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THE WORLD BANK
Washington, D.C.

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McNamara Papers

Chronological files (incoming)
1979 (Sept. - Dec.)

THE WOODS BARK GROUP
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Chronological files (incoming) - Chrons 25

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494/2/226

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of the President

December 21, 1979

Dear Pehr:

I regret very much that I will not be able to join you and your Volvo associates in Aspen on March 4. Unfortunately for me, I must chair a Board meeting here that day and then leave for Europe. I wish it were otherwise.

During one of your trips to the United States I hope you can find time for a visit with us here in Washington.

Wish best wishes for a Merry Christmas and a joyous New Year.

Sincerely,

(Signed) Robert S. McNamara
Robert S. McNamara

Mr. Pehr G. Gyllenhammar
President, AB Volvo
S-40508 Göteborg
Sweden

RSMcN: js

494/4/46

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: John E. Merriam

SUBJECT: Congressional Roundtable on World Food and Population

DATE: December 21, 1979

1. We met with Richard Woods, staff aide to Sen. Henry Bellmon (R-Okla.) on December 14, to discuss issues you might raise when you address this forum on Tuesday, March 4, 1980. (Bellmon and Rep. Paul Simon (D-Fla.) are Chairmen of the Roundtable. You accepted the invitation earlier this month.) He informed us that the evening audience would be made up exclusively of members of the House and Senate so as to allow a free exchange of ideas. This past year attendance ranged from 40 to 80 members. The sponsorship has been enlarged for next year.

The invitation includes meeting with Congressional Staff for breakfast on Wednesday, March 5. We told Woods that Monty Yudelman might be willing to address that audience if Bellmon so desired.

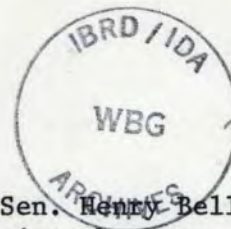
1/2 This is the second year of a series of meetings financed by the Rockefeller Foundation. Previous speakers have included Norman Borlaug, Maurice Williams and David Hopper.

2. Woods made it clear that you are welcome to discuss any issues relating to world food problems. We think the theme, "Food as a Determinant of World Development in the Next 20 Years" might be suitable as a way to introduce the manner in which international economic events of the 1980's may unfold.

I. Political Issues

The tense and uncertain situation in the Middle East make it difficult to predict what will be in the forefront of your audience's mind in two months. However, the caution, if not indifference, which members of Congress are showing towards such issues as foreign aid legislation and reports on world hunger (by the Sol Linowitz Commission) only hide a deeper uncertainty as to the near term prospects for the U.S. and the world economy. As they go home for the holidays they will hear about the weakness of U.S. productivity, the erosion of U.S. competitiveness, and the structural weakness of the American steel and automobile industry vis-a-vis foreign firms, and the rising challenge from finished products originating in developing countries, often with the cooperation of multinational business firms.

The Iranian crisis has raised the question whether development assistance really pays off. "For years I've taken pride in the number of students from abroad trained in agriculture" one grain-belt congressman told us recently, "but now I have serious doubts".



What these politicians seek is evidence that world-wide economic chaos can be avoided without massive budget deficits; that some reason can prevail over the exaggerated claims of the "new economic order".

They will look to you for evidence that progress is indeed being made, in spite of high odds and the pressure of unacceptable population growth--an issue on which some improvement can be expected in the next decade.

II. Items for your Statement

1. How is the world food system going to be managed? Key factors include (a) the U.S. role as major food supplier, (can and should food be used as a weapon?), (b) policies of upper income developing countries who can afford to purchase food abroad but often follow protectionist policies at home, (c) the global challenge of feeding 800 million poor people in low income nations who do not have the foreign exchange to buy food (d) the impact of agricultural policies of centrally-planned economies.

2. What objectives have to be met?

- (a) Assuring an adequate global food supply and distribution system;
- (b) meeting the demands of importers who can pay; and
- (c) helping other LDC's grow more food.

3. What adjustments are called for?

- (a) Policies in LDC's to tap the ingenuity of 800 million small farmers so that the world is secure in the knowledge of having a renewable resource base for foods and fibers in an era when there will be scarce energy.
- (b) U.S. agricultural policies which will lay the foundation for a genuine partnership, i.e. support for sound institutions like the World Bank and proposals like the World Food Authority.

3. Bellmon would like to have a prepared text to circulate in advance. We promised a paper two weeks before your appearance. Accordingly, we will prepare a background paper with the help of Yudelman to be delivered to you by January 25, 1980.

cc: Messrs. Wm. Clark
Yudelman
Lewis
Riddleberger

PR:sb

494/4/45

December 21, 1979



Mr. Maurice J. Williams
Executive Director
World Food Council
Via delle Terme di Caracalla
00100 Rome, Italy

Dear Maury,

1/2 From your letter of November 23 to Bob, it is clear that you are familiar with our current efforts in formulating food strategies. I am concerned, though, that you are expecting too much too soon. Our experience thus far indicates two major problems in moving ahead rapidly. The first is that neither we, nor anyone else, has any clear view of what constitutes an effective food strategy. We have some ideas but they have yet to be hammered into a framework for action within a national context. Until this is done, we will not have a "model" that we can use for illustrative purposes in dealing with interested governments. Furthermore, even when we do have a first model, it will undoubtedly require adaptation - the requirements, problems, and institutional capacities of a low-income food deficit country will differ substantially from a middle-income country.

The second problem relates to securing national support and commitment. Ministers sometimes give general expressions of interest more readily than they are willing, or able, to take actions necessary to translate them into effective commitments. This is very often the case when Ministers think something is a good idea and say so but they neither control the necessary funds or manpower nor necessarily reflect the considered views of their governments.

At present we are feeling our way along in the Philippines; we expect to be in a better position to judge the utility of our efforts by early next year. I believe we have come a long way in Bangladesh; the latest Bank report on Food Policies in that country provides a framework for a broad approach to coming to grips with the food needs of consumers; a parallel study on the production side should be ready fairly soon. Our discussions in Morocco and Nigeria are highly tentative, and it is too soon to be precise about what these countries are prepared to do or how we might help them. Venezuela did seek advice from the Bank on what could be done about agricultural development in their forthcoming plan and we are planning to assist them in formulating a sector strategy in the next six months or so.

Mr. Williams

- 2 -

December 21, 1979

We expect to be preparing an interim assessment of current food strategy efforts in June 1980 and will be glad to discuss it with you when it is completed and to consider what further steps might be taken.

Best wishes to you and Betty for the holidays,

Sincerely,

Ernest Stern
Vice President
Operations

bcc: Mr. McNamara ✓
Mr. Yudelman

Yudelman/Stern:lms



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united nations
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naciones unidas

Check 12/21.
world food council
conseil mondial de l'alimentation
consejo mundial de la alimentación

HEADQUARTERS: Via delle Terme di Caracalla, 00100-ROME

Cables: FOODAGRI ROME

Telex: 61181 FOODAGRI



23 November 1979

Bali
Dear Mr. McNamara,

... You will be interested to hear that some 25 countries have now indicated an interest in preparing and implementing a national food strategy. A list is attached. We are hopeful that the World Bank will take the lead in six of these countries. In addition to Bank activity currently underway in the Philippines and Bangladesh, we understand that you now have a preliminary mission in Nigeria, and that you are considering undertaking work in Venezuela, Morocco and Indonesia.

11/29 In a meeting last week, the Nigerian Minister of State and Permanent Secretary for Agriculture stressed to me that they are hopeful to see the strategy prepared by March so that it can be incorporated in the new national development programme. They appeared quite serious in their determination to tackle Nigeria's growing food problems.

I have just received Ernie Stern's reply to our request that the Bank prepare a food strategy for Bangladesh. Given the work underway on food questions in that country, particularly by the Bank, a strategy exercise should be very useful in pulling this together and imparting an additional sense of direction to the administration.

We understand from Mr. Yudelman that the Bank will be preparing a food strategy at Venezuela's request.

Discussions here on 20 November with senior Indonesian officials from the Department of Agriculture, the National Logistic Agency (BULOG) and the Department of Foreign Affairs indicate that a positive response can be expected;

Mr. Robert S. McNamara
President
World Bank
1818 H Street NW
Washington D.C. 20540
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Telex: 6181 FOODAGR

Cables: FOODAGR ROME

HEADQUARTERS: Via delle Terme di Caracalla, 00100-ROME

23 November 1979

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- 2 -

they were, in fact, surprised that it had not already been transmitted to us. It is clear from our discussion with them that they would be pleased if the Bank would undertake the lead role in the preparation of a food strategy for Indonesia.

As I informed Monty Yudelman verbally, the Minister for Agriculture of Morocco has formally indicated his country's wish to prepare a food strategy and has asked us to approach the World Bank for assistance. The Minister mentioned that a mission from the Bank is expected to visit Morocco early in December 1979 to discuss a detailed study of the entire agricultural sector. If the Bank is in a position to assist with a food strategy, this might be a suitable opportunity to discuss the necessary work.

After a meeting yesterday with representatives of OECD countries, it appears that assistance for the other countries interested will be forthcoming. I envisage the role of the World Food Council secretariat as that of providing general clearing house functions through exchange of pertinent information, helping to assure reasonably consistent results and continuing to stimulate interest and support on the part of the donor community. In this regard, it would be helpful to keep abreast of the Bank's progress and cumulative experience.

Best regards,

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'M. Williams', is written above the typed name.

