are concerned with conservation and more energy from other sources."

Concern was expressed about Venezuela's domestic demand and those of others in Latin America. Parra stated:

We are moving into a phase of heavy crude and will substantially increase capacity at least 100,000 barrels per day. We can maintain today's production rates.

On whether he expected a decrease to the United States this year, he replied:

From a policy standpoint, there is no intent to decrease the program in North America, Canada and the Caribbean. Mexico is starting to supply Costa Rica and Nicaragua, but there have been no shipments to Nicaragua yet. Last year, we had a drain down on storage and this year we may have a small buildup.

Questioned whether there were any concessionary prices for neighbors, he said they give specially blended crude to the Caribbean at a lower price than should be charged.

He concluded that his company was not responsible for settling with expropriated companies.

PRESIDENTIAL TALK

Venezuelan President Luis Herrera Campins expressed his pleasure in receiving the delegation and to have conversations on matters of concern to both countries.

He explained that he had just returned from a trip to the interior of the country to distribute ownership titles to property owners. Herrera meets with groups on Mondays to receive information and pass it on to agencies to reach solutions to problems.

"We are well aware of the contributions you can make and that the visit will strengthen the ties between us," he stated.

The President expressed his common concern for what was taking place in Central America. He added that assistance will help development and have the potential of stabilizing the economy.

Herrera also said he was happy with the new science and technology pact, which was just signed with the United States.

On the issue of providing help for Indochinese refugees, he said they had 2 million people who have taken refuge from other countries, but not many Indochinese. He promised to look into the matter and thanked the delegation for bringing up the issue.

ENERGY

In the next 8 years, Venezuela is contemplating investing \$7 to \$10 billion to produce and upgrade as much as 1 million barrels of refinable crude oil per day by the end of the century.

The need to develop the heavy oil reserves is based on the fact that their conventional oil production will steadily decline during this period. In addition, their own consumption demands are rapidly increasing.

Members of the delegation visited the Orinoco heavy oil belt, which is Venezuela's major source of the future.

The known reserves, which rival those of Saudi Arabia, are located in a vast, sparsely populated area, twice the size of New Jersey. Although the reserves are at relatively shallow depths, the heavy crude has unique problems due to its consistency.

The oil is so sticky that only 3 to 5 percent can be recovered by conventional methods. It also has a high sulfur and heavy metal content, which makes it a much lower quality crude than presently marketed by Venezuela.

A pilot steam flooding test is being prepared in the Orinoco Belt. Steam will be continuously injected into wells to raise the temperature of the oil to the point where it would flow toward production wells.

This technique, although very expensive, has the potential of increasing production as much as eightfold.

Menevan, an operating subsidiary of the state-owned oil company, disclosed it will spend the equivalent of \$116.5 million and drill 40 wells this year in the area of the Orinoco Belt.

The subsidiary, one of four operating subsidiaries to begin production on a commercial basis from the Orinoco Belt, expects to be producing 50,000 barrels a day in 5 years and 100,000 barrels a day by 1995.

The company said it had invited bids from international concerns for a project to produce natural gas liquids in its eastern Venezuelan operations. The project, expected to cost nearly \$700 million, is intended to produce 60,000 barrels a day of natural gas liquids, including propane, butane, and isobutane. The latter will be used for blending gasoline.

The interest of the delegation was to explore areas of joint international cooperation on the development of heavy oil resources and gasohol production.

Members noted that the United States has similar heavy oil reserves of 30 million barrels in California and Utah, that have not been developed as yet.

"Heavy oil" refers to the thick crude found predominantly in the sandy, sedimented areas throughout the world.

BARBADOS

BACKGROUND

Barbados, as an independent island in the eastern Caribbean, is the largest, most populous, and most prosperous island in the region.

The country is a model of democracy and human rights performance. Therefore, Barbados is important to the United States, because of its willingness to exercise democracy and promote leadership in the region.

Since its founding, the Barbadian economy has been based on its sugar industry. However, in 1969, tourism became the island's largest foreign exchange earner. Although efforts have been made by the Government to further diversify the economy, the sugar industry remains the island's largest single employer.

Within the past few years, roughly one-fourth of the tourist industry has been supplied by the United States. Trade with the United States has also increased, and in 1976 we became the island's leading supplier of imports.

The heavy dependence on imports is due primarily to the negligible natural resources available to Barbados. Severe restrictions on imports and tight credit, coupled with stringent economic policies, gave Barbados its first balance of payments in several years in 1978.

Barbados ranks fourth in Latin America in highest per capita GNP. As of July 1979, the figure stood at \$2,076, directly behind Venezuela. Although Barbados is the most populous of the eastern Caribbean islands, the income and wealth are effectively distributed to allow for a relatively high standard of living. This high standard of living includes an education system which boasts a literacy rate of over 90 percent.

The United States and Barbados maintain extremely good relations. We support the Barbados effort for more rapid economic development and social achievement, and look toward Barbados to support the U.S. objectives in international organizations and in the eastern Caribbean.

There have been strains in the United States and Barbadian relations in the past few years, however. This, in part, was due to the closing of a small naval facility on Barbados, and more specifically, the manner in which the closing was handled. They feel they were not sufficiently reimbursed.

Also, the fact that Barbados is a model democracy and receives only a minimal amount of assistance in relation to the amount of aid given to countries which do not exemplify democratic or human rights practices, has created a further negative aspect in relations between the two governments.

Barbados has also made a request for a regional coast guard and training for their officers, as well as the opportunity to purchase naval vessels from the United States. The latter issue has caused further irritation, as they feel the price quoted was far above that which it should have been.

CURRENT ISSUES

Barbados is a 14 by 21 mile island with a population of 275,000, while nearby islands of Grenada have 125,000 and Dominica has 85,000.

These are traditional British colonies, except for Guadeloupe and Martinique, which are French. The British are scaling down their involvement.

