JUNE 11, 1980

MEMO

TO: PAUL
FROM: CHRIS C.

RE: SFRC HEARINGS ON S. 2186, a BILL TO PROVIDE A CHARTER FOR THE OPIC.

1. Political Background

- -- Frank Church and the majority staffperson for OPIC oppose OPIC and this bill because labor opposes OPIC and because Church has a personal opposition to the activities of multinationals abroad. Church regards the multinationals as rapacious and counter developmental. OPIC supports their investment activity abroad through loan insurance, investment insurance, and direct finance of investments(a program mostly for small business).
- -- Javits is one of the fathers of OPIC along with Hubert Humphrey. The President of OPIC is J. Bruce LLewellyn, a black, a businessman, and from N.Y. His staff put together the bill and Javits agreed to sponsor.
- -- OPIC wants this bill or one like it to pass next year in advance of the expiration on Sept. 30, 1981 of OPIC's statutory authority. The last time OPIC came up for reauthorization (1978), political support was so weak that passage was delayed long enough to put OPIC out of business for 4 months. This bill, as charter legislation, would take care of the reauthorization problem, and would lift the developmental restrictions on OPIC's activities, restrictions which OPIC views as barring its expansion into the lucrative and high volume insurance market in the mid level LDC's. Present law prohibits, with certain exceptions, OPIC from operating in countries with a per capita GNP of $1000. or more. OPIC strategists believe that Congress is in the mood to convert OPIC from a developmental institution to a trade and investment promotion outfit - the language in the bill accomplishes this(see below) to a large extent.
- -- In this way a happy marriage of converging interests is served. OPIC get its reauthorization and a more flexible mandate. Business gets a stronger partner in the overseas investment field. Congress is able to support OPIC in good conscience because the new charter promotes trade and investment. Let AID and the multilateral institutions worry about development.
- --The Adminsitration is badly divided and unorganized on the issue. IDCA likes the bill insofar as it makes for a stronger OPIC, but IDCA is very oppossed to the bill's provisions to remove OPIC from the Foreign Assistance Bill and to remove Tom Erlich, Director of IDCA, from the post of chairman of OPIC's Board of Directors in favor of the Special Trade Representative. From there, it gets worse. Commerce supports the bill; Treasurey should support it but their international guy, Fred Bergsten, is not friendly to multinationals and doesn't want them subsidized. OMB is an arbiter, and OPIC itself has backed off its initial full support - the Board voted on May 13 to forego the provisions separating OPIC from IDCA.
- --Labour is strongly oppossed to the bill and to OPIC genreally. They fear that OPIC is promoting the export of U.S. jobs via "runaway plants". They believe that OPIC supports foreign investment which sends products back to the U.S. or to U.S. markets thus competing with our domestically produced goods. They are not reassurred by OPIC regulations that specifically prohibit these abuses.

--Business is considered to be supportive of the bill and of OPIC. OPIC is not a large operation, only 83 projects insured or financed in 33 countries in 1979. Those businesses who use and have used the political risk insurance program, OPIC's largest program, do probably support OPIC. There is no private competitor supplying the kind of insurance which OPIC supplies. Bob will check with some hi-tek people in Mass. to determine support in the state. We have not received any letters on this bill to my or Jan's knowledge.

2. Provisions of the Bill

--Adds a trade promotion purpose to OPIC which currently has a developmental objective.

--OPIC would become an independent agency with its own statute, thus removing it from the Foreign Assistance Bill.

--Removal of the 1000 dollar limit on per capita GNP for eleigible countries.

--Permit insurance authority of OPIC to extend to existing investments, not just new investments.

--Political risk insurance coverage to include the eventuality of "civil strife" in addition to existing events of "war, insurrection, or revolution".

--Broaden the definition of "American investor" so a larger pool of eligible investors would be created.

--OPIC ceiling on insurance it can issue would rise from $7.5 billion to $10 billion and the guarantee authority from $750 million to $1 billion.

--Deletes current provision that Sec. of State will provide "policy guidance" to OPIC

3. Issues and Questions

--The bill is attractive to OPIC and its business constituency because it gets OPIC into a more businesslike and less developmental mode. That is good for Massachusetts, but is it good for the Third World?

--The bill does provide that OPIC "to the maximum extent practicable, give preferential consideration in the Corporation's operations to investment projects in the less developed friendly countries and areas which have per capita incomes of $580 or less in 1977 dollars." BUT investment opportunities abound in the more prosperous LDC's, not in the Mozambique's of this world. Political risk tends to be higher in the very poor LDC's. Thus profit and risk combine to guide investors and OPIC to the mid-level LDC's. Can this one sentence provision maintain OPIC's interest in the poorer countries? Won't all the investors and the insurance premiums be found higher up the income ladder? OPIC says that they need to spread their risk to more advanced LDC's. They say that the poor LDC's could all founder at once and cause a disastrous run on their reserves. This has not happened to date, however. OPIC operates in the black. There is here in all of this a clear case of bureaucratic self-preservation and expansion. LLewellyn wants OPIC to grow and prosper. It must change its character to do so.

--If OPIC were to exit the Foreign Assistance Act and become independent, could it, like EX-IM Bank, deal with countries which the U.S. does not recognize? Current regulations insist on bilateral agreements with eligible nations to provide for settlement of claims. State won't negotiate such agreements with countries we don't recognize. What is the case under the Bill? (I have asked this question of several OPIC experts and get variable and garbled replies)

3. (continued)

--The guts of this bill deal with trade and OPIC's flexibility to do business. JAvits and OPIC staff would probably be happy to drop the provisions placing OPIC under its own statute and removing IDCA from a guiding/coordinating role. OPIC gets along better now with IDCA after a rocky start when Erlich used to tell LLewellyn to put IDCA all over OPIC's stationary. A new bill from the Administration will appear this year or early next and it will be the vehicle, not S. 2186. Church has told OPIC that the Committee will not move on the bill this year. Perhaps the form of the final bill will reflect these realities.

--It might be appropriate at some point to offer an amendment to the bill making more specific the poorer country emphasis and making it mandatory. One idea would be to earmark a certain portion of the total business of OPIC for exclusive poor LDC business. Thus, the law would require that, say, 30% of OPIC insurance exposure be located in the $580 or less per capita GNP countries. If some specific requirement like that is not put in the bill, I fear that the economic logic of OPIC's operations will lead them inexorably away from the poorer LDC's.