

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

WHORM Subject File Code: IT044 (International
Monetary Fund)

Case file Number(s): 345758-439999

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library inventories visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

WITHDRAWAL SHEET

Ronald Reagan Library

Collection: WHORM Subject File

Archivist: cas/cas

File Folder: IT044 (345758 - ~~489000~~)

Date: February 19, 1997

439999

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. letter (356408)	Edward Seaga, P.M. of Jamaica, to Jacques de Larosiere re Jamaica programme (7 pp.)	10/15/85	P1
2. cable (356408)	241956 (3 pp.) R 1/20/06 F95-043/1 #13	10/24/85	P1
3. cable (356408)	232047 (1 pp., partial) R 2/5/05 F95-043/1 #14	10/23/85	P1
4. cable (356408)	182123 (2 pp.) R 2/5/05 F95-043/1 #15	10/18/85	P1
4. cable (356408)	182123 (1p.) same as #4	10/18/85	P1
5. memo (356408)	Clark Ellis to Mrs. Constable re Jamaica IMF program (4 pp.)	10/18/85	P1
6. memo (401661)	Alfred Kingon to Don Regan re IMF - World Bank meetings (4 pp., incl copy)	9/24/86	P1
7. transmittal memo (401661)	(1 pp.) R 10/20/2010 F95-043/1 #19	1/13/87	P1
8. cable (459967)	010131 (1 pp.) R 2/5/03 F95-043/1 #21	1/1/87	P1
9. cable (459967)	191208 (1 pp.) R 1/20/06 F95-043/1 #23	12/19/86	P1
10. memo (459967)	Nicholas Platt to Dr. Alton G. Keel re draft response to letter from Dutch P.M. Lubbers (1 pp.)	12/27/86	P1

RESTRICTION CODES

- Presidential Records Act - [44 U.S.C. 2204(a)]**
- P-1 National security classified information [(a)(1) of the PRA].
 - P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
 - P-3 Release would violate a Federal statute [(a)(3) of the PRA].
 - P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
 - P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
 - P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].
 - C. Closed in accordance with restrictions contained in donor's deed of gift.

- Freedom of Information Act - [5 U.S.C. 552(b)]**
- F-1 National security classified information [(b)(1) of the FOIA].
 - F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
 - F-3 Release would violate a Federal statute [(b)(3) of the FOIA].
 - F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
 - F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
 - F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
 - F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
 - F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

8381

C.F.

356408

3100

3200

IT044

CO077

PH006-12

WST



EMBASSY OF JAMAICA

1850 K STREET, N.W.

SUITE 355

WASHINGTON, D.C. 20006

TELEPHONE: (202) 452-0660

REF. NO.

October 17, 1985

Dear Mr. McFarlane:

I have the honour to forward to you, as requested, a copy of my Prime Minister's letter of 15th October, 1985 to Mr. Jacques de La Rosiere, Managing Director of the International Monetary Fund.

Sincerely,

Keith Johnson
Keith Johnson
Ambassador

Mr. Robert C. McFarlane
Adviser to the President
for National Security Affairs
Old Executive Office Building
17th & Pennsylvania Avenue, N.W.
Washington, D.C.

Enc.

Edward Seaga

N5C#8508381



Jamaica

Office of the Prime Minister

Jamaica House
Kingston

October 15, 1985

Dear Mr de la Rosiere,

I have just received a Memorandum summarising discussions between the Governor of the Bank of Jamaica, Mr. Horace Barber, and staff of the IMF in Washington over the past two weeks.

The essential point is that there has been deterioration in the external accounts targets of an estimated US\$100 million to the end of this Programme year. This is largely due to excessive imports which preliminary indications show to be principally in the consumer goods category.

As a consequence of this slippage, it is proposed that demand be contained through a reduction of purchasing power by J\$300 million or one-half the domestic currency equivalent of the US\$100 million deterioration in the external accounts.

To give effect to this, a series of price movements would be required:

- (1) Basic food items by 25% plus 3% per month for one year;
- (2) Petroleum products 15%, in addition to which any further deterioration in the costs (exchange rate etc.) would be passed on monthly.