Although Barbados has a high per capita income, there are high rates of unemployment and undevelopment in the other islands. The human rights situation in Grenada was termed as "bleak." With a warming trend by St. Lucia with Cuba, the latter two islands are of great concern to the United States.

St. Vincent has been termed as "being out of touch," that there is some corruption on the island, which has only a per capita income of \$330 per year.

The best way to protect U.S. interests is to provide resources. Our AID program is regional with most of the funds funneled through the Caribbean Development Bank.

Concern has been expressed that the countries do not know where the money is coming from.

There is reportedly smuggling and gun running in the islands. There has been much discussion on setting up a regional coast guard, but the answer may be a national coast guard. The British and Canadian Governments will pick up most of the costs.

Questioned why we continue to work through the Caribbean Development Bank, it was explained that the Bank has many constraints, but has a good staff, which makes the programs easier to administrate. The disadvantage is the lesser degree of credit we receive.

There are seven countries and two crown colonies in the region covered by the staff in Barbados. Private voluntary organizations could handle an increased AID program, because of the lack of staff in Barbados. A suggestion was to shift the mix and proceed with parallel bilateral programs in which the United States would get more press coverage and credit.

On the question of Public Law 480 food programs in the region, there are none except in the case of disaster assistance after the hurricane in Dominica and the volcano in St. Vincent. The quick assistance provided to Dominica resulted in a 180-degree turn from the left to a pro-American stance.

Transshipment of narcotics is suspected in the area. Drug Enforcement Agency officers stationed in Venezuela traverse the region and provide information. However, there is believed to be more of a problem than we are aware of.

OFFICIAL VIEWS

In a meeting with Prime Minister Tom Adams, he said the delegation was seeing "one of the most prosperous and less poor countries of the Caribbean."

"West Indies countries do not compare to Third World countries, but to New York and Philadelphia," he said.

"When we apply for aid, they cite our per capita income, which is higher than Argentina. They assume wealth and general development, but it does not exist. There is a need for development funds," he declared.

Questioned as to his priority areas, the Prime Minister stated:

It has been unemployment. It is not to the same extent today. Reduction in unemployment is still a priority.

Housing is very important, most privately owned. Mortgages are only 9 to 10 per cent. Lending is limited by the availability of funds. The more you lend for home construction, the more you increase construction costs.

We have difficulties with the United States. One of our two exports to the United States, but under pressure, is cotton gloves. The Department of Treasury is looking into it. It is one of the most potent forms of aid. A host of American industries cannot afford American labor.

As to business prospects for investment, the Prime Minister said: "Barbados is an area for investment, light manufacturing."

In answer to how many housing units the Government supplied in 5 years, he said: "We started in 1955-61 with 2,600. The need is 6,000 to 6,500 now."

"We very much need cane cutting equipment. We have a shortage of labor in the sugar industry. We need someone to invent a machine. Look at the problem. We have done some research," Adams said.

On the subject of a regional coast guard, he stated:

You are aware of the need for a regional coast guard. The basic point is St. Lucia and St. Vincent cannot afford to buy patrol vessels unless greater aid is given. Unless you give military credit, free training, a loan grant and long-term soft loans.

A suggestion was made that the request for vessels be combined with narcotics control, which might provide helicopters. Adams replied: "Our coast guard provides fishery protections. The Grenadines are difficult to control. We have movements of hard drugs to the United States." He added that Barbados has an agreement with the Royal Canadians.

Questioned as to Cuban influence in the Union Island uprising, Adams said: "In a very indirect way. I have no evidence. Local dissidents encouraged it, I am sure in Grenada."

"On the subject of higher education, we have more Barbadian doctors in New York than we have in Barbados," he stated.

In answer to what should the U.S. posture be, the Prime Minister replied:

Do not give the impression you are writing off any island. There is a fine friendship. The United States did give development assistance, a special position, not just third world countries.

The element of information is important, CIA, KGB, is directed, wicked people. The U.S. policy seems to be on the losing end of the propaganda battle. The concept should be that the CIA is helping to protect. It is insufficiently stressed.

"It is very easy to raise the standard of living in small islands," he continued. "You can do a lot with very little. Bermuda has a higher per capita income than the United States. It happens through investment, tourism, making it easy to go."

On possible help to the transportation problem, the Prime Minister said: "You have deregulated overseas flights. The small islands also need roads."

Questioned if Barbados was doing anything to find alternative energy sources, he replied: "Two buildings going up have solar air conditioning. We have received help from the University of Florida.

"On solar air-conditioning, I have a special committee and we are working on a solar pond with Israel. We have taken a look at a wave energy project in the northeast to generate electricity. We are looking at it," he concluded.

ECONOMIC DEVELOPMENT

Neville Nichols, vice president of the Caribbean Development Bank, presided at a session with the delegation.

He stated: "You are the largest single contributor to our fund. Since 1970, you were one of our first contributors, although not a member. The programs are aimed at serious unemployment and development."

Nichols explained that the task was more difficult because of the small island economies. He noted that the small island, Montserrat, needed an airport and port or airplanes and ships could not make stops there:

We have tried small industry credit up to basic human needs to make an immediate impact with programs of unemployed, particularly youth.

He emphasized the serious problems and social effects of the unemployed

Up to 1974, we had coped really well, but we have not recovered. We appreciate the speedy response to the needs of Dominica.

On alternative energy source, \$4 million had been allowed to governments to establish policy through CARICOM. The balance is to fund technology, solar, wind, wave and biomass.

In answer to a question on wave energy, he said the Bank was checking it out to adapt it to our needs. "We are also looking for appropriate technology transfer, looking for new projects including alternatives. Twenty different legislatures have to make decisions," he said.

At least 90 percent of energy requirements are imported. There is no way they can pay. There is need for very little concessional terms.

Our program is a little over \$300 million for 5 years with \$78 million loaned last year. We will not be able to retain the level in the next 5 years.

In the design of projects, we take into consideration utilizing resources. We use as much labor as possible. Some projects are viable, such as appropriate technology projects.