Maurice J. Williams
Executive Director

COUNTRIES INTERESTED IN A NATIONAL FOOD STRATEGY

- | | |
|----------------|----------------|
| 1. Philippines | 13. Gambia |
| 2. Honduras | 14. Ecuador |
| 3. Nigeria | 15. Zambia |
| 4. Bangladesh | 16. Uganda |
| 5. Venezuela | 17. Mauritania |
| 6. Somalia | 18. Madagascar |
| 7. Morocco | 19. Grenada |
| 8. Tanzania | 20. Sri Lanka |
| 9. Indonesia | 21. Nicaragua |
| 10. Cape Verde | 22. Liberia |
| 11. Senegal | 23. Sudan |
| 12. Mali | 24. Rwanda |

494/4/44

DEC 6 1979



Dear Professor Hershlag:

I want to thank you for your warm invitation to contribute a Foreword to Mr. David Horowitz' book, In the Heart of Events. The manuscript reached me after my return from an overseas trip, and I have now had an opportunity to peruse it.

It is, as you point out, a detailed personal account of the political development of Israel, and as such is an important contribution to the historical record.

Unhappily, its very merit as a political autobiography makes it inappropriate for me -- in my present position -- to comment on it. As an international civil servant, heading an agency of 134 member nations, it would not be appropriate for me to comment on the political life of any of these countries. I do hope you will understand.

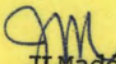
This is in no way a reflection on the historical value of the book itself, but only on the constraints that are intrinsic to my current responsibilities.

It was good of you to write to me.

Sincerely,

(Signed) Robert S. McNamara
Robert S. McNamara

Professor Z.Y. Hershlag
Director
David Horowitz Institute for the Research
of Developing Countries
Tel-Aviv University
Ramat-Aviv
Tel-Aviv, Israel


J. Maddux:mwm
December 4, 1979

2.5 Hershlag, A.



David Horowitz Institute for the Research of Developing Countries

TEL-AVIV UNIVERSITY, Ramat-Aviv, Tel-Aviv, Tel. 416111, 419679

September 25, 1979

Mr. Robert S. McNamara
President
World Bank,
1818 H Str. N.W.
Washington D.C. 20433

Dear Mr. McNamara,

Attached hereto we are sending you a copy of the
manuscript In the Heart of Events an autobiography of the late
Mr. David Horowitz.

The director of our Institute, Prof. Z.Y. Hershlag
(at present abroad) wrote to you last month to ask you whether you
would be willing to write a Foreword to the book, which is to be
published under the joint auspices of our Institute and the Bank of
Israel. (Attached)

We hope very much that we will receive your kind
affirmative answer and remain

Yours sincerely,

G. Williams

Secretary of the Institute



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David Horowitz Institute for the Research of Developing Countries
TEL-AVIV UNIVERSITY, Ramat-Aviv, Tel. 416111, 416679

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Secretary of the Institute

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September 25, 1979



David Horowitz Institute for the Research of Developing Countries

TEL-AVIV UNIVERSITY

Ramat-Aviv, Tel-Aviv, Tel. 420706, 419679

August 27, 1979

Mr. Robert S. McNamara
President
World Bank,
1818 H Str. N.W.
Washington D.C. 20433

Dear Mr. McNamara,

You may have heard of the death of Mr. David Horowitz, former Governor of the Bank of Israel and close associate of the World Bank during the 1960s.

Shortly before his death Mr. Horowitz completed his book In the Heart of Events - an autobiography which combines Mr. Horowitz's personal experiences with the stirring events that led to the establishment of the State of Israel and the first 25 years of its existence. It is a personal view of the economic and political development of a new country showing its successes and failures from the point of view of a man who was closely associated with this process and who founded and headed the central banking institution of the country.

From the written pages there emerges a keen economist who actively dealt with problems of development and growth - in particular, in aspects of financing - both on the national and international level. The 1964 "Horowitz Plan" for the financing of developing nations presented to UNCTAD and the World Bank was the result of his thoughts and efforts in these fields.

The David Horowitz Institute and the Bank of Israel intend to publish the book under their joint auspices and the manuscript is now undergoing final editing.

Knowing of your friendship with Mr. Horowitz, I take the liberty of asking you whether you would be willing to write a Foreword to the book. Obviously we would send the manuscript to you prior to your final decision.

In the hope of receiving an affirmative answer, I remain

Yours sincerely,

Prof. Z.Y. Hershlag
Director of the Institute



TEL-AVIV UNIVERSITY

Ramat-Aviv, Tel-Aviv, Tel. 420706, 419679

David Horowitz Institute for the Research of Developing Countries

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President
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Director of the Institute
Prof. David Horowitz
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679 SEP-7 1979
Yours sincerely,
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Mr. B. McNamara



David Horowitz Institute for the Research of Developing Countries
Tel-Aviv University, Ramat-Aviv, Tel-Aviv, Israel

BY AIR MAIL
PAR AVION

The World Bank

12-3-79

FOR MR. McNAMARA

Sir:

I have read the attached MS, and believe that it would *not* be appropriate for you to contribute a FOREWORD.

Though Chapter Fifteen [pp. 315-325] deals in part with the author's role as a governor of the World Bank, and Chapter Sixteen [pp. 326-336] with the "Horowitz Plan," the book -- from beginning to end -- is essentially an autobiographical account of his lifelong dedication to ^{the} establishment and progress of the State of Israel.

A Zionist in his youth in Poland, Horowitz lived in Vienna during World War I, and in 1920 emigrated as an agricultural pioneer to Palestine. From that time forward he played an increasingly important role in the creation of a Jewish homeland, and throughout his public career held a number of high positions in the financial and economic life of Israel.

On page 345, the author lists what he regarded as the five milestones of his public life: "participation in the political struggle before the establishment of the State, including the various Commissions and the U.N. sessions; heading the Israel delegation which negotiated successfully with the British on the claims and counterclaims arising from the termination of the Mandate; initiation of the idea of Reparations and preparations for its realization; establishment of the Bank of Israel; and finally, activities relating to the World Bank and UNCTAD when the Horowitz Plan was approved."

While the volume is an important contribution re the founding and early history of the State of Israel,

(over)

The World
it is not a book that you, as President of the World Bank, could appropriately be identified with in the current climate of tension in the Middle East.

The task, then, is to find a graceful way to decline the invitation to write a Foreword.

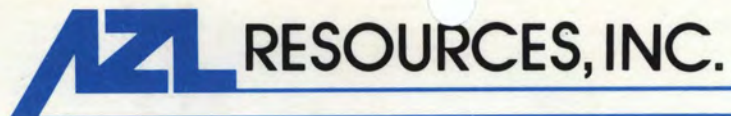
I have attached a suggested draft letter to that end.

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5025 East Washington Street / Phoenix, Arizona 85034
Telephone: (602) 267-7511 TWX: 910-951-1372

404/4/43

Mailing Address:
P.O. Box 29008
Phoenix, Arizona 85038

November 23, 1979

Mr. Robert S. McNamara
President,
World Bank
Washington, D.C. 20433



Dear Bob:

I greatly appreciated your arranging and presiding over the meeting on Wednesday which enabled me to introduce my colleagues in the International Energy Development Corporation to you and your senior officers.


11/29 It will help us immensely in trying to assure that our efforts in promoting exploration, particularly in some of the more difficult developing country situations, constitute a useful and effective response to the Bank's own initiatives in this field.

Thank you, too, for your letter which should be helpful in our discussions with the Swiss authorities.

I want you to know that the personal interest you have taken in this matter and the encouragement you have given me means a very great deal. You may be assured that I will do everything possible to justify your confidence.

Again, many thanks and warm personal regards.

Sincerely,



Maurice F. Strong

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RESOURCES, INC.



5055 East Washington Street, Phoenix, Arizona 85034
Telephone: (602) 287-7511 TWX: 910-951-1375

Mailing Address:
P.O. Box 29008
Phoenix Arizona 85038

November 23, 1979



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President,
World Bank
Washington, D.C. 20433

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Again, many thanks and warm personal regards.

Sincerely,

Maurice F. Strong

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494/4/42

Meeting with Mr. Maurice Strong on Energy, November 21, 1979

Present: Messrs. McNamara, Strong, Bo Ekman, Nordine Ait-Laoussine, Francisco R. Parra, Keith F. Huff, John M. Godfrey, Stern, Baum, Chadenet, Bourcier, Friedmann



In his opening presentation, Mr. Strong said that the basic rationale for setting up his company for energy development in LDCs had been the realization that there was a role for the private sector to play. The ownership was American, Canadian and Swedish and would probably also be Swiss. The background of his associates was varied and brought the relevant experience to bear on the company's activities. The company was not to be a consulting outfit but would rather play an intermediary role in financing the front-end costs of energy development in LDCs. The approach was to provide the company's own funds for preparing important exploration cases in LDCs, ranging in cost from \$200,000 to a few million dollars. The group would not carry out large-scale exploration on development programs on its own but would rather invite others to come in as a consortium. It would expect to be refunded for its front-end outlays by the consortium and to participate in the profits if the consortium's exploration activities proved to be successful. It had to be emphasized that the company would be on the side of the country and would work on the basis of a pre-established level of compensation agreed upon with the country and not (as was usually the case) with the consortium. In order to be flexible, the group might eventually set up a consulting affiliate.

In response to a question by Mr. McNamara, Mr. Strong pointed out that the country concerned would own the work done by his group. Countries which had shown initial interest were Tanzania, North Yemen and the Sudan. Further candidates might be Angola, the Ivory Coast and other West African countries. Also, he was hopeful of being able to work with OPEC on assisting LDCs in this area. He emphasized that the characteristics which distinguished his company from others were (a) its central purpose of helping LDCs, and (b) its willingness to take on the difficult areas and countries in its work.

Mr. McNamara asked the CPS staff to report on the countries which, in the Bank's view, offered a reasonable potential for energy development but on which no significant work had yet been done. Mr. Bourcier named the following countries: in East Africa, Tanzania, Somalia, Madagascar and Rwanda/Burundi; in West Africa, Equatorial Guinea, Guinea and Liberia; and in Asia, Burma and Viet Nam. In the case of Latin America, all countries had reasonable exploration programs underway. The three countries with the greatest potential with respect to immediate production possibilities were probably Burma, Madagascar and Viet Nam.