This prescription is strictly in keeping with the demand management policies which have governed this Jamaica programme.

DECLASSIFIED / RE/CLASSIFIED
NLS E95-043/1 #13
BY CU NARA DATE 1/20/06

These policies have had the desired impact on the management of the economy by containing inflationary and exchange rate movements. However, I wish to draw your attention to the undesirable features of excessive reliance on demand management:

- (1) The compression policy has resulted in driving interest rates to 30%-35%. The result is a severe downturn of investment and a project rate of growth for the Programme year of minus 6%, more than wiping out all the positive growth of the last 4 years;
- (2) The broad sweep compression of demand has not sufficiently contained imports. The result is that the exchange rate has moved to levels well beyond what is required for competitiveness. The current rate of exchange is \$6.10 after a series of 12 consecutive movements, and there is no sign of containment of the deterioration;
- (3) The consequence of deterioration of the exchange rate is further price movements, as proposed by the current examination. The result of the last series of price movements in petroleum in January was street demonstrations which resulted in adverse publicity on Jamaica causing an estimated loss of US\$50 million in tourism earnings. As a consequence, foreign exchange earnings in the tourism sector for last year did not show any gain over the previous year, and the estimate is that this

year will show a further deterioration. Our Public Relations Agents, Ruder, Finn & Rotman, one of the industry leaders, has advised that any further adverse publicity on Jamaica from street demonstrations would cause damage to Jamaica's tourism programme which would be irreversible for 3 to 4 years, and they would advise the Government to cease further expenditure on tourism promotion since this could not yield fruitful results.

The facts are that:

- (1) the leading export earning sector of the Jamaican economy is projected to show a deterioration in earnings in 1985-86 over the level achieved 2 years ago in 1983-84, as a result of the demonstrations in January 1985; if there are more demonstrations, the position would be worse.
- (2) the Jamaican economy is projected to show minus 6% growth this year, wiping out all the 4 previous years of positive growth;
- (3) the level of social and political stability has been reduced to a most fragile condition capable of erupting on any instance of further price movements.

I ask you to consider that any programme which produces as an end result negative growth, social/political instability and stagnation of the principal foreign exchange earning sector cannot be on the right path. The conclusion can be drawn that

the strategies of the Jamaica programme needs re-thinking.

I wish to set out an alternative course which I consider will restore growth and avoid price increases, while retaining the positive features of the current strategies, particularly the price competitiveness of the rate of exchange of the Jamaican dollar.

I believe that the containment of imports can be accomplished by selective instruments rather than the broad sweep compression of demand which also has the undesirable consequence of depressing investment and growth.

These instruments are:

- (1) all consumer goods imports to be restricted to the use of approved credit facilities of at least 1 year repayment terms;
- (2) the local currency equivalent of consumer goods imports to be deposited when the import orders are placed and to remain on deposit over the duration of the credit;
- (3) further import tariffs to be applied to consumer goods as a deterrence.

These measures should very significantly reduce consumer imports, and, in so doing, reduce pressure on the exchange rate. It is expected that (I have asked for an analysis to be done) the reduced pressure on the rate would enable a reversal of the depreciation of the exchange rate to a level able to retain competitiveness and to provide positive rather than negative flows to the public enterprises, Jamaica Commodity Trading Corporation (JCTC) and Petrojam responsible for the importation of basic foods and petroleum.

The further result would be a lowering of the fixed savings rate, gradually, to enable the lending rate to be restored to a level conducive to investment.

While I consider that the assumptions of these proposals need some analytical substantiation, which is being undertaken, the point I wish to make is that serious thought must be given to reviewing the objective of the Jamaica programme to restore growth, and improve stability while retaining the positive features of reducing the fiscal deficit, improving the foreign exchange balances and retaining competitiveness on a slower timetable.

I ask that you consider the dangerous implications of any further price movements and rule out this course of action which could imperil the entire future of the economy by irreversibly affecting tourism earnings for the next few years.

At any rate as you are aware, we have had a succession of increases in prices over the past 3 years and have now reached the level beyond which it is impossible to go.

