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July 21, 1967

TO: U - The Under Secretary

THROUGH: S/S

FROM: ARA - Covey T. Oliver

SUBJECT: Weekly Report - Inter-American Affairs, July 15 -
July 21, 1967

1. Bolivia: Cabinet Changes Likely - The expected resignations of all cabinet members will give Barrientos a free hand to reform his government to reflect the withdrawal of several minor political parties from the Bolivian Revolutionary Front, which was formed as his election vehicle in 1966. He has publicly rejected the idea of a military cabinet and indicated his intention to fill economic posts with competent technicians.

2. Brazil: Death of Former President - Former President Castello Branco (1964-67) was killed in an airplane accident July 18. Ambassador Tuthill represented the President at the funeral. On July 19, rightist fire-brand Helio Fernandes, deprived of his political rights last year, published a vitriolic editorial criticizing the former President. The GOB ordered his indefinite confinement on an island off the Brazilian coast, an action which may be subject to legal challenge.

Purchase of French Mirages - We continue our efforts to dissuade the GOB from purchasing Mirage fighters and have expressed our concern to the Brazilian Charge here and the Air Minister in Rio (July 14 Report, item 3). However, the latter indicated that the BAF would go ahead with the transaction.

3. British Honduras: Bilateral Meeting - Foreign Minister Arenales will meet with British Foreign Secretary Brown in London on July 24 to discuss the Guatemala-UK dispute over the sovereignty of British Honduras. This meeting was initiated by the U.S. Mediator Ambassador Bethuel M. Webster, who plans to continue his mediation with representatives from Guatemala, the UK and British Honduras following the London bilateral meeting.

4. Chile: Weather Threatens Agricultural Production - At the signing of the Agrarian Reform Bill on July 16 (June 7 Report, item 5), President Frei described Chile's need to increase its

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agricultural production as a matter of life and death. However, record low temperatures and severe drought portend a setback for agricultural production in the 1967-68 crop year. A 2.3% cost of living rise in June (3.7% in food prices) has added to pressures already threatening the 1967 stabilization program, and the GOC fears that food prices will continue to rise throughout 1967.

"Rebel" Faction Wins Control of PDC - The Christian Democratic Party's (PDC) left-wing "Rebel/Third Force" defeated the "Moderates" by a 245-197 vote last weekend to win control of party leadership for the coming year. At issue were the party's role in influencing the direction and pace of Frei's reform program. We doubt that the new party leadership will be able to force significant changes in GOC policy; Frei's rank and file popularity continues sufficiently high to permit him to maintain control.

5. El Salvador - Honduras: Tensions Increase - The expulsion from Honduras of a number of Salvadoran settlers and COH issuance of a new official map showing considerable disputed territory as Honduran, has again raised tensions. There is increasing public pressure on the GOES to harden its hitherto moderate position in the border dispute. We are concerned that continued friction may lead to a weakening of Central American unity and adversely affect the Central American Common Market.

6. Jamaica: Finance Minister's Visit - Minister of Finance and Planning, Edward Seaga, and the Governor of the Bank of Jamaica, G. Arthur Brown, will meet with me on July 25. During their July 24-26 informal visit here, they also have appointments with the Secretary of Treasury, Chairman of the Federal Reserve Board and officials of IBRD, OAS, IDB and CIAP.

7. Mexico: GOM Cooperation in Impeding Travel to Havana Conference - On July 11, Ambassador Freeman pointed out to FonSec Carrillo Flores the potential dangers to the hemisphere of the LASO Conference scheduled for July 31-August 5 in Havana. He suggested that the GOM might help by controlling the travel of delegates via Mexico. Reversing previous policy, Carrillo Flores agreed to defer transit visa issuance to LASO participants; the GOM will also refuse entry to those delegates already having visas. This change in GOM policy seems primarily due to a desire to avoid criticism at the upcoming MFM, but it may also reflect a hardening attitude towards the threat of Communist subversion.

Subversive Band Arrested - On July 19 the GOM announced the arrest of 13 persons for planning guerrilla activities. [redacted]

[redacted] We cannot

confirm press accounts of ChiCom or other foreign government support, but the band does seem to have had relations with other radical leftist groups and to have planned a Venezuela-type operation. The arrest of the group is another indication of a tougher GOM attitude toward subversion (see above item) and its timing provides justification for plans to deny reentry to the New China News Agency staff.

8. Nicaragua: Foreign Minister Calls Upon Secretary - FonMin Guerrero called upon the Secretary on July 15. Principal topics of discussion were the Middle East situation and the upcoming OAS Meeting of Foreign Ministers on Cuban subversion. Guerrero also expressed Nicaragua's appreciation for U.S. help in the current polio epidemic.

9. Panama: Canal Treaties - No date for signing the treaties has yet been set but we still hope that it will take place between August 1-5. We have been discussing with both the Panamanian and Colombian governments a means of reconciling the new Canal treaties with a 1914 Treaty in which we gave Colombia certain privileges in the use of the canal and related facilities. It now appears that the matter may be resolved by an exchange of notes with the GOP agreeing to continue Colombian privileges.

10. Peru: The International Petroleum Company Dispute - President Belaunde still has under consideration a bill passed by the Peruvian Congress which, if promulgated, would nationalize IPC-owned oil fields in northern Peru (July 7 Report, item 13). We expect he will delay the signing as long as possible, probably until around July 25. We are hopeful that the return to Peru today of opposition APRA leader Haya de la Torres will facilitate reaching a mutually satisfactory agreement with IPC, since a key problem for Belaunde is APRA's reaction to any settlement.

11. St. Kitts-Nevis-Anguilla: Anguilla Leader in U.S. - "Provisional President" Peter Adams arrived in the U.S. on July 16 to seek support for his Anguillan "rebels". He has approached the UN and is reportedly attempting to obtain "Committee of 24" consideration of the Anguilla situation. Adams was brought to the Department by a British Embassy representative on July 19 and presented his views to the Office of Caribbean Affairs.

12. Uruguay: New Economic Policy - On July 15, new FonMin Vasconcellos announced that the GOU would not accept an IMF solution for Uruguay's economic and financial ills. He outlined

instead a program including foreign exchange and credit controls, severe import restrictions and comprehensive control of export proceeds. Vasconcellos neglected to mention devaluation, but the effectiveness of the system he outlined obviously depends on prompt devaluation to realistic levels. The new program represents a turn away from sound policies and consequently we must postpone indefinitely the negotiations for a \$15 million agricultural sector loan (July 14 Report, item 12).

General Strike - The 24-hour general strike on July 20 was fairly effective in disrupting private banking, retail trade, industrial production, and transportation, but it did not meet its communist sponsors' expectations. Essential services were maintained, though at a reduced level, and there was no violence. Worker response to the strike call was probably more a reflection of resentment against the GOU's failure to resolve long-standing economic problems than support for communist-line economic and political proposals.

13. U.S. Refuses to Authorize UK Sale of Canberras to Peru - We have informed HMG that we oppose the sale of Canberra bombers to Peru. (Six planes costing \$6.3 million are involved. Five have U.S. financial ties and cannot be sold without our permission.) Our primary reason is that Peru cannot afford the purchase and we cannot be put in the position of financing it through program loan assistance. The British, who do not wish to lose this sale and also feel that loss of the contract could prejudice future sales, have asked us to reconsider our position, but we have stated that it is firm.

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