



DEPARTMENT OF STATE

Washington, D.C. 20520

Argentina file

MEMORANDUM OF CONVERSATION

DATE: September 12, 1978
PARTICIPANTS: Patricia M. Derian
William Coleman
Donald Bliss
Barbara Bowie

Department of State, A/GIS/IPS/SRP
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IPS by Date 12-2-78

William Coleman, (former Secretary of Transportation), of O'Melveny and Myers, representing Allis-Chalmers, and Donald Bliss of the same firm, met with Mrs. Derian from 10:30 to 11:30 on September 12 to discuss the Export-Import Bank's July 17 refusal to issue a letter of interest in connection with Allis-Chalmers' hydroelectric project proposal in Argentina.

Coleman opened the conversation with statements of support for the Human Rights policy as "among the most important initiatives of the Carter Administration" and for Mrs. Derian personally as one who "shook things up for the right." He said that to be effective, the policy depends on continued acceptance in business and labor circles, and used this as a point of departure for discussing the economic impact on U.S. firms of human rights policy decisions. Coleman noted that Ex-Im financing for the Allis-Chalmers proposal has two aspects: the size of the project, and the Argentine desire for USG political endorsement.

He indicated that, given the two or three year time period necessary in preliminary work toward the project, today's human rights problems might be corrected by the time the project was to get underway, while today's denial of credit could mean a once and for all loss of business. He noted that \$1.2 billion in U.S. business commitments in Argentina are being held up on human rights grounds. What Allis-Chalmers wanted was a letter of intent from the bank that the economic conditions were feasible, but that final commitment would be subject to consultation "with federal agencies and Departments as required by statute."

Mrs. Derian noted the financial risk to firms waiting until the commitment stage for human rights clearances, and noted that concern for the proper phasing of human rights clearances into the Ex-Im process had been the subject of

serious debate in drafting the Ex-Im requirement. She asked if Allis-Chalmers were willing to take such a risk, to manufacture very expensive equipment knowing that two or three years down the road human rights conditions in Argentina could still be so serious that the transaction could not be completed. Coleman said, yes.

She outlined Argentina's exceptionally poor performance in human rights and failure to meet commitments made to the President and the Secretary to take specific measures toward improvement.

Offering an interpretation of "taking into account human rights record and the effects exports may have," Coleman maintained that a denial of Ex-Im credit is ineffective as an instrument for changing behavior as long as U.S. allies' exporters will provide goods which Americans are unable to sell when financing is denied.

Mrs. Derian explained that the essential problem with this transaction is the U.S. Government seal of approval for the Project and implicitly for policies of the Government of Argentina.

Coleman noted that less than 30 percent of applications to Ex-Im go through, even after final commitment and that Congressional review is required on any Ex-Im transaction of this magnitude, so that a built-in reconsideration step will be available should there be no subsequent improvement on human rights. In addition, once the equipment has been manufactured by Allis-Chalmers, the Argentines would have difficulty in changing suppliers, since a two year lead time is needed to produce the necessary equipment. At that point Argentina might be subject to U.S. leverage on human rights compliance in order to assure completion of the hydroelectric project. Coleman also suggested that an inventory of the total dollar amount of Ex-Im projects held up on human rights grounds should be compiled.

Mrs. Derian noted that business often comes seeking advice on whether transactions will be complicated by human rights policy considerations. The cost to business of our policies is of serious concern to us, but a real counterpart to that problem is that business often encourages the non recognition of human rights concerns and leads governments to believe there is a way to get around the policy.

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