Mr. McNamara said that he would like to see an application of the capacity of Mr. Strong's group to one of these countries. The Bank had not moved very far yet into the extremely difficult exploration field; however, it had undertaken interesting projects in other areas of the energy field. Mr. Bourcier reported that the Bank had so far mainly financed development projects, starting in 1977 with Bombay High (155 million) for which an extension was now under consideration, followed by the development of marginal fields in Pakistan, and engineering loans to Thailand for gas, to Turkey for secondary recovery, and to Egypt for the recovery of presently flared gas. Also, a letter of intent had been signed by Gulf Oil, the Government of Pakistan and the Bank to the effect that, if a discovery resulted from the Gulf Oil-paid exploration, the Bank might finance the Pakistani part of the development costs. With respect to the Bank's pipeline, 15 projects

were presently being processed in the fields of rehabilitation of old oil fields, secondary recovery and production for domestic markets. Most of these had an exploration component which could lead to follow-up projects. In the field of exploration, the Bank had work underway in a number of countries which included: (i) obtaining additional seismic data in order to prepare big packages for oil companies; (ii) advising governments on contracts, etc.; (iii) undertaking regional interpretation of data, for example, for the West Coast of Africa; (iv) considering direct loans to oil companies in order to reduce the political risk; and (v) considering direct financing of exploration for national oil companies so that they could open up new basins. In sum, about 25-30 projects were in the pipeline. Mr. Friedmann added that the Bank was carrying out substantial sector work on oil, coal and power, with the purpose of assisting countries in formulating energy sector policies. This was time-consuming because it required the setting up of institutions. The Bank planned to undertake some 15 such sector studies per year.

Mr. McNamara said that the Bank had started with the proposition that it was the donor of last resort. This explained why there had been no activity in the past. Some two years ago, it was then decided that the Bank would have an important future role to play in assisting LDCs in developing energy plans on a country-by-country basis. He warned, however, that the Bank was still at the "stone age" stage in terms of acquiring the necessary expertise.

Mr. Strong pointed to the fact that his group had an important network of specialists lined up; some of his associates had experience in institution-building and in developing national legislation in the energy field. As he put it, his group lived in the "international energy network." He emphasized that it would be helpful for his company to learn about the Bank's country approach for those countries in which his group was becoming involved. Mr. McNamara assured Mr. Strong that the Bank would be interested in working with his group, among others, because it was oriented by the interests of the LDCs. Mr. Strong pointed to the fact that the major oil companies had deliberately not been chosen as shareholders but that he was pleased by their favorable reaction to the establishment of his group. The large oil companies would of course be members of the consortia which his company would put together; for example, Gulf and Atlantic Richfield were interested.

Mr. McNamara enquired about OPEC's plans with respect to assisting LDCs in energy development. Mr. Parra replied that a group had been formed in OPEC with Minister Yamani's participation, in order to formulate an approach towards LDCs. The task force report would soon be ready and would probably recommend establishing a separate organization for financing exploration and development in oil-importing LDCs. This organization should be established in cooperation with the industrial countries which would contribute the required technical expertise. Mr. McNamara urged that the approach of such an organization should be made simple; it was not clear to him how it would get the required technical expertise. Mr. Parra replied that this should be part of an over-all package deal between OPEC and OECD.

Mr. Strong observed that, in LDC energy development, the entrepreneurial element was frequently the missing link; his company would try to provide that link. It would of course have to be a profitable undertaking but profitability was not the prime purpose.

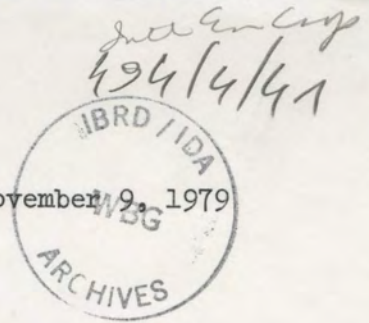
Mr. McNamara summarized that, as he understood it, Mr. Strong's group would (i) choose a country to go in, (ii) put up the required front-end money, which would be lost if no exploration group were formed as a result of its work and which would be recovered if such a group were formed, and (iii) would make profits if the exploration consortium's activities turned out to be successful. He suggested that the company might be able to provide a consulting function to the Bank. Mr. Strong expressed the hope that his group would play a complementary role to the activities of the Bank.

CKW
November 29, 1979

OFFICE MEMORANDUM

TO: Mr. Caio K. Koch-Weser (EXC)

DATE: November 9, 1979

FROM: Yves Rovani (EGY) *YR*SUBJECT: Maurice Strong's visit November 21 and other subjects

I will take advantage of my forthcoming visit to Paris to also visit four agencies involved in energy in Vienna and the EIB in Luxembourg. As a result, I would not be able to attend Mr. McNamara's meeting with Maurice Strong on November 21. I have cleared this matter in advance with Mr. Stern.

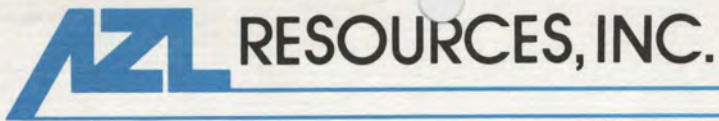
I also take the opportunity to attach two notes of interest to Mr. McNamara: Heavy Oil (in connection with the visit of André Giraud, ... / PUN No. 49 French Minister of Energy); and Photovoltaics (in connection with Jet ... / technical info. only. destroyed 6/8/87 Propulson Laboratories' work).

cc: Messrs. Stern (OVP)
Baum (CPSVP)

11/19

Attachments.

YRovani:pa.



5025 East Washington Street / Phoenix, Arizona 85034
Telephone: (602) 267-7511 TWX: 910-951-1372

494/4/40

Mailing Address:
P.O. Box 29008
Phoenix, Arizona 85038

November 5, 1979

*copy given to Mr. Stern
J.*

Mr. Robert McNamara
President
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Bob:

I very much appreciate the meeting you have arranged to enable me to introduce to you and your senior staff the colleagues who are joining me in the new international oil and gas corporation we have formed for the purpose of facilitating oil and gas exploration and development in developing countries - International Energy Development Corporation.

11/19
Enclosed is a memorandum which provides some general background information concerning the new corporation, its purposes, management and proposed methods of operation. You will note that it is designed primarily to play an entrepreneurial and intermediary role in promoting oil and gas exploration rather than act purely as a consulting or service organization, although it will be in a position to provide such services on occasion.

What we would hope to accomplish from our meeting with you and your staff is:

- (1) to introduce our senior personnel and have an opportunity to explain in further detail our organization and proposed methods of operation;
- (2) to gain a better understanding of the Bank's program of assistance to developing countries in the oil and gas sector and the ways in which an organization like ours might most usefully contribute to the achievement of the Bank's objectives in this field;



RECEIVED

RESOURCES, INC.

8025 East Washington Street, Phoenix, Arizona 85034
Telephone: (602) 587-7511 TWX: 910-951-1072

Mailing Address:
P.O. Box 29008
Phoenix, Arizona 85026

November 8, 1979

Mr. Robert McManis
President
World Bank
1815 H Street, N.W.
Washington, D.C. 20433

Dear Bob:

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RECEIVED
1979 NOV -8 AM 9:39
INCOMING MAIL UNIT

Mr. Robert McNamara
November 5, 1979
Page Two

- (3) to identify some specific countries or areas where the Bank believes that new or additional exploration initiatives might be particularly useful and timely.

We are prepared to give priority attention to those developing countries which need, and would welcome, more exploration activity than they are now receiving and as to which special efforts appear to be needed to generate such activity. In other words, we are prepared to take on some of the more difficult areas.

Please let me know if there is any further information that you or your people would like to have in preparation for the meeting, and I will do my best to provide it.

Many thanks and best regards.

Sincerely,

Maurice F. Strong
jrs

Maurice F. Strong

MFS: jr
Enclosure

(Dictated but not read by M. F. Strong)

MEMORANDUM

Re: Creation of a Corporation to Promote
Oil and Gas Exploration and Development in Developing
Countries - International Energy Development Corporation

1. Purpose

The purpose of this memorandum is to outline the main elements of plans for creation of a corporation with an international character, both in its ownership and its management, to promote and facilitate oil and gas exploration and development, principally in developing countries and to help developing countries become more self-reliant in meeting their energy needs.

2. Background

A survey recently commissioned by the World Bank indicates that seventy developing countries have significant oil and gas prospects which are not adequately being explored, particularly in light of the growing shortages of petroleum in the world as a whole. While the ultimately recoverable reserves of these countries cannot be known with any certainty, a recent estimate suggests that the oil importing developing countries (as distinct from the OPEC countries) now have about two percent of the world's proven reserves but could account in the future for about

fifteen percent of the world's ultimately recoverable reserves. These countries thus represent one of the principal potential sources of new oil and gas production in the world.

The World Bank survey estimates the prospects of these 70 countries, in terms of the size of their potential reserves, as: 13 with a "very high" potential; 10 with a "high" potential; 15 with a "fair" potential; and 32 with a "low" potential. However, recent increases in oil prices and the prospect of further increases and shortages, combined with improved exploration and development technologies are making some areas of relatively low potential much more attractive than they have been in the past.

Although these developing countries represent a significant portion of the world's potential for new discoveries, the exploration rate in these countries has been and still is very low in relation to exploration activities elsewhere and to their potential. Exploratory drilling in the non-oil producing developing countries amounted to only about five percent of the world total in 1975-76 (the last years for which figures are available) and was lower than in 1972-73 despite an increase of approximately ninety percent in the industrialized countries where the intensity of exploration was already far higher.

The World Bank report also estimates that of the 23 developing countries with high or very high prospects, only 7 have been explored adequately, and of the 15 countries with fair prospects, only one has been explored adequately. One of the principal reasons for this low rate of exploration activity has been the reluctance of the major international oil companies to make new commitments in many of these countries. This is in part because the companies have not assigned high priority to increasing their production from countries which they regard as politically risky and in part because of the relatively low probability of developing significant exportable surpluses in many of the developing countries.