On regional transportation, there is a need for computerizing reservations. We had a test tube case in 1978, when airways shut down for a month. Airline and sea lane transportation is vital.

The islands cannot sustain the need and the region cannot afford it. The ability of governments to afford services, such as running small airlines on short hops is expensive. They need assistance to keep going.

"The more inward you turn, the worse it gets," he concluded.

BRAZIL

BACKGROUND

With a population of roughly 124½ million, Brazil is the world's sixth most populous and fifth largest country. Ranking tenth in the world with a GNP approaching \$200 billion, Brazil commands a substantial industrial base in consumer products and heavy industry, as well as agricultural exports second only to those of the United States.

These factors, coupled with Brazil's increasing global interests, the desire for cooperation in trade, energy, agriculture, and international matters, have initiated a dialog between the United States and Brazil that has resulted in visits by President Carter and Vice President Mondale, as well as the establishment of many intergovernmental groups to promote joint cooperation in areas of particular mutual interest.

At the same time, the Brazilians are seeking to strengthen relationships in other areas of the world. These include ties with major economic partners in Western Europe, Middle East nations which are critical sources of petroleum imports and increasingly important markets for Brazilian manufactures, and with Africa, with which Brazil has special cultural, geographic, and economic interests.

As important to note, is the increasing effort made by Brazil to strengthen ties within its region; namely, with its neighbors: Venezuela, Peru, Mexico, and Argentina.

The current major focus in Brazil is on the runaway inflation plaguing that country. Inflation, at the rate of 40 percent in 1978, approached 80 percent in 1979. Brazil's balance of payments have been severely affected by the increases in oil prices. Every \$5 a barrel increase in the world price serves to increase Brazil's current account deficit by \$2 billion.

As a result, President Figueiredo has announced a stabilization program involving the reduction of both imports and Brazil's overall growth strategy.

Brazil, as an agriculturally rich nation, exports sufficient amounts of coffee, rice, sugarcane, soybeans, cocoa, beef, and milk, to assure its standing of second in the world in agricultural exports. With the exception of wheat, Brazil is largely self-sufficient in food.

Its cattle population of about 90 million, places Brazil third in world ranking.

Industry presently accounts for about one-third of the GNP and employs 20 percent of the work force. Major industries include steel, chemicals, petrochemicals, machinery, consumer goods, motor vehicles, cement, and lumber.

The Government has placed special emphasis on improving educational opportunities for all levels of the population. The literacy rate as of 1978 stood at 83 percent of the population 15 years and over. Social services in the fields of health and housing are also of primary concern.

A major source of sensitivity between the United States and Brazil stems from the recent amendment to the Foreign Assistance Act which requires the submission in January, of a human rights report on all U.N. members.

Although the report is generally favorable to Brazil, the country's leaders view such reports as an infringement of Brazilian sovereignty.

Brazilians are also concerned with the continuing imbalance in their bilateral trade account with the United States, although in recent years our trade has been in approximate equilibrium.

Nevertheless, the Brazilian exports have done exceedingly well in the U.S. market, and the share of manufacturers exports in total Brazilian exports to the United States stood at 36 percent in 1978.

These sensitivities, as well as the problems with countervailing duties and U.S. shrimp vessel seizures are the current irritants in United States/Brazilian relations. However, cooperation has been initiated in many areas, and relations are generally open and friendly.

CURRENT ISSUES

The biggest problem on Brazil is poverty. Church leaders said their first priority is poverty and social conditions. They are concerned also by a significant crime rate increase.

Brazil still faces major problems in the field of education. One of the problems is the quality of teachers. The Government has been urged to take necessary steps, because education will have an effect on future industrial development.

Energy remains an area of concern, with import levels higher than those of the United States. Their biggest partners are Iraq and Iran, respectively. Brazil recently signed a nuclear energy agreement with Iraq.

Although many say our problems with Brazil began in 1977 with the human rights reports, others contend it started in 1967 and 1968. Brazil would like to be seen as a major world power, and would like to be kept informed of current events.

Future relations with Brazil will improve only if we show we are concerned and are looking out for them. They are worried about their market position on soybeans. They want to discuss dumping. They want the market protected.

The Brazilian economic situation is not termed critical, but tight. It changed its economic policy in December and is attempting to deal with inflation. The country has suffered from droughts and floods in the previous 3 years.

If they have a good crop, they will get through 1980. The banks in New York are reportedly not worried, but getting concerned. Brazil will likely go to the International Monetary Fund to roll over debts, depending on the May harvest.

Military relations with Brazil have slipped over recent years, but a possibility of renewing military training on a small scale and providing spare parts for F-5 aircraft previously sold to them, are seen as steps toward improving the relationship.

A problem exists in that the F-5 trainers are not the same as the fighters sold to them and the trainers may be sold.

CONGRESSIONAL VIEW

In a visit with Chamber of Deputies President Flavio Marcilio, he stressed the need for better relations with the United States. "Generally, we have been a little apart. It has not been the best linkage," he said:

I understand the United States for its own protection has been facing the Asiatic problem. On the other hand, I understand the United States faces these problems, but there must be necessarily better continental relations.

Good relations are necessary not just for Brazil and the United States, but for the good and development of the hemisphere.

He also stressed the need for the United States to respect Brazil's positions and problems.

Marcilio said Brazil will continue to have an aggressive nuclear policy, because of the economic and energy situations. However, if economic conditions deteriorate too far, the nuclear program may have to take a less aggressive position, he added.

Implementation of the program, Marcilio continued, is moving ahead under the Figueiredo administration with the aim of accelerating the nation's development.

It was pointed out by a delegation member that Brazil's price for gasoline is \$4 a gallon, compared to the low price of 30 cents a gallon in Venezuela. Marcilio was asked if the high price created a political problem and if the price resulted in greater conservation.

"Venezuela really has a low price," he replied. The fact that it is high here creates some problems. The Government uses the difference for development of the energy program to find new sources of energy.

"It causes some social problems. It is used on a large scale in Brazil, most of it used for transportation. Instead of decreasing, it has unfortunately increased the usage," Marcilio noted.

Questioned on what suggestions he might have for the delegation to take back to their colleagues in Congress, Marcilio stated, "We should establish more frank contacts."

"It will be better through exchanges such as this. We should have a much stronger relationship. This kind of visit is only the second one, since I am President," he concluded.

FOREIGN POLICY

Carlos Augusto De Proenca Rosa, chief of the economic department of the Ministry for Foreign Relations, briefed the delegation on foreign policy, but devoted most of his presentation to fielding questions on international economic and commercial topics in his responses.

Questioned as to what effect the general agreement on trade and tariff and the multilateral negotiations have on Brazil's balance of trade with the United States, Rosa said Brazil had already informed GATT and had signed agreements on four of the seven parts.

The four parts included the subsidies code, a new antidumping code, an agreement on meats and an agreement on technical regulation.

"We accepted the tariff while negotiating others," he said. "There will be a need for adjustments. We, in Brazil, have a different procedure. You have implementing legislation. It will increase our trade with the United States."

Noting that the United States was concerned about double digit inflation, a delegation member asked about Brazil's concerns besides oil and whether it had food or housing problems. Rosa replied:

I could give you a list.

The problem of inflation is the biggest. We hope to bring down the rate, which was 77 percent last year, to a reasonable rate for 1980. A cut of 40 to 45 percent is a beginning.

We have to keep our pace of development. We cannot afford a recession. At the same time, we have to fight inflation to bring it down to a reasonable level. Energy enters into the picture, because of importing and the effect on the balance of payments.

In answer to what suggestions he had to improve relations with the United States, he said:

We have a long relationship. It is not a bilateral problem, but the United States has to understand our problems.

The United States has to understand that we are still a developing country, not just a bigger country than Africa. Despite the fact that Brazil has the tenth largest GNP, it must still be considered a developing country.

You do not put figures in a computer that shows we are big. Figures mean nothing. In our relations, we should talk as equal partners. Our problems are different and the solutions are different.

As to what problems will remain after the trade agreement is implemented, he said:

Some think there will be no problem. We cannot just sign an agreement and there will be no more problems.

There may be problems of new volume or to a specific trade policy criticism. There may be secondary reactions that will require some protection. There will be need to negotiate. Both parties will come with the spirit of arriving at a decision that will help both sectors of the country, importing and exporting.

As a developing country, there will be new products. There are no fundamental problems.

Questioned to the extent of railroads in the country, Rosa said that in the last 20 years, the priority was on highways. As to shipping, he said most of the trade was by trucks, that there was not enough work for trains.

On the subject of Venezuela's selling gasoline at a low price and possible resentment by Brazil, Rosa replied: "No, we import from Venezuela at the same price as other producers. Venezuela is not the only border Brazil has. It is normal to sell products at a certain level. We do not give special price for coffee, shoes and cocoa."

An expression of concern was made about the high debt level held by U.S. private banks and how it affected Brazil. Rosa concluded:

It is a problem that arose in the last six years in the international area, if we do our homework and at the same time in the international sphere, we will be stable to discuss and develop international policies.

This must be examined in the context of international trade. We have to take into account all aspects. It is very serious, we are concerned. We can do many things internally to solve them.

We cannot do things isolated from the other. It is a question for the world community. It is something that should be discussed and see how the world community comes to a decision.

A brief meeting was held with Sao Paulo Vice Governor Jose Marim, who spoke warmly of the past relationship with the United States "and the recognition of what the United States has done for us in development."

Asked what the long-term goals of the national alcohol program were, Marim replied:

It is a very important energy alternative. The state has many areas not adequately utilized, that could be used for sugar cane.

He forecast that the price of alcohol would improve with the greater utilization of the product and a subsidy program for automobiles using the new fuel. He said:

The Government will help the weaker buyer. It will be less expensive. Gas is \$2.50 a gallon, while alcohol is 80 to 90 cents a gallon.

A delegation member noted that alcohol to gas ratio was now 10 percent, but the goals were to use 20 percent and as high as 100 percent in the distant future.

Marim stated that the distilleries were closely related to the sugar-cane industry which helped the economy, but added the greatest problem was distribution.

POLITICAL OUTLOOK

An interesting discussion on the current political situation and views on policies was given the delegation by Paulo Egydio Martins, ex-Governor of Sao Paulo and currently founder of the Popular Party.

Asked to explain the political party reform, he said:

We always had very weak political parties. We are a country of too much contrast. Some are very rich and some very poor.

Our natural resources are not that big. We are still building a subway system for a city of 11 million. We are still working on a water and sewer system. It is a heck of a lot of confusion.

You have a strong Congress. We have a weak Congress. You, too, have gone through a strong President and a weak Congress and vice versa. You have had 200 years of experience. My wish is that we have elections. We hope we will not need your 200 years.

He agreed that progress has been made. "National security is believed to be a tight political system, but I feel the reverse," Martins stated. "The key element is not to have a strong army, but a good political system."

In reply to the current policy on Iran, he declared:

We always ask for an independent foreign policy. I do not think we have one now. People do not understand what independent means. Brazil went too far with an independent foreign policy.

I did not like the vote of Brazil on the UN meeting. As to the economic boycott, we seek to protect our interest.

We are discussing an area of key interest to the whole world, east and west. You are doing it absolutely correct. The theme of Afghanistan is very critical. Others take over and the world hesitates.

My country should be more clear. We are too ambiguous. We should take steps like Canada and Mrs. Thatcher.

In regard to his views on the grain embargo, Martins replied:

Too many games are being played. When you get to the roots, it is a matter of free trade. Free trade is too vague an expression. There is not free trade, there are restrictions.