Consider the following income levels of the Jamaican population as produced by the Lampman study:

<u>Segment of Households</u>			<u>Mean Weekly Income</u>	
			<u>J\$</u>	<u>US\$</u>
Lowest	20%		22.50	3.70
2nd	"	20%	45.00	7.40
3rd	"	20%	97.8	16.00

As these figures clearly show the bottom 60% of the population earns a mean income of no more than US\$16 per week, of which the bottom 20% segment earns an impoverished US\$3.70 per week mean income.

I tell you frankly I can extract no more sacrifice from these vulnerable income groups which comprise 60% of the households of the country. Malnutrition is now becoming a serious problem. We are reducing 8 of the 12 hospitals in the country to out patient clinics. Both teachers and students are showing

the impact of increase costs by reduced attendance. Increases in electricity rates recently have resulted in the numerous cancellations of electricity services.

Jamaica has made the ultimate sacrifice to demand management policies. We have complied with all the strategies for structural adjustment of the economy, deregulation, and stabilisation. The result has been negative growth and social instability. These cannot be the objectives of any rational programme.

The answer to the present problem cannot be more demand management. I cannot accept this prescription and cannot pursue this course any longer.

The combined programmes of the IMF, World Bank and AID will have served in the process of stabilising, restructuring and deregulating the Jamaican economy to improve export earnings by US\$270 million between 1980 and 1985. But over the same period the deterioration in earnings from the Bauxite/Alumina sector will be US\$500 million - one step forward, two steps backwards as a result of international market forces beyond our making and outside of our control.

I believe an alternative is possible to restore growth, improve stability, retain competitiveness and pursue the other main objectives of the original programme if the supply side is relaxed and selective controls used to replace broad based demand management.

One thing is certain, we cannot continue on the present course.

I ask you therefore to confer with the President of the World Bank, and the Administrator of AID to appoint a team of persons with "fresh eyes" to urgently review the Jamaica programme as a special case.

I stand ready to assist this team and, prior to or after the mission as you consider appropriate if you wish me to meet with your good self, the President of the World Bank and

the Administrator of AID to elaborate on my views or discuss findings of the team, I would be available to do so.

Please be assured of my full cooperation.

I am copying this letter to President Clausen of the World Bank and Mr. Peter McPherson, Administrator of AID because of the implications of the proposals I have made.

I would be much obliged to have your early response.

Thanking you for your kind cooperation.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Edward Seága', written in a cursive style.

Edward Seága
Prime Minister

Mr. Jacques de Larosiere,
Managing Director,
International Monetary Fund,

ACTION COPY

~~CONFIDENTIAL~~
Department of State

INCOMING TELEGRAM

PAGE 01 OF 03 KINGST 10471 00 OF 04 250447Z 2288 ARA3042
ACTION ARA-00

KINGST 10471 00 OF 04 250447Z 2288 ARA3042

ACTION OFFICE JM-02
INFO FILE-01 ARA-04 ADD-01 RPP-02 DCAR-01 DEP-02 /B13 A3 DM

INFO LOG-00 COPY-01 ADS-00 SSO-00 ONY-00 /001 V
-----137336 250449Z /21 R

R 241956Z OCT 85
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 2621

~~CONFIDENTIAL~~ KINGSTON 10471

STADIS////////////////////////////////////

E.O. 12356: N/A
TAGS: ECON, EAID, EFIN, PREL, JM
SUBJ: SEAGA AND THE IMF PROGRAM

REF: A) STATE 322717, B) KINGSTON 10345

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT

--SUMMARY--

2. AGAINST THE BACKGROUND OF BOTH WIDESPREAD DISCONTENT EXACERBATED BY THE J-DOLLAR'S FURTHER DECLINE OVER THE PAST TWO MONTHS AND THE JANUARY DISTURBANCES OVER FUEL PRICE INCREASES, PRIME MINISTER SEAGA APPEARS UNDERSTANDABLY RELUCTANT TO RAISE FUEL PRICES AGAIN BY TEN PERCENT PLUS, AS REQUIRED IMMEDIATELY UNDER THE TERMS OF THE IMF STAND-BY. MORE GENERALLY, HE MAINTAINS THAT IN VIEW OF THE WIDENING OF THE FOREIGN EXCHANGE GAP WITH THE SHARP DECLINE IN BAUXITE/ALUMINA EARNINGS, PRICE-RELATED ELEMENT OF STRINGENT DEMAND MANAGEMENT POLICIES IMPOSED AS PART OF THE IMF PROGRAM ARE DRIVING JAMAICA INTO NEGATIVE GROWTH AND POLITICAL INSTABILITY.