An important factor in relation to assumptions as to "political risk" is the mutual suspicion and lack of confidence which prevails between many of the developing countries on the one hand and the private oil companies, particularly the major international companies, on the other. Most developing countries feel very much disadvantaged in their dealings with the major oil companies because of the substantial disparity that usually exists between the expertise and the financial power of the companies as compared to that of the governments concerned as well as the significant political influence and support many of the companies are thought to have with their own home governments. Some

of these suspicions and concerns have a basis in the previous experience of developing countries, and some are based on the same kinds of factors, however exaggerated they may be, which affect the attitudes of people in the industrialized countries towards the oil industry.

These concerns of developing countries do not usually lead to a refusal to deal with the private oil companies. On the contrary, most governments recognize that they are the principal sources of the capital and know-how necessary for effective exploitation of their own oil and gas resources. But they often create a negative climate which adds to the inhibitions of the private companies and the weight they assign to the political risk factor.

In some countries, private companies have experienced expropriation, harrassment or hostility which has led to a very cautious and in some cases wholly negative attitude on the part of the companies towards exploration and development in the developing countries. They thus attach a high degree of political risk in any investment possibilities in such countries and this in turn leads them to expect rates of return which are considered too onerous by the governments concerned.

Oil and gas exploration in the developing countries is thus caught up in something of an impasse in which both

the oil industry and governments realize that more exploration and development is essential, but neither have been able to establish the basis of mutual confidence and workable arrangements that would permit a significant acceleration of exploration activities.

The World Bank has now recognized this need and has established a new program of assistance to developing countries, and, through the International Finance Corporation, of support for private companies participating in exploration and development in developing countries. This includes providing assurances of loans for development and infrastructure costs should a discovery be made, loans directly to developing countries to permit them to finance a portion of their own exploration and development, and loans by the International Finance Corporation to private companies participating in programs of exploration and development in these countries. The Bank estimates that in the five-year period ended in 1983, bank financing of exploration and development activities in these countries would represent some 1/3 to 2/5 of the total amount of investment required. In addition, the International Finance Corporation expects to be able to make available a total of from \$650-\$750 million during this period. In addition, the United Nations Development Programme has agreed to make significant financing available for technical assistance to the developing countries concerned,

and other development assistance agencies are now interested in providing financing of various kinds.

However, the World Bank and other interested development assistance agencies recognize that their support cannot alone ensure the needed acceleration of exploration and development in the developing countries. It requires a special kind of entrepreneurship which neither the Bank, nor the traditional sectors in the oil industry, nor the developing country governments are yet providing to the degree which will be necessary. There is thus a gap which would be filled, at least in part, by creation of an organization especially designed to help meet this need. It would have to be one which is credible both with developing countries and with the oil and gas industry, one which would have as its purpose the creation of groups or consortia of companies willing and able to carry out increased oil and gas exploration and development in developing countries under conditions that are acceptable in both economic and political terms to such countries. Such an organization should ideally have an international character with its ownership not concentrated in any one company or country, with strong participation in the leadership and management of the company on the part of people who have the confidence of developing countries as well as those who can bring to it the required oil and gas industry knowledge and expertise and access to management, operational and financial capability.

The initiators of this proposal have consulted widely with senior representatives of the World Bank, the United Nations, industry and governments in both industrialized and developing countries. This has confirmed the potential usefulness of such an organization and a willingness to cooperate with it. It would have to be equipped so as to perform a significant role in helping to bridge the gaps that now exist between developing countries on the one hand and industry on the other so as to make possible the accelerated exploration and development which is now of such compelling importance, both to the countries concerned and to the world community.

The world needs more oil. The developing countries represent a significant portion of the world's total potential for discovery of new reserves. Although the principal beneficiaries of such discoveries would be the developing countries themselves, the development of new sources of supply anywhere creates a welcome addition to world supplies and thus benefits the entire world community. At a time when relations between industrialized and developing countries are so strained in many areas, this is one area in which there is a compatibility of interests between both industrialized and developing countries. This was affirmed at the recent Tokyo summit meeting when heads of the industrialized country governments specifically recognized the importance of assisting

developing countries to step up development of their oil and gas potential.

The OPEC countries, too, have demonstrated a very positive attitude towards assisting oil importing developing countries in accelerating their own oil and gas development. OPEC countries are already providing financial assistance to those other developing countries for energy-related projects, and leading representatives of OPEC have indicated recently that OPEC is likely to take a much more active and positive part in encouraging and assisting oil and gas exploration and development in other developing countries. Again, however, it is likely that OPEC countries will want to play more of a supporting role than an initiating one and would be prepared to cooperate with other organizations that are working closely with developing country governments in this area.

3. Method of Operation

The Corporation will act as an instrument, or "prime mover," in putting together and initiating exploration projects. It will use its own funds largely to finance the preliminary work required to identify feasible exploration projects and bring them to the stage where large scale exploration can be initiated. It will not normally invest its own funds directly in the resulting exploration and development

operations. It is expected that the shareholders will individually participate in exploration and development projects which the Corporation develops. In such cases, financing of their participation would be provided separately and directly to the project rather than channelled through the Corporation.

The Corporation will focus its attention primarily in those areas of the developing world with oil and gas prospects which warrant commercial exploitation and in which its services are desired by the government concerned to the extent that it is able to work out satisfactory arrangements which make it possible for it to play a significant part in the country's oil and gas development. In some cases, this may mean entering into an arrangement or understanding with a country which would enable the Corporation to assist it in preparing its overall plans for accelerating exploration and development of its oil and gas potential and taking an active part in implementing such plans; in other cases, it might involve a particular area or region of the country.

Depending on the stage of the country's development in the petroleum field and the requirements of its government, the Corporation would be in a position to advise and assist it in obtaining suitable technical assistance for preliminary geological surveys and assessments of its potential, for

strengthening of its own national capability in respect of petroleum-related legislation, regulation, and administration and the obtaining of financing from World Bank and other development assistance sources to finance participation by its own national petroleum corporation, or other national agency, in the proposed exploration and development activities. The Corporation would not normally charge the developing country for such services but would endeavor to obtain from the government an agreement entitling it to payment based on the success of its efforts. It is recognized that the conditions from country to country will vary substantially and that the Corporation will have to be flexible in the design of its specific arrangements with client countries.

The initial priority of the Corporation in any country in which it proposes to operate will be to assemble and evaluate all available existing geological and exploration data on the country and to make the kind of arrangement with its government referred to above. Virtually all of the countries which offer prospects for oil and gas exploration and development will have already been subjected, in varying degrees, to geological surveys and other forms of exploration. The data resulting from these will reside in part with the government and in part with the companies which undertook the original work. Assembling and evaluating this information will often require purchase of data or exchange of data and

evaluative information with the companies that have it in return for the right to participate in the Corporation's program in the country concerned. The Corporation will not normally commit any significant portion of its own capital to new or additional exploration surveys as funds for such purposes would be provided by its shareholders and other participants.

On the basis of the existing data, the Corporation will prepare a profile of the exploration prospects and a proposed program for preliminary exploration and/or drilling for the evaluation of such prospects. ✓

The Corporation will then attempt to assemble a consortium of companies which together have the financial, technical and operational capability required to undertake a program of exploration and development on the scale envisaged. Invitations to participate in such consortia would be issued only to corporations acceptable to the host government and normally there would be a number of such participants from several countries so as to minimize the political risk for the companies concerned and the risk for the country of having its oil and gas development dominated by any one corporation or country. Participants in such consortia might, depending on circumstances, be other national oil companies, dependent oil and gas companies, and multinational oil companies. ✓

A separate consortium would be formed for each country and in some cases more than one consortium may be formed in a particular country where more than one separate program is undertaken. It would be the Corporation's intention to serve the interests of the developing country in any negotiations with consortia. The developing country concerned would therefore clearly be the "client." It would therefore, be important that the remuneration received by the Corporation as a result of any such negotiations be clearly established with the government concerned in advance and that it not be dependent upon the terms negotiated with the consortium companies. Normally, however, the consortium companies would be expected to be responsible for such remuneration, and this would have to be provided for in the agreements with them.

The remuneration for the Corporation's services would normally have three components; 1) an initial cash fee designed to assure full recovery of its "front end" costs; 2) additional cash fees based on a percentage of exploration costs actually incurred by the consortium, in return for which the Corporation would provide overall supervision and advisory services to the government in respect of the exploration activities concerned; and 3) a small percentage interest in the proceeds of production if commercial production is established.

During the first year of operation, the Corporation will concentrate on developing profiles of each of the countries which are considered most prospective from the geological, political, and economic points of view. In this, it will be guided by information already available through the World Bank, United Nations, and other industry and governmental sources.

It should be understood that negotiations of this nature with governments are often done over a substantial period of time before firm agreements are obtained. Thus, negotiations are likely to be initiated during the first year or so with a number of governments, perhaps on the order of ten or fifteen. However, the Corporation should be prepared to wait at least a year before the first specific agreement is completed and should not expect to complete more than two or three in the first two-year period. It is normally entirely feasible to carry out negotiations on ten or fifteen projects at once, as most do not require continuous day-by-day involvement. There are, characteristically, periods of intense activity, followed by long periods of waiting for decisions.

The Corporation should also be prepared to assist countries in mobilizing the financial, technical, and management resources required for development, transportation, and use of oil and gas discovered through its activities. Another

area in which it should be in a position to offer its services is in projects for increase of production by use of secondary and tertiary recovery methods.

4. Possible Dedication of Profits to Support International Development and Conservation

In light of the special relationship which the corporation aspires to develop with governments and international organizations, it would be difficult to justify establishing the kind of "tax refuge" status which would wholly or largely exempt the Corporation from payment of income taxes at levels comparable to those paid by corporations operating from the usual national jurisdictions. On the other hand, as the company's sources of income are likely to be very international, and primarily from developing countries, and it is anxious to establish as international a character as possible, it would be equally hard to justify paying income taxes solely or primarily to a developing country government. It has been ✓
thus proposed that the Corporation be established on a basis that minimizes any formal liability for income taxes and that, in lieu thereof, it become "self taxing" by voluntarily dedicating a portion of its income, roughly comparable to what it might otherwise be liable in an average developed country, to broad international purposes which would primarily benefit the developing countries.

In order to do this, a portion of the Corporation's profits, after all applicable taxes, might be dedicated in perpetuity to support of international programs for the benefit of poor and disadvantaged people throughout the world and conservation of nature and natural resources, with a particular emphasis on the needs and interests of developing countries.

Possible objections have been raised to this approach on the basis that it may lead client countries in the developing world to feel that the Corporation is aspiring to make too high a level of profits and that any redistribution of surplus profits from activities which have their source in their countries should be returned to them rather than be directed through international channels.

This whole matter is still under consideration by the sponsoring shareholders and a final decision on it can be made only after further assessment can be made of the Corporation's probable tax status and the other policy implications of this concept.

5. Capital Structure

The sponsoring shareholders are providing \$10 million of capital initially with remaining capital subscriptions to depend on the Corporation's future needs as they develop. ✓

6. Incorporation

The Corporation's solicitors, Herbert Smith & Company of London, England, are now proceeding to incorporate a company in a jurisdiction that will provide the maximum of advantages from the point of view of tax, political, and practical operating considerations. It seems likely that a Netherlands corporation will be best in this connection with possible subsidiaries in the U.K. and/or Switzerland.

The name "International Energy Development Corporation" has been reserved in the U.K., and it is hoped that this name will be acceptable to the Netherlands authorities.

7. Shareholders

As the character of the Corporation will be very much influenced by its shareholders, the initial group of sponsoring shareholders have been invited to participate on the basis of the following criteria:

1. The international character of the Corporation;
2. Financial credibility;
3. Technical and operational credibility;
4. Political objectivity and acceptability;
5. Capability of establishing confidence and co-operation with the private sector petroleum companies, particularly the major multinationals, without being dependent on or hostage to them.

The initiative for this new venture has been taken by AZL Resources, Inc., a U. S. resources and agribusiness corporation of which Mr. Maurice F. Strong, former President and Chairman of the Canadian national oil company, Petro-Canada, is Chairman of the Board and a principal investor. Two other companies have been invited to participate, and both have indicated their interest, in principle of doing so. These are: Sulpetro Limited, a leading Canadian independent producer of oil and gas with significant German and Swiss shareholdings; and Volvo Petroleum, a wholly owned subsidiary of Volvo, A.G., the Swedish manufacturer of automotive and transportation products which has recently entered the petroleum industry.

However, the three initial sponsoring shareholders have agreed not to issue invitations to others for the time being. They have agreed each to provide equally the initial financing required to launch the Corporation's operations and once the Corporation's future financial needs and operational plans are more clear will be in a better position to decide on the selection of additional shareholders and the basis on which they might be invited to participate.

Provision will also be made for several of the senior persons who will be contributing to the management of the Corporation to participate in its share ownership.

8. Directors

Each of the sponsoring shareholders will have the right to elect two members to the Board of Directors and provision will also be made for each to name an alternate director to act in the absence of a director. Initially, it is proposed that each of the sponsoring shareholders name only one of the directors to which they are entitled.

Thus the initial Board of Directors of the Corporation would be:

Nordine Ait-Laoussine

John M. Godfrey

Pehr G. Gyllenhammar

Keith F. Huff

Francisco R. Parra

Maurice F. Strong

Gus Van Wielingen

9. Management

The management team consists of the following:

Maurice F. Strong - Chairman and Chief Executive Officer. Mr. Strong was first Chairman and President of Petro-Canada, the Canadian national petroleum and energy corporation, and is now Chairman of AZL Resources, Inc.

Nordine Ait-Laoussine - will serve initially as a consultant and is expected to assume the title and full responsibilities as Managing Director within the next few months. ✓

Mr. Ait-Laoussine, a geologist, was formerly Executive Vice President of Sonatrach, Algeria's national oil company, with which he has served in various senior management capacities since its inception about fifteen years ago. He also served as the representative of Algeria at the Organization of Petroleum Exporting Countries (OPEC).

John M. Godfrey - Joint Managing Director.

Mr. Godfrey has extensive experience, primarily in land and contracts negotiation, both in Canada and internationally. He served in Canada with Imperial Oil (an Exxon subsidiary) and Dome Petroleum and most recently served as Vice President in charge of land for Petro-Canada. Mr. Godfrey's duties will include special responsibility for contract and land negotiations. ✓

Francisco R. Parra - Executive Director. Dr. Parra is a petroleum economist with extensive experience in the industry and as a private consultant prior to joining OPEC in 1962 firstly as Economic Advisor and then as Secretary-General of the Organization. He has since been Managing Director of Petroleos de Venezuela (UK), a subsidiary of the Venezuelan national oil company. Mr. Parra will have principal responsibilities for the economic aspects of the Corporation's activities. ✓

Keith F. Huff - Executive Director. Mr. Huff, a geologist, served for 35 years with Exxon Corporation and affiliated companies, the last period of which as World Exploration Manager. He will be primarily responsible for the Corporation's exploration activities.

The supporting technical and administrative staff would, in the first year or so, be relatively small - on the order of ten to twelve persons, depending on the degree to which geological, land, and other services may be obtained from consultants and service organizations. Such services are available, and it is normal practice to use them in the petroleum industry. On the assumption that the Corporation will rely heavily on such services during the initial period of its activities, the full-time staff requirements would likely be limited to at least one senior person with broad international exploration experience, a senior person with land and legal experience, an accounting officer, one or two research assistants, and clerical and secretarial staff.

10. Headquarters

Offices of the Corporation will be established initially in the London area of England and investigations are continuing as to the possibility of locating part of its operation in the Geneva area of Switzerland.

11. Financing and Budget

The three sponsoring shareholders are undertaking to be responsible for providing 25% each of the total initial capital of \$10,000,000 by subscribing for a total of 225,000 preference and 250,000 common shares each. In principle, they have agreed that it may be desirable to have one or more other shareholders who would be able to make a significant contribution to the Corporation's objectives and, if such shareholders can be found and unanimous agreement reached to invite them to participate, it is understood that up to 25% of the capital may be made available for this purpose. In the meantime, each of them has agreed to undertake responsibility for their respective portions of the additional \$2,500,000 capital pending a decision on whether others will be invited to participate.

The preference and common shares are to be maintained as a "package" with prohibitions on sale or transfer separately unless otherwise agreed by 75% of the shareholders.

The Population Council

George Zeidenstein
President

494/4/39
One Dag Hammarskjold Plaza
New York, New York 10017
Cable: Popcouncil, New York
Telephone (212) 644-1300
Telex: 234722 POCO UR

5 November 1979

Dear Bob:

I look forward to seeing you on the 20th at 5:30 p.m. One of the items on my agenda is an effort I have undertaken to enlist the core support of governments for the Council. Formal proposals have been transmitted to the governments of Denmark, Netherlands, Norway, Sweden and West Germany. For your information, copies are enclosed along with copies of related letters.

What is needed next is follow up and in addition to my meeting with you, I am seeing Rafael Salas and speaking with Carl Wahren (IPPF) seeking active support. I'll be contacting some of the officers of Ford and Rockefeller Foundations, too.

11/19 We need people whose views are respected internationally and people whose work brings them into contact with high-level officials in donor governments to support our submissions that (1) the Council is an essential scientific resource for all who are engaged in or care about population activities, and (2) its international character qualifies it for support from the donor governments and, indeed, their support and participation is essential for full realization of the Council's international character to be achieved. It is also the case that unless the donor governments are enlisted, the Council's long-range financial future will be precarious.

It might help in the current effort and be worthwhile on its own merits to try to recruit to our Board of Trustees one or two distinguished people from the continent, say Germany and Scandinavia, for example. Perhaps you will have some thoughts about this. Our current list is stated in the enclosed brochure.

All the best,

Sincerely,

George

Mr. Robert S. McNamara
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, DC 20433

Enclosures



File

*... destroyed
6/87 -
No value*

*Bye-bye
Strong for
20th
their
new*

*Some Funds
Contrib from Salas
IRDC*

*Ford
Rock
US Aid*

*Tell Shubert
1) UNFPA - as for influ
Govt
2) Dispute a portion to Council
* POP Council*

The Population Council

George Zaidenstein

President

One Dag Hammarskjöld Plaza
New York, New York 10017
Cable: Popocouncil, New York
Telephone (212) 844-1300
Telex: 234722 POCO UR

2 November 1979

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What is needed next is follow up and in addition to my meeting with you, I am seeing Rafael Salas and speaking with Carl Wahren (IPF) seeking active support. I'll be contacting some of the officers of Ford and Rockefeller Foundations, too.

We need people whose views are respected internationally and people whose work brings them into contact with high-level officials in donor governments to support our submissions that (1) the Council is an essential scientific resource for all who are engaged in or care about population activities, and (2) its international character qualifies it for support from the donor governments and, indeed, their support and participation is essential for full realization of the Council's international character to be achieved. It is also the case that unless the donor governments are enlisted, the Council's long-range financial future will be precarious.

It might help in the current effort and be worthwhile on its own merits to try to recruit to our Board of Trustees one or two distinguished people from the continent, say Germany and Scandinavia, for example. Perhaps you will have some thoughts about this. Our current list is stated in the enclosed brochure.

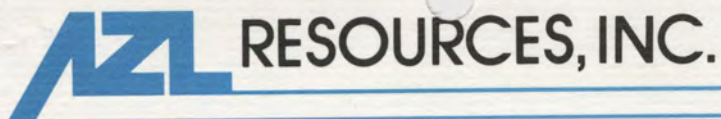
All the best,

Sincerely,

RECEIVED
1979 NOV - 8 PM 2: 25
INCOMING MAIL UNIT

Mr. Robert S. McNamee
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, DC 20433

Enclosures



5025 East Washington Street/Phoenix, Arizona 85034
Telephone: (602) 267-7511 TWX: 910-951-1372

Mailing Address:
P.O. Box 29008
Phoenix, Arizona 85038

October 24, 1979

*Mr. Stern has copy
J.*

Ms. Sanders
Office of Mr. Robert F. MacNamara
President
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

*11/2
return to
me 11/20*

Dear Ms. Sanders:

Confirming our telephone conversation this morning, the following is a list of the International Energy Development Corporation participants in the meeting to be held on Wednesday, November 21 at 10:00 a.m. at the World Bank:

11/1
Maurice F. Strong

~~Pehr G. Gyllenhammar~~ - President of A.B. Volvo *- not coming*

~~Bo Ekman~~ - Executive Vice President of A.B. Volvo

~~Gus A. Van Wielingen~~ - Chairman and Chief Executive *- not coming*
Officer of Sulpetro, Ltd.

Nordine Ait-Laoussine - formerly Executive Vice
President of Algeria's national oil company
and Algerian representative to OPEC.

Francisco R. Parra - Managing Director of Petroleos
de Venezuela and former Secretary-General of
OPEC.

Keith F. Huff - former World Exploration Manager of
Exxon Corporation.

John M. Godfrey - former Vice President of Petro-
Canada.

I hope this information will be helpful. Please let me
know if I may be of any help.

Sincerely,

Judy Repp

Judy Repp
Assistant to M. F. Strong



Executive Director

October 23, 1979

The Honorable C.W. Bill Young
U.S. House of Representatives
2453 Rayburn House Office Building
Washington, D.C. 20515

Dear Bill:

I am pleased to reply to your letters of September 18 which were addressed to Bob McNamara and me, as well as to Fred Bergsten, and which concern the current status of World Bank lending to Vietnam. Your letter raised some important issues that I am happy to comment on, and would be happy to discuss with you further at any time.

I believe Mr. Dixon's letter to you of July 30, 1979, fully described the current status of World Bank lending to Vietnam. Regarding the credit to Vietnam that was approved by the Executive Directors more than one year ago, the Bank has not suspended disbursements, nor could it legally do so as long as the project is proceeding in compliance with the provisions of the Development Credit Agreement. Disbursements under the Agreement between the Bank and Vietnam can legally be suspended only as provided in the Agreement.

As for the future, as Bill Dixon indicated in his letter, events over the past year have raised a very serious question about Vietnam's current commitment to a rational development policy. These questions were considered sufficiently fundamental to warrant a suspension in new lending to Vietnam. Indeed, the President of the Bank has stated publicly:

"Under current conditions, it would not be possible to invest funds there with a high probability that investment objectives would be realized or with assurance that the project would benefit the masses of the people."

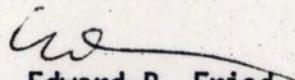
You also ask what would have to happen for the Bank to resume lending to Vietnam. It is clear that Vietnam would have to demonstrate a more rational development policy and undertake fundamental policy shifts which would accord much greater priority to the task of supporting equitable economic development of her people. There is no evidence that such a change is in the offing.

The Honorable C.W. Bill Young - 2 -

October 23, 1979

I am always ready to brief you more fully on this or related matters and provide additional information if needed. Please let me know if I can be helpful in this respect.

Sincerely,


Edward R. Fried
U.S. Executive Director

THE WORLD BANK

10/15/79

494/4/37
IBRD
NEG
ARCHIVE

10/17/79

President
To Representative Conte

Sir, I am most grateful for your willingness to fight against the "Restrictive Amendments" in the Conference.

Attached are two documents which indicate why we could not accept the US appropriation for IDA if it is conditioned by the Young amendment. Without the US appropriation, we can not draw on the funds of other donors and IDA will be out of business.

Let me know if I can provide any other information.

Bob Meade

494/4/36

Legality of Acceptance by IDA of US Contributions and Subscriptions
on Conditions Prescribed in H.R. 4473

I. The following six authorities have stated that if the subscriptions were to be conditioned as required by the House Bill it would not constitute a valid subscription and could not be accepted by IDA:

1. General Counsel of the World Bank
2. General Counsel of the U.S. Treasury
3. Comptroller General of the U.S.
4. The Congressional Research Service of the Library of Congress
5. The House of Delegates of the American Bar Association
6. The nine former Secretaries of the U.S. Treasury.

II. An extract from the statement by the General Counsel of the World Bank:

"You have asked for my views on the question....whether the World Bank.... could accept U.S. contributions contemplated by the Bill as passed by the House of Representatives...if they were made subject to conditions which would seek to impose on the Bank...restrictions contained in the Bill ... In my view the institutions could not accept the funds, so conditioned."

"The Resolution [of the donors to provide the IDA financing] reflects an agreement among 26 countries arrived at after long and painstaking negotiations. The Resolution, and IDA's Articles of Agreement which....are incorporated in the Resolution...contain provisions concerning the timing and the currency of payment and the Association's rights with respect to the use of the currencies paid in. Any attempt by a contributing member to impose additional restrictions on the use of the funds provided would be inconsistent with the agreement among donors and IDA's Board of Governors Resolution embodying it and resources, so conditioned, could not be accepted by the Association."

"If the Instrument of Subscription were to be conditioned as required by the House Bill the Instrument would not constitute a valid subscription."

III. An extract from a statement by the General Counsel of the U.S. Secretary of the Treasury:

" You have asked me whether the international development lending institutions could accept from the United States subscriptions and contributions which are made pursuant to the relevant resolutions of their Boards of Governors and which are subject to the conditions specified in [the House Bill]...."

"The General Counsels of the IBRD and IDA and of the IDB have expressed their opinions that acceptance of funds subject to such conditions would violate the terms of the relevant resolutions and would be inconsistent with the Charters of their institutions. In the light of these opinions it is hard to conceive that these institutions would be able to accept such funds. Indeed, the two General Counsels have expressed the view that it would not be proper as a matter of law for the Executive Directors of the IBRD, IDA or IDB to adopt an interpretative resolution which would permit these institutions to accept such funds."

"I concur in the conclusions of the General Counsels that the relevant resolutions and the Charters of the three institutions do not permit the institutions to accept U.S. funds subject to the conditions referred to above."

IV. An extract from a statement by the Comptroller General of the U.S.:

"This is in response to your request for our views concerning whether the international financial institutions could accept contributions or subscriptions from the United States conditioned upon the restrictions contained in [the House Bill]..."

"The Resolutions[of the institutions, relating to the contributions] set forth conditions concerning acceptance of subscriptions or contributions. They do not provide for the acceptance of contributions or subscriptions which impose conditions on the respective institution's use of the funds. Thus, each of the institutions....indicates that it could not accept contributions or subscriptions so conditioned. We would have no basis to question the interpretations placed on the resolutions by the institutions."

V. An extract of a statement of the Congressional Research Service:

"This memorandum is submitted in response to your request for a review of the Articles of Agreement, Board of Governors resolutions, subscription agreements and replenishment agreements of the IBRD, the IDA, the IFC, and the IDB, in order to determine whether these institutions may legally accept subscriptions and contributions from countries which contain conditions or restrictions similar to those contained in [the House Bill].

"It would seem that a strong argument can be made that the lending institutions may not, consistent with their Charters, and Board of Governors Resolutions, accept subscriptions or contributions from countries which contain conditions or restrictions similar to those contained in [the House Bill].

"In addition to the above, it may also be argued that the Charters or Articles of Agreement of IBRD, IDA, IFC and IDB constitute binding international treaty obligations of the United States. Article 26 of the Vienna Convention provides that "every treaty in force is binding upon the parties to it and must be performed by them in good faith."

"Article 27 of the Vienna Convention on the Law of Treaties provides that "a party may not invoke the provisions of its internal law as justification for its failure to perform a treaty."

"Thus, the sections of [the House Bill] if enacted, would appear to have violated the respective Charters, thereby placing the United States in breach of its treaty obligations under international law."

VI. An extract of a statement by the House of Delegates of the American Bar Association:

"Be it resolved, that the American Bar Association opposes unilateral restrictions on contributions for subscriptions to the World Bank and other international development banks which are inconsistent with their Charters."

The Report to the House of Delegates supporting the Resolution states:

"The issue...concerns Congressional attempts to restrict U.S. voluntary subscriptions or contributions in ways differing from the terms contained in the resolutions authorizing the institution to accept the funds."

"Such legislative restrictions directly conflict with the objectives set forth in the charters of the IFI's and with specific charter provisions designed to insure their freedoms from political influence."

"Clearly, the offering of restricted funds by a member of one of these institutions would violate the spirit of its charter and necessitate refusal by that institution."

"In summary, the international development banks would violate their charters if they accepted restricted funds."

VII. An extract from the statement by living ex-Secretaries of the U.S. Treasury: Messrs. Anderson, Barr, Connally, Dillon, Fowler, Kennedy, Shultz, Simon:

"If such restrictive amendments were to be adopted, they would effectively end U.S. participation in the Banks. The charters of these multilateral institutions do not permit the banks to accept funds so conditioned by individual members."

Eugene R. Black
American Express Plaza
New York 10004

October 15, 1979

The Honorable David R. Obey
U.S. House of Representatives
2230 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Obey:

You ask if we were President of the World Bank today what our attitude would be to the amendment of Representative Young. We would strongly oppose it. Let us explain why.

The operating system of the World Bank and the IDA rests upon a carefully crafted system of weighted voting. We will use IDA as example; the situation in the World Bank is only slightly different. In IDA the donor nations have two votes for every one assigned to the borrowing, or less developed, nations. The votes assigned to the donor nations are weighted according to the cumulative contribution of each to IDA's resources. It is not feasible to accept restrictions such as those proposed by Mr. Young because they would amount to a unilateral veto action by the United States.

Resentment of other donor governments to suggestions such as those of Mr. Young would certainly be aroused. Other governments are currently contributing to IDA more than \$2.00 for every \$1.00 contributed by the United

Eugene R. Black
American Express Plaza
New York 10004

Page 2

States. They agree to do this because all concerned have agreed to the weighted voting system of IDA. Once that system is modified, as Mr. Young's amendment would do, the compact that holds the organization together would be impaired. If Mr. Young's suggestions were to be accepted, they would certainly become contagious; other donors would insist on particular restrictions on their own funds. This would be contrary to the interests of both the World Bank and the United States.

This is not the first time the World Bank has experienced pressures for restrictive action of one sort or another. In 1965 the Bank was importuned by the General Assembly of the United Nations to cease immediately all lending to Portugal and South Africa for reasons quite similar to those advanced by Mr. Young for his amendment. The request was refused. In earlier years, the pressures were economic, rather than political. Donors wanted to be assured that their contributions would be spent solely and exclusively on goods and services from their own countries. Fortunately the World Bank and IDA have followed a policy under which offshore procurement financed by the two entities is done on the basis of international competitive bidding. In later years the firm establishment of this principle made it possible to deflect the requests made by donors to involve the World Bank and IDA in secondary boycotts, such as the Arab boycott of firms dealing with Israel.

Eugene R. Black
American Express Plaza
New York 10004

Page 3

We thoroughly applaud your efforts to safeguard what to us is one of the really effective and enduring international compacts to emerge from World War II.

Sincerely,

John J. McCloy
John J. McCloy

Eugene R. Black
Eugene R. Black

George D. Woods
George D. Woods

494/4/35



Executive Director

September 24, 1979

The Honorable Bill Bradley
United States Senate
315 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Bradley:

At the breakfast with Bob McNamara on September 17, you expressed interest in receiving further information on prospects for increased oil and gas production in the non-OPEC developing countries and on the World Bank's program to help developing countries realize these prospects. These are the projections:

1. Total oil and gas production in non-OPEC developing countries (excluding Mexico) could increase by the equivalent of 4 million barrels per day between now and 1990. About one-third of this increased production would be in Latin America (excluding Mexico). This estimate, while speculative, is based on a Bank-sponsored survey of reserves in 78 developing countries. Total investment requirements (including downstream investment in refining and marketing) would be about \$12 billion a year.
2. The new World Bank program in oil and gas is designed to provide substantial funds for this program and, at the same time, establish a framework that will encourage host countries and private investors to enter into exploration and production agreements with greater confidence. This unique arrangement could prove to be a major breakthrough in this politically sensitive area. It is doubtful that oil and gas production in the non-OPEC developing countries could achieve potential capacity without the financial assistance and political security deriving from the participation of the Bank.
3. Over the next five years alone, projects that the Bank will finance could eventually result in increased oil and gas production in these countries of 1.4 million barrels per day. Present plans call for the following:
 - Expansion of petroleum lending to \$1.2 billion per year by FY1983 -- financing, annually, oil and gas exploration and production projects with a total cost of over \$4 billion and representing roughly a third of the total investment requirements of developing member countries in this sector;
 - 60% of this lending program for oil and gas will be in the poorer countries, some of which will be financed through IDA credits;

- 40% of this lending program for oil and gas will be for surveys, exploratory drilling and project preparation;
 - Assistance to 40 countries during FY78-93 in evaluating and updating data from earlier geological surveys, or in commissioning new surveys; and
 - Sector work in about 15 developing countries each year to help establish their energy requirements and production potential, and to assist in preparing national energy plans.
4. In addition, the potential exists for coal production in these countries to double and hydroelectric generating capacity to triple over the same period. This additional production of primary energy fuels would represent the equivalent of 5-6 million barrels a day of oil. The World Bank is mounting a substantial program to facilitate this effort as well.
5. In sum, the World Bank's expanding energy program will help to improve the precarious world oil markets. It represents an important new requirement for Bank/IDA lending and therefore a pressing reason to ensure adequate financing for the World Bank Group itself. From comparatively low levels at present, it will grow to at least 15% of total Bank Group lending in five years. Over the period as a whole, the Bank will lend \$7.7 billion for the exploration, production and development of oil, gas and coal and for the construction of new hydroelectric facilities. These loans will be combined with approximately three times that much of financing from private sources and from governments in the countries concerned. When the projects are in operation they will produce additional primary energy fuel in oil importing developing countries estimated to be equal to between 2 and 2.5 million barrels a day of oil. This increase in production of primary energy fuels will benefit all oil importing countries, including the United States, because it will back out demand for an equivalent amount of OPEC oil and thereby reduce pressures on the world oil market. The breakdown of these figures among the primary energy fuels is as follows:

	Bank Group Lending 1980-84 (\$ Billion)	Total Project Costs (\$ Billion)	Estimated Additional Production of Primary Energy Fuels (in million of barrels) of oil equivalent per day)
Oil & Gas	4.5	13.8	1.4
Coal	1.1	4.8	.7
Hydropower	<u>2.1</u>	<u>15.0</u>	<u>.3</u>
Total	7.7	33.6	2.4

-3-

I enclose a copy of the World Bank paper explaining the program. Should you have further questions about this or any other aspect of World Bank operations, please let me know.

Sincerely,

Edward R. Fried

Edward R. Fried
U.S. Executive Director

Enclosure

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.



9/20/79

With the compliments of

Mr. Edward R. Fried

U.S. Executive Director

Mr. Robert S. McNamara

9/21



EXECUTIVE DIRECTOR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.



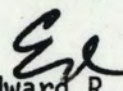
September 20, 1979

Dear Senator Javits:

Thank you once again for organizing and co-hosting with Paul Sarbanes the breakfast for Bob McNamara. The House action on the Foreign Aid Appropriations bill, if not reversed by the Senate, will put this country in a serious bind -- to no apparent purpose and at substantial cost to our economic and political interests. Only through actions such as yours, will it be possible to get the facts on the table.

We are indebted to you.

Sincerely,


Edward R. Fried
U.S. Executive Director

The Honorable Jacob K. Javits
United States Senate
321 Russell Senate Office Building
Washington, D.C. 20510



EXECUTIVE DIRECTOR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
WASHINGTON, D.C. 20433, U.S.A.



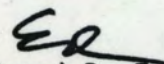
September 20, 1979

Dear Paul:

Thank you again for co-hosting the breakfast for Bob McNamara. The House action on the Foreign Aid Appropriations bill, if not reversed by the Senate, will put this country in a serious bind -- to no apparent purpose and at substantial cost to our economic and political interests. Only through actions such as yours, will it be possible to get the facts on the table.

We are indebted to you.

Sincerely,


Edward R. Fried
U.S. Executive Director

The Honorable Paul S. Sarbanes
United States Senate
2327 Dirksen Senate Office Building
Washington, D.C. 20510

C. W. BILL YOUNG
6TH DISTRICT, FLORIDA

MEMBER:
COMMITTEE ON
APPROPRIATIONS

PERMANENT SELECT
COMMITTEE ON
INTELLIGENCE

Congress of the United States
House of Representatives
Washington, D.C. 20515

September 18, 1979

2453 RAYBURN BUILDING
WASHINGTON, D.C. 20515

DISTRICT OFFICES:
SUITE 627
144 FIRST AVENUE, SOUTH
ST. PETERSBURG, FLORIDA 33701

SUITE 606
801 WEST BAY DRIVE
LARGO, FLORIDA 33540

Mr. Robert S. McNamara
President
The World Bank
Washington, D.C. 20433



Dear Mr. McNamara:

This will acknowledge your letter of August 13, advising me that Mr. William Dixon's letter was the World Bank's answer to my questions regarding the Bank's lending to Vietnam. Frankly, I deserve a better response.

Let me restate my questions so that I may be provided with a specific response:

- How long is the freeze in effect?
- How was this freeze accomplished and is it formal or informal? Did the Executive Directors meet and vote to stop all lending to Vietnam, or was this a decision made by the Bank's management?
- What are the conditions or requirements which must be met before the Bank will lift the freeze? Who will make this decision?
- Has the World Bank ever imposed a similar freeze on lending to particular countries, and if so, who and when?

In your letter to me of August 13, you state that the letter Mr. Dixon sent me on July 30, "outlined the Bank's current policy on lending to Viet Nam." In that letter, Mr. Dixon says:

"On August 8, 1978 the World Bank Board of Executive Directors approved a credit to Vietnam for irrigation to expand food production. There have been no disbursements on this credit and no new lending has been approved since that time."

Mr. McNamara
Page two
September 18, 1979

"The existence of hostilities, beginning with the invasion of Kampuchea, and the establishment of a policy forcing hundreds of thousands of people to leave the country have raised fundamental questions about Vietnam's development priorities, its performance in managing its economy and its creditworthiness. In view of these questions, the Bank has made clear that it would be completely inconsistent with its basic policies for any new loan commitments to be approved until the situation in Vietnam changes."

Although Mr. Dixon's statement is definitely not a response to my questions, it does raise a number of additional questions.

First, regarding the August 8, 1978 credit which was approved for Vietnam: Will this credit be included in any freeze or is the Bank going to disburse these funds and go forward with this particular project? What is the justification for not including this credit in the freeze? Has the World Bank ever discontinued lending or stopped disbursement of a loan or credit which has already been approved by the Board of Executive Directors, and if so, who and when?

On the subject of new lending for Vietnam, the August, 1979 edition of the Bank's Monthly Operational Summary includes reference to six additional credits currently being considered by the Bank for Vietnam. Is the Bank continuing with the staff work, project design, feasibility studies, and other evaluations for these proposed credits? In other words, regardless of whether or not the Bank's management will propose these credits to the Board of Executive Directors for their approval, is the Bank's management continuing with the preliminary work on these credits for Vietnam?