On grain, what looks like Brazil's position is completely stupid. We are number one exporters of soybeans and you are number one exporters of wheat. We should seek a solution. We should discuss it. We should not play smart.

Questioned if he felt foreign countries were interfering with the political parties, Martins said:

The press says third countries interfere in financing and that the Germans are financing some socialistic groups. I would not be surprised if it has happened. Even though the Communist Party is illegal, they have resources from outside.

In regard to how he saw development of parties around labor in Brazil, he said:

I do think they have a point to have a pure labor party. PTB is the old labor party. The labor in Sao Paulo is more rich than in the rest of the Brazil.

As to whether the latter could be a block for him, he said:

I would welcome it. My party is the Popular Party. We are strong in Rio, but weak in Sao Paulo. I think if we were strong in Sao Paulo it would never be a strong national party. We are the second party in size. I am playing it smooth.

Questioned if he saw a greater need for cooperation on the drug problems. Martins stated:

It is a very serious problem. We have corruption. We are not as bad as Colombia but we have problems.

I go fishing on the border of Bolivia. You have pure jungle with airports in every sector. How can we control that? When you have problems with security in the city, how do you control it? There is a problem with traffic and they use us as a base.

In regard to Sao Paulo being more of an active transit point, he stated:

Yes, there is tremendous traffic coming in and it goes outside. We have a very good state police force. There are 72,000 state police, but we cannot do anything effective by ourselves.

It was noted that there was good cooperation by the Drug Enforcement Agency with the Sao Paulo police, but Martins added:

It is not a question of money, but investment. There should be a comprehensive study of the situation.

It does affect the country and does affect our youth. Our high society is using it, cocaine. These people are doing it. They are not protected, but they are not molested. It creates a serious problem * * * the high society aspect and the youth. No one can deny this is happening.

Asked his thoughts on the debt problem of a developing nation, Martins said:

Most of the debt is Euro-dollar currency, now called petro-dollar currency. We should look at the kind between the U.S. dollar and the U.S.-Europe dollar. I remember well our total debt concept, when you mention \$50 million.

Instead of investing money here, they loan money to subsidiaries. It shows up as a total country debt. It is not callable debt. When you look at the \$50 million debt, you need a breakdown. The majority is not U.S. funds. It is U.S. dollars as a conversion unit. The multi-nationals have 25 percent of the figure. This is not a trend of U.S. companies, but others.

ENERGY

The delegation was greatly impressed with the aggressive cooperative effort that has taken place in Brazil between industry and the Government to curb the demand for gasoline.

The automotive industry took voluntary steps in the past year to support the national alcohol fuels program by committing to the production of 250,000 vehicles designed for 100 percent fuel use.

For more than 2 years, Brazil has had all its 6 million automobiles on a 20 percent alcohol-gasoline mix without any adverse effect on car performance.

The seriousness of reliance on foreign oil imports was realized in 1975. Last year the imports represented 85 percent of its oil consumption, which contributed to the balance of payments problem.

They realized the potential for alcohol production in connection with its sugar industry and established its national alcohol program. Brazil has used alcohol-gasoline mixture since 1920, but they set an aggressive goal for quadrupling its production of alcohol to 800,000 gallons by 1979 to supply the 20-percent alcohol blend.

That goal was met and the new projection of production is 2.8 billion gallons of alcohol per year by 1985 at a cost of \$5 billion to the Government to utilize 100 percent alcohol fuel for more than one quarter of its new vehicles in 1981.

Incentives planned by the Government to stimulate consumer demand for alcohol fuel vehicles include pricing of alcohol fuels at levels close to 30 percent below gasoline.

Also, there will be a reduction of its licensing tax and attractive financing terms for vehicle owners. The owners will be able to finance their vehicles over a 36-month period, rather than the 12-month period allowed for gasoline powered vehicles.

To promote oil conservation, fuel stations are currently closed Friday night until Monday morning, while they will be permitted to remain open during the weekend for alcohol sales only.

To stimulate additional production capacity, low-interest loans are available for covering 80 percent of the costs of building new distilleries.

COSTA RICA

BACKGROUND

Costa Rica, as a model democracy, has stood shoulder-to-shoulder with the United States on many issues. Costa Rica had almost as sharp a reaction to the Iranian crisis as did the United States.

The Costa Rican Legislative Assembly voted unanimously to send a letter to Khomeini and the United Nations demanding the release of the hostages.

As a country, Costa Rica has spoken out against OPEC and their attitude toward the United States and toward small developing nations.

Strong democratic traditions have served to give Costa Rica an outstanding human rights record. Freedom to participate in the political process is provided for in the constitution, and elections are free, open, and highly competitive.

Although Costa Rica has always maintained one of the most stable economies, internal stresses including rising oil prices, a deteriorating balance-of-payments situation, double-digit inflation, labor strife, anticipatory recession, and difficulties in neighboring Nicaragua have contributed to unsettling economic conditions.

Costa Rica has Central America's highest per capita gross domestic product and most evenly distributed national income. Although industry is becoming increasingly important, agriculture is still predominant, employing about 35 percent of the labor force and accounting for about 20 percent of the gross domestic product. Costa Rica's exports total \$850 million and roughly 33 percent goes to the United States.

Communist unions have a major influence on plantations, the banana industry, and railroads. The recent banana strike, although it yielded nothing more than what the unions had originally demanded, was seen more as a political challenge as to how far President Carazo could be pushed.

Costa Rica has been heavily affected by the revolution in Nicaragua. The Nicaraguan junta was basically developed in Costa Rica as four of the five members were present in Costa Rica before the revolution. Costa Ricans were also affected by the revolution because of the closing of the border of Costa Rica and Nicaragua resulted in Costa Rica not being able to get their products in or out to their partners in the common market.

They have provided shelter for many Nicaraguans, and are generally in support of the Sandinista movement. There is, however, an "active victim" concern over the Nicaraguan revolution spreading. They feel that we must help to keep Nicaragua moderate, although keeping in mind the forces at work there.

CURRENT ISSUES

Our bilateral relations with Costa Rica are open, friendly and generally close. The most serious issue at hand between the two governments is that of the discrepancy between the 12-mile territorial fishing limit that the United States recognizes and the 200-mile limit that Costa Rica wants recognized.

This situation has been further irritated by the seizure of two American tuna boats and their crews in January off the coast of Costa Rica. The matter, however, is being handled in a friendly manner and the captains and crews have been treated fairly and with respect.

Areas in which Costa Rica has expressed the wish for U.S. assistance are with scholarship or aid programs for the training of leaders, in the field of education, and most especially they look to the United States to help counter Soviet-Cuban influence in Central America.

Generally, there is a great kinship between the United States and Costa Rica and they tend to see our problems and crises as their own as well.

Although they have modeled themselves after the U.S. democratic structure, they do not want to be seen as a puppet country of the United States. One of our greatest international faux pas would be to take for granted that they will always be our friend and will always be a model democracy. They have made great stands on our behalf, and we should assure them of our gratitude and willingness to be of assistance.

PRESIDENTIAL VIEWS

In a 90-minute meeting, President Rodrigo Carazo and Minister of Foreign Relations Rafael Calderon, met with the delegation to discuss points of mutual interest and concern.

Carazo noted at the outset that our countries were united by the situation in Iran and Afghanistan. He termed it as "action that should be condemned by free people in the world."

A member of the delegation noted that the country had started to use 100 percent alcohol in volume.

Carazo replied:

We have some experience in the use of alcohol. Yesterday, we started up a new distillery, made in Brazil. The cost of an equivalent bottle of crude oil is \$93.

In regards to the production of alcohol, we are adapting it for automobile use. The 100 percent use required a complete change of engines. We will set up afterwards to adjust engines at a cost of \$300 to \$500 a vehicle. We have followed Brazilian technology, which is most advanced.

In answer to whether he was referring to cars already produced or new cars, he said:

Adjustment of engines in autos costs \$300 to \$500 for 100 percent alcohol. It has lower compression.

There is a transition problem, some countries move faster than others. It will increase the cost of autos, such as in the United States, which has the mass production approach.

As to whether present diesel buses creates a problem and whether they planned to convert them, he explained:

First, I would like to say, a minister of energy will take office February 1.

We will submit some very advanced ideas on this issue before a decision is made on policy. For the last 40 years, Costa Rica has subsidized the price of diesel by increasing the price of gas.

As a result, a large volume of diesel vehicles were imported, not only buses, but trucks, and light vehicles. The first step would be to reduce the number of light vehicles by increasing the cost to import them.

Secondly, (in the future) eliminate the light vehicle by prohibiting imports, which is a policy Brazil has followed. We believe we could substitute in 5 to 8 years the total gas consumption.

The problem then is that we will have a very high consumption of diesel on vehicles such as buses. We would not subsidize them. Therefore, we must be extremely persistent in the rate we reduce use of gasoline.

To complete the idea, we will make an effort to reduce, on a short term basis. It will depend on the increase of oil prices. Oil has paralleled the price of gold.

The 25 percent increase in the price of gold may be followed by OPEC increasing prices next month. It would produce havoc in the world and affect peace in the entire world.

I feel that if one day at the OPEC meeting in Caracas, they decided not to reach an agreement on new prices, that there would be a break and new hopes of countries to negotiate prices. These could be negotiated in the next month.

There are countries fearing the effect of oil prices on the economy. Venezuela is finding the need to adjust domestic prices to world prices.

Some oil producing countries are starting to feel the way we have felt all along. The Soviets are trying to dictate oil prices throughout the world. This opportunity is gained through direct physical control and is a threat to peace in the world.

The first crisis was in 1974, when prices were raised and the countries did not complain. They found a formula and set prices. They adopted it to the detriment of all countries in the world.

The subject of fishing rights was raised by a member of the delegation, who referred to the seizure of two tuna boats.

Carazo replied:

I am very glad you brought up the subject. In the last year and 9 months, we worked closely in negotiating on the issue of tuna. The policies, and I will be very candid, the policy of the United States has led to an impossible situation due to arithmetic reasons.

We all have laws to enforce. The difficulty has been caused by pressure groups. We have held more than 20 meetings. This is the second year without a contract.

He said his country did not want to prolong the conflict and expressed the hope that a fair and just agreement would be reached.

"They have become owners of our seas," he said in reference to the tuna boats.

The United States has laws it wants observed and we have the same. The interest of private individuals conflicts with the desires of my country. The talks are going on this week.

It is a matter of attitude, and the attitude of the industry. They feel any compromise is a personal defeat. Transmit their concerns to all countries in the area. We should focus on global issues rather than numbers put forth.

The President said he spoke very candidly and said the agreement was close at hand. He added that in the area of human rights, if anyone felt there was unfair treatment, they should inform the U.S. ambassador.

On the subject of Nicaragua and the aid for northern tier countries, Carazo stated:

I first will give you my personal impression. Last year, we maintained very close relations with the embassy and the special ambassador sent down here.

Since Somoza withdrew from power, we have attempted to keep close relations with the junta. It is a country that cannot be allowed to become a victim of external pressures.

I know Cuba and the Soviet Union want to seek to establish a regime friendly to them. I know Nicaraguans want to be like Costa Ricans and not Cubans. They like the way we live and not the way they live in Cuba.

We do not have the financial means, but the psychological means to influence them.

They will be without food in the next few days and need help. Cuba and the Soviet Union will not attempt to take over and are not interested in taking over under the present conditions.

In aid, we have provided health needs. I feel we should help. I wrote President Carter when he proposed the \$75 million for Nicaragua. It was not just aid for Nicaragua, but would benefit all countries in the area. It would be social aid in the area.

Aid through the Red Cross is not useful. It should be provided by the United States directly. You cannot apply too much attention to statements they make. They are going through stages, explosive idealism.

The communists will not take over. They will make the attempt, when the country is reconstructed. You should establish a basis of trust. If the Nicaraguans ask for food, see what you can do to send food.

It is like roulette, gamble, that you have to play to win. There is internal solidarity between Costa Rica and Nicaragua. I send high delegations, including my wife, that they feel we are on their side.

I would like to underline, the problem is old. It did not arise this year. It happened over a century ago and just exploded.

We are grateful for American aid. I do not know how Nicaraguans will act. Offer it openly, and it will be well received. The future of Nicaragua is uncertain, but we have in the region the responsibility to see the tiller of the vessel lead in the right direction," Carazo concluded.

APPENDIX A

SCHEDULE OF OFFICIAL MEETINGS ¹

January 13, 1980

Embassy country team briefing in Caracas
Delegation received by Ambassador and Mrs. William H. Luers

January 14, 1980

Depart Caracas
Embassy country team briefing in Barbados
Meeting with Prime Minister Tom Adams
Working lunch hosted by Ambassador Shelton and key officials
Meeting with Vice President of Caribbean Development Bank
Visit site of Prescod Polytechnic Institute constructed by IDB and USAID funds
Return to Caracas

January 15, 1980

Working breakfast with Venezuelan-American Chamber of Commerce
Meeting with Acting Foreign Minister Garcia Bustillos
Meeting with Finance Minister Luis Ugueto
Meeting with Members of Venezuelan House and Senate
Working lunch with Members at the National Congress
Briefing by Mr. Alirio Parra, Director of state-owned Petroleos de Venezuela
Meeting with President Luis Herrera Campins

January 16, 1980

Depart Caracas
Arrive Rio de Janeiro

January 17, 1980

Depart Rio de Janeiro
Meeting with President of Chamber of Deputies Flavio Marcilio
Meeting with Chief of Economic Department of the Ministry for Foreign Relations Carlos Augusto De Proenca Rosa
Working lunch hosted by President Marcilio
Return to Rio de Janeiro
Delegation received by Consul General John DeWitt

January 18, 1980

Depart Rio de Janeiro
Meeting with Acting Governor of Sao Paulo Jose M. Marim
Meeting with Ex-Governor of Sao Paulo and founder of the Popular Party, Dr. Paulo Martins
Working lunch hosted by American Chamber of Commerce
Return to Rio de Janeiro

January 19, 1980

Depart Rio de Janeiro
Embassy country team briefing in San Jose, Costa Rica
Delegation received by Ambassador and Mrs. Marvin Weissman

January 20, 1980

Meeting with President Rodrigo Carazo and Minister of Foreign Relations Rafael Calderon
Depart San Jose, Costa Rica

¹ Does not include numerous informal meetings and discussions conducted by the delegation and by individual participants in the delegation.

APPENDIX B

OFFICIAL COMMUNIQUE OF THE GOVERNMENT OF COSTA RICA, JANUARY 2, 1980

(Informal Translation)

The Government of the Republic, always concerned for an absolute respect for the fundamental principles which regulate relations among peoples, observes with grave concern the current intervention of Soviet military forces in Afghanistan. This offensive constitutes a clear manifestation of imperialism which directly affects the principle of free self-determination of peoples, consecrated in the Charter of the United Nations, and thus puts world peace in evident danger. Costa Rica appeals, for the sake of peace, that the principle of non-intervention, the foundation and cornerstone of international law, be effectively observed.

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APPENDIX C

EXCERPTS FROM PRESIDENT RODRIGO CARAZO'S ADDRESS TO THE PEOPLE OF COSTA RICA, JANUARY 14, 1980

(Informal Translation)

The world . . . has changed greatly, and is continuing to change . . . Technology has shortened distances and has erased frontiers. The events in Iran are reflected in our own economy; the Soviet imperialist military invasion of Afghanistan puts world peace in danger; the decision of an Arab sheik threatens our economy and endangers social peace in numerous areas of the world . . .

The powerful nations of the world do not fight in their own cities—they fear the bombs, the deaths, the violence. Now, in our time, the fight occurs in other parts of the world, generally small and weak countries, such as Vietnam and Afghanistan. The fight can occur in any other small country, such as Costa Rica. The Communists, in their drive for universal domination, are not stopped by anything, do not concern themselves about the suffering of peoples, nor the sacrifice of individuals. For them, and they demonstrate this every single day, human life does not count, it is not worth anything, nor are the spiritual values of mankind.

In sum, I must tell you that there are no longer “Costa Rican” criminals, nor are there “Costa Rican” Communists—there never have been. Instead, we have to confront certain individuals who are only interested in bringing to an end our personal security and our national security . . .

While Costa Ricans are working and fighting for their own well being, and for that of Costa Rica, criminals are threatening our society, and the country is forced to fight against the worst of the evils of our time: International Communism, which conspires against social peace, the economy, and against our republican way of life, against everything that we Costa Ricans are and against everything that our people want to be.

We must be aware that there is, however, a fundamental difference between Communists and common criminals: at least the criminals place themselves, from the beginning, outside the law, against the law. The Communists, however, attempt to take advantage of the law, of our liberties, of our democracy, of all the spiritual and material values which we have fashioned throughout our entire history. In order to achieve its objectives of destroying our democracy, of destroying what Costa Rica is and has been and hopes to be, International Communism uses Costa Rica's own laws. It elects deputies, taking advantage of the guarantees of our Political Constitution, and once elected and protected by parliamentary immunity, they swear to fulfill and respect the Constitution and its laws, but these deputies violate the law, try to destroy our institutions, attack the dignity of our judges, damage the interests of the workers, and try to undermine our democracy, and fight to destroy our national values and traditions.