3. IN HIS LETTER OF OCTOBER 15 TO IMF MANAGING DIRECTOR DE LAROSIERE SEAGA HAS OUTLINED THESE VIEWS AND WARNED THAT HE COULD NOT CONTINUE TO PURSUE A COURSE RELYING EXCLUSIVELY ON DEMAND MANAGEMENT. WHILE NOT REJECTING THE CURRENT IMF PROGRAM, HE PROPOSES ADDITIONAL MEASURES INVOLVING REDUCTION OF IMPORTS BY RESTRICTING CONSUMER IMPORTS TO THOSE COMING IN UNDER CREDITS OF A YEAR OR MORE AND SUBJECTING THEM TO AN IMPORT DEPOSIT SCHEME AND HIGHER DUTIES.

4. IN OUR VIEW SEAGA'S DIAGNOSIS IS POLITICALLY WELL FOUNDED. IN THE STARK LIGHT OF THE POLITICAL EXIGENCIES THAT SEAGA FACES, EMBASSY/USAID RECOMMEND THAT THE IMF BE ENCOURAGED TO ACCEPT HIS REQUEST FOR A FRESH LOOK AT THE POLICY PACKAGE (BUT WITH AID PARTICIPATION ONLY ON AN INFORMAL BASIS), THAT THE IMF FIND A DEVICE TO POSTPONE THE IMMINENT FUEL PRICE INCREASES, THAT THE IMF PERMIT SOME TEMPORARY RUN-UP OF EXTERNAL PAYMENT ARREARS, AND THAT THE NET DOMESTIC ASSETS TARGET BE INCREASED MODERATELY. THE DEPARTMENT MAY ALSO WISH TO CONSIDER APPROACHING THE NSC REGARDING A FURTHER PURCHASE OF BAUXITE FOR THE GSA STOCKPILE.

--SEAGA'S DIAGNOSIS--

5. WE SHARE SEAGA'S CONCERN THAT THE PRICE-RELATED ELEMENTS IN THE STRINGENT DEMAND MANAGEMENT POLICIES IMPOSED BY THE IMF ARE DRIVING JAMAICA TOWARD SOCIAL AND POLITICAL INSTABILITY. UNDER THE FORMULA AGREED WITH THE IMF AS PART OF THE CURRENT STAND-BY ARRANGEMENT HE WILL HAVE TO RAISE FUEL PRICES WITHIN THREE WEEKS (REF. B PROVIDES BACKGROUND). AGAINST THE BACKGROUND OF MOUNTING DISCONTENT IN THE WAKE OF THE

JAMAICAN DOLLAR'S 8.7 PERCENT DEPRECIATION AGAINST THE U.S. DOLLAR SINCE AUGUST 31, SEAGA IS UNDERSTANDABLY LOATHE TO UNDERTAKE THE REQUIRED TEN-PERCENT-PLUS RISE IN FUEL PRICES, THE FIRST SINCE THE JANUARY INCREASES THAT PRECIPITATED DEMONSTRATIONS FROM WHICH THE TOURIST INDUSTRY HAS YET TO RECOVER. AS THIS MISSION HAS REPORTED, THE OPPOSITION PARTIES ARE READY TO MOUNT STREET DEMONSTRATIONS AS SOON AS AN INCREASE IS ANNOUNCED.