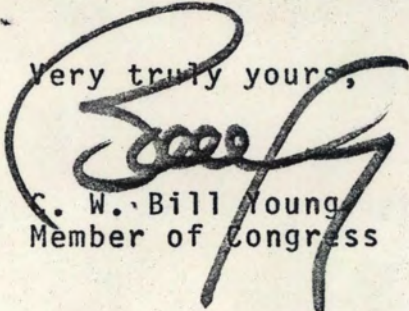
In addition, in light of Mr. Dixon's statement, who at the World Bank made the decision that the current actions of the Vietnamese government is inconsistent with the Bank's basic policies? Has the World Bank made a formal decision that no new credits will be proposed to the Board of Executive Directors for their approval for Vietnam, and if so, when was this done? Who at the World Bank made this decision? What are the "fundamental questions about Vietnam's development priorities, its performance in managing its economy and its creditworthiness" that are of concern to the World Bank?

Mr. McNamara
Page three
September 18, 1979

What specific actions or developments by the Vietnamese government will have to take place in order for the Bank to change its position on lending to Vietnam? Who at the World Bank will make that decision?

Thank you for your consideration of this matter and I am looking forward to your response. With best wishes and personal regards, I am

Very truly yours,



C. W. Bill Young
Member of Congress

CWY:jc

661
Files

434/4/31
September 13, 1979

Lester Nurick

American Bar Association Resolution



Attached is the final copy of the ABA Resolution, together with the ABA report on restrictive amendments. The report makes some good points which we may be able to use. The Washington Office of the ABA is organizing an effort to see Senators and Congressmen about this matter, and I have offered our assistance.

Attachment

9/13
cc: Messrs. McNamara ✓
Qureshi
Rotberg
Merriam
Riddleberger

LNurick:mr

AS APPROVED

AMERICAN BAR ASSOCIATION
REPORT TO THE HOUSE OF DELEGATES
SECTION OF INTERNATIONAL LAW
RECOMMENDATION

The Section of International Law recommends the following resolution for adoption:

"BE IT RESOLVED that the American Bar Association	1
opposes unilateral legislative restrictions on	2
contributions or subscriptions to the World Bank	3
and other international development banks which are	4
inconsistent with their charters.	5

REPORTIntroduction

The United States has long endorsed the international financial institutions ("IFI's") as a means of insuring multi-lateral cooperation for assistance to the underdeveloped world. In recent years, however, there have been recurring attempts to impose restrictions on the contributions upon which the IFI's depend for their operations.

Proposed U.S. restrictions have included prohibitions on the use of contributions in certain member countries and for agricultural projects competitive with donor country commodities.

The World Bank (the International Bank for Reconstruction and Development, or "IBRD") was organized as a UN specialized agency in 1944 largely as a United States initiative, originally to assist in the reconstruction of war torn member countries and more recently to aid in the development of developing countries. It now has 128 members, including the United States. The International Finance Corporation ("IFC") was organized as an affiliate to the World Bank in 1955 to provide risk capital to private developmental projects in developing countries. In 1960, the International Development Association ("IDA") was organized to provide low interest developmental loans for governmental projects to promote economic development in the least developed countries on terms which are less stringent than the World Bank's. The regional development banks, i.e., the Inter-American Development Bank ("IADB"), the African Development Fund ("ADF") and the Asian Development Bank ("ADB"), provide developmental financing on a regional level.

The World Bank and other multilateral development banks together provide multilateral financial aid to the developing countries, spreading the cost of such aid among the developed lands and insulating the banks from political demand.

The United States is a member of each of the IFI's and its participation in each is a matter of statute. For example, the Bretton Woods Agreements Act, July 31, 1945,^{1/} authorized the President "to accept membership for the United States in the . . . [IBRD], provided for by . . . the Articles of Agreement of the Bank"

Legal Basis

All IFI funds -- both subscriptions to stock and contributions -- are provided voluntarily by the members pursuant to resolutions approved by the institutions' Governors, usually the finance ministers of each of the member countries, who negotiate and then approve these resolutions. The resolutions authorize the banks to accept subscriptions and provide the terms, conditions, amount, and schedule of all payments to be made by the members of the institutions.

^{1/} 59 Stat. 512, 22 U.S.C. §286.

In the case of the United States, all subscriptions of capital are negotiated in consultation with the leadership of the appropriate Congressional committees, and actual payment requires an act of Congress, usually as a part of the annual Foreign Assistance Appropriations Act.

The issue raised in this Report and Recommendation concerns Congressional attempts to restrict U.S. voluntary subscriptions or contributions in ways differing from the terms contained in the resolutions authorizing the institution to accept the funds.^{2/}

Such legislative restrictions directly conflict with the objectives set forth in the charters of the IFI's and with specific charter provisions designed to insure their freedoms from political influence.^{3/}

2/ The issue of restricted contributions has been a topic of public discussion during the legislative process leading to the passage of the Foreign Assistance Appropriations Act for fiscal year 1978 (H.R. 7797) and fiscal year 1979 (H.R. 12931). As originally passed by the House of Representatives, H.R. 7797 provided that none of the funds appropriated for the IFI's could be used to finance assistance to Uganda, Cambodia, Laos, Vietnam, Mozambique, Angola or Cuba or to establish or expand production of sugar, palm oil or citrus crops of a kind produced in the United States. The restrictions contained in H.R. 7797 were ultimately deleted before final passage. Again in the appropriations bill for fiscal year 1979 similar restrictions were proposed and eventually defeated.

3/ The Charter of the World Bank is typical of the IFI's in stating the international nature of its objectives. The purpose of the World Bank, inter alia, is "the encouragement of the development of productive facilities and resources in less developed countries." IBRD Charter, Art. 1, Sec. 1. The ADB Charter contains a similar provision, followed by the directive that "The resources and facilities of the [ADB] will be used exclusively to implement the purpose and functions set forth [in the charter]." ADB Charter, Sec. 8; emphasis added. Most importantly, each charter typically enjoins the institution, its management and staff "not [to] interfere with the political affairs of any member, not . . . [to] be influenced in their decisions by the political character of the member concerned." ADB Charter, Art. 36, Sec. 2. See also, IFC Articles of Agreement, Art. IV, Sec. 10; IDA Articles of Agreement, Art. V, Sec. 6. Each character typically goes on to command that "only economic considerations shall be relevant to their decisions and that such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the bank." ADB Charter, Art. 36, Sec. 2.

Furthermore, to ensure the integrity of the operation of multinational institutions, charter provisions prevent the IFI's from accepting restricted contributions.^{4/} Clearly, the offering of restricted funds by a member of one of these institutions would violate the spirit of its charter and necessitate refusal by that institution.

Parallel precedent of this Report's proposition is found in the first Advisory Opinion^{5/} of the International Court of Justice, which stated that United Nations Member states could not lawfully condition or restrict their votes on admission of new UN members, holding that the legal criteria for membership qualification established in express Charter provisions could not be subordinated to the total, perhaps political, discretion of existing member states. If the rule were otherwise, legal criteria contained in the Charter would lose all significance and meaning at the hands of ultra vires political restrictions or conditions.

The United States, as a signatory to the treaties creating the multilateral development banks, is bound to respect the provisions of their charters. As such the ABA should oppose legislative efforts to subvert the non-political multilateral nature of the IFI's charters.

Policy Basis

The IFI's adherence to their charter provisions has been demonstrated. In 1965 the World Bank made loans to Portugal and to South Africa, notwithstanding a UN request to the contrary, citing its charter restrictions on political activity.^{6/}

Restricted contributions authorized by member governments not only cannot be accepted by the IFI's, they also invite retaliation from other members with their own political goals. For example, the Arab countries have not yet attached limitations to their subscriptions and contributions to the banks, and the Israelis have received several credits in recent years from these institutions. If non-economic criteria were legitimized, Arab nations might be expected to use their increasingly large contributions to the banks as leverage to attempt to deny loans to Israel.

^{4/} The ADB Charter states that, "the Bank shall not accept loans or assistance that may in any way prejudice, limit, deflect or otherwise alter its purpose of function." ADB Charter, Art. 36, Sec. 2.

^{5/} 1948 I.C.J. 57.

^{6/} 14 Whiteman, Digest of International Law 1005 (1970).

There are basic distinctions between bilateral and multilateral aid. Bilateral aid may clearly be directed to selected countries and withheld from others for solely political considerations, and may be limited in any other way deemed appropriate by the donor. But insofar as a member decides to support a multilateral institution, such support should be consistent with the non-political, multilateral nature of such institutions as expressed in their charters. If a contribution is proffered which is contrary to the charters, the effectiveness and integrity of the IFI's would be destroyed.

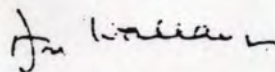
A member's representative in an IFI has always the power to vote no to assistance to particular countries. Accordingly, the United States director could express in his vote the policy of the United States Government with respect to particular countries. But if a member seeks to control the IFI by legislative restrictions on its contributions, the effectiveness and integrity of the IFI would be destroyed. Inasmuch as the IFI's have determined they cannot accept restricted funds, the attachment of restrictions on proffered contributions can have no effect. Far more influence can be exercised within the IFI's structure. And, if the IFI's are to raise capital from the public to supplement governmental contributions, as increasingly they do, it is essential that the investing public be assured that economic and not political considerations will influence and determine financial decisions of the IFI's.^{7/}

Summary

In summary, the international development banks would violate their charters if they accepted restricted funds. Therefore, the proffering of restricted funds by the United States would be inconsistent with its commitments to these institutions and their charters, and would engender disrespect for the rule of law. Moreover, donor restrictions on funds would substitute unilateral political pressures for international cooperation and invite international retaliation in kind.

Respectfully submitted,

August, 1979



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^{7/} Id. at 1007.