Costa Ricans, forget the old expression “Costa Rican Communism”, which has been used to try to deceive our people, who, out of their basic goodness, have tended to minimize the importance of some of what the Communists have done. That expression served to allow certain servants of International Communism to dress themselves in “sheep's clothing”; so that some Communists of the old guard could gain ground in the national political panorama and in the minds of some innocents. The Communist Party of Costa Rica, whether it calls itself the Popular Vanguard or the People United or whatever it may choose, is at the service of international communism, is at the service of the Soviet Union, and it is directed by people trained with the clear purpose of national subversion, which they advance with whatever means are appropriate to a given occasion, but always in favor of their interests, of their political domination. They take advantage of legality to try to impose lawlessness; they use peace to foment violence; they use lies although this degrades their own human condition—anything goes as long as it favors their masters . . .

The Communists have infiltrated labor unions and workers' groups due to the complacency or the indifference of many of us.

The Communists know the Costa Ricans and take advantage of them. I want to and indeed I must speak clearly, to open the eyes of those of good faith who have become the unwitting helpers of those who want to bring our democratic system to an end.

A rapid glance is enough, with even the slightest attention, to cause one to realize that the Communists are infiltrating unions, workers' groups, the radio, the press, television, and political parties. If I remain silent, I only store up problems for the future; if I speak clearly, I am fulfilling my responsibilities.

The truth is that Costa Rica is in the Communists' way. Our country has dedicated the best part of its energies and its time to promoting the education and health of our people, and if it is true that serious social problems still exist, there also exists in Costa Rica society the commitment to do away with them: in this field, Communism has little attractiveness for our country. Costa Rica does not have an army, nor arsenals, nor military budgets against which they can launch their international propaganda campaign, which criticizes in others what the Russian people must suffer in silence: unchecked militarism. This explains the affection of the local Communists of accusing us of being militarists, each time that we make an effort to improve the equipment with which our Civil Guard must confront criminals. They would like for people to believe that we are spending millions on militarism, as the Communists and their accomplices allege by falsifying the truth, so that they can use against us in Costa Rica the campaigns designed for other countries—and which no one would try to use against the indubitable militarism of the Communist countries, since if he did, he would fall victim of the lack of respect for human rights which characterizes those countries . . .

The Communists use trade unionism, which is an achievement which free peoples have made; the Communists themselves do not permit unions in the countries which they dominate. Here, they tempt people with claims that they can work less, but once they dominate a nation, they require the workers, who can then no longer defend themselves with unions, nor with strikes, to work without being able to have recourse to the right of minimum wages, nor of social guarantees. In the Communist countries, the individual does not count—he only obeys.

It is thus easy to understand the attitude of the Communist Party and its labor leaders in the current banana strike, as well as their intentions and objectives: the liquidation of our democratic system through economic chaos, that is, through the impoverishment of the Costa Rican people, whose economy depends, in an essential way, on the exportation of bananas, above all at a time when the world is suffering the exorbitant price of fuel . . .

The Communists know that we Costa Ricans do not like confrontations, and have been content to advance little by little—at times due to the eagerness of some who want to "straighten everything up quickly", at other times, due to the complicity of governments—the truth is that for many years, the Communists have never stopped moving forward. I tell the Costa Rican people that since May 8, 1978, the complicity with the Communists has ended, and for that reason they are and have been so violent against this government. We have opposed them and for that they are fighting us; the Communists know what our position is and for that they have thrown into the fight everything that they have, including their old leaders. Some have come forward with the hope of fooling certain people, making them believe that there really is "Costa Rican Communism". However, their form of speaking, their very arguments, and all the evidence of their words and of their deeds show us that their intentions are those of serving the Soviet Union, and they work so that all democratic countries may fall to Soviet imperialism . . .

The Communists are making an all-out effort so that the peaceful nations fall into violence, to prove that a democratic system does not work and that the world should turn to Communism.

People ask themselves: Why are the workers not rebelling, and going back to their jobs? I must repeat what has been said on other occasions: the Communist leaders, trained in inhumane acts, blackmail and threaten them: threats against sons, daughters, wives, loved ones, personal security—this is their normal way of operating . . .

An old leader of the Communist Party, who used to be its president and has now lost his power, has made a public show of giving his views on the subject recently. He speaks of a coup d'état in Costa Rica, as if the Costa Ricans did not know that it is the Communists who want to take over this country, and indeed the whole world, and who have never had scruples about allying with Hitler or whomever they found convenient, or about doing whatever they found convenient, with the goal of dominating other people's territories in their expansionist career. The contradictions they fall into do not concern them, if they can use them as a basis to advance their efforts at world domination. The hour has come for the Communists of Costa Rica, trained in a system which does not permit the free exercise of human reason nor even the luxury of a personal fantasy, to invent new novelties to throw their smoke screens over their assaults on Costa Rica or over their military invasions of weak countries. The public pronouncements of the old Communist leader have only served to provide more evidence of the contradictions of the Communist line . . . to demonstrate that after fifty years of struggle, nothing has changed in their reasoning or their words, nor their focus on international goals . . .

What the country is living through now, and the banana strike demonstrates this, is exactly, using the words of the old Communist leader, a "dark conspiracy" against the Costa Rican people, being carried out at the expense of the hunger of the workers who put their faith in the hands of men who they thought were labor leaders, but who in fact are Communist political leaders. This is proven by the fact that the President of the confederation of Communist unions is no less than a high leader of the Communist Party and a member of that party's delegation in the Legislative Assembly.

Only by recognizing the political motivation of the strike can an explanation be found of why it has been prolonged for weeks, why it has threatened to extend to other banana plantations, and why it has threatened to expand to dock workers, railroad workers, and those of other sectors. Only in the political motivation of the strike can an explanation be found of why the families of the banana workers have had to submit to hunger, why the most vulgar of insults have been directed against the judges of Costa Rica, against other public officials, and against Costa Rican political leaders. The fact is that what Costa Rica is suffering is a conspiracy of the Communists against the rule of law, against the national economy, against the very banana workers themselves. It is a conspiracy which the Communist are carrying out in order to perform a new service for what is their own motherland and their be-all and end-all: the Soviet Union.