6. MORE GENERALLY, SEAGA ARGUES THAT THE DRASTIC CONTRACTION OF DOMESTIC DEMAND THAT THE IMF IS PURSUING WILL NOT ELIMINATE THE FOREIGN EXCHANGE GAP STEMMING FROM THE BAUXITE/ALUMINA INDUSTRY'S CRISIS, BUT WILL PRECIPITATE A SEVERE DOWNTURN OF INVESTMENT, A FURTHER DECLINE IN GDP, FURTHER DECLINE OF THE J-DOLLAR, CONTINUED INFLATION AND DECLINE IN PURCHASING POWER, SOCIAL AND POLITICAL INSTABILITY AND FURTHER DETERIORATION OF THE TOURISM INDUSTRY, THE PRINCIPAL FOREIGN EXCHANGE EARNING SECTOR.

7. IMF RESREP AND VISITING IBRD COUNTRY ECONOMIST (PROTECT) BOTH HAVE TOLD US THAT SEAGA'S TREATMENT OF OUTGOING BOJ GOVERNOR BARBER'S EARLY OCTOBER DISCUSSIONS WITH FUND OFFICIALS IN WASHINGTON IS MISLEADING. THE IMF RESREP INFORMED US THAT BARBER HAD AGREED ON MONTHLY FUEL PRICE ADJUSTMENTS AND A 30-PERCENT INCREASE IN WATER RATES, BOTH OF WHICH SEAGA APPEARS TO BE BACKING AWAY FROM.

8. ON THE OTHER HAND, WE UNDERSTAND THAT THE FUND STAFF'S VIEWS OF THE SITUATION AND GOJ POLICY ARE UNDULY NARROW, ESPECIALLY IN VIEW OF THE GOJ'S COMPLIANCE WITH ALL QUANTITATIVE PERFORMANCE REQUIREMENTS EXCEPT ON NET INTERNATIONAL RESERVES AND POSSIBLY EXTERNAL PAYMENTS ARREARS. FOR INSTANCE, THE IMF RESREP TELLS US THAT THE BALANCE-OF-PAYMENTS TARGET FOR END OF SEPTEMBER WAS MISSED BY \$21 MILLION, BUT THAT THE LATE U.S. ESF DISBURSEMENT ACCOUNTED FOR ALL BUT \$2 MILLION. IN HIS VIEW A WAIVER WOULD BE LIKELY IF THE OTHER OUTSTANDING ISSUES WERE RESOLVED. ALSO, JAMAICA'S BALANCE OF PAYMENTS HAS DETERIORATED SINCE THE OUTSET OF THE STAND-BY BUT IS NOT "WAY OFF TRACK," AS THE WASHINGTON FUND STAFF REPORTEDLY BELIEVES. THE IMF RESREP TELLS US THE FY 85/86 FOREIGN EXCHANGE GAP IS UP FROM \$30-\$40 MILLION TO \$100 MILLION. NON-OIL, NON-BAUXITE RELATED IMPORTS, PARTICULARLY CONSUMER GOODS, ARE HIGHER THAN PROGRAMED THROUGH AUGUST.

9. THE FUND STAFF'S REPORTED VIEW THAT THE GOJ HAS FAILED TO ABIDE BY ITS AGREEMENT TO RAISE PRICES OF BASIC FOODSTUFFS MONTHLY IS WELL TAKEN, BUT THE ALLEGATION THAT THE GOJ HAS FAILED TO INDEX PETROLEUM PRICES IS PREMATURE, AS IT IS ONLY NOW THAT ACCORDING TO THE PRICING FORMULA THE GOJ HAS BECOME OBLIGATED TO DO SO. FURTHER, THERE HAS BEEN A WAVE OF FOOD PRICE HIKES RECENTLY AS A DIRECT RESULT OF AID-URGED DEREGULATION JUST IMPLEMENTED. THE ACCUSATION OF "CONTINUED INTERFERENCE" WITH THE FOREIGN EXCHANGE AUCTION IS ALSO EXAGGERATED. THE MAIN MALFEASANCE, THE IMF RESREP INDICATED, IS INSTRUCTIONS TO JCTC AND OTHER PUBLIC ENTITIES TO BID AT THE GOING RATE, WHICH HAS LED TO INCREASES IN THEIR ARREARS. ALSO, THE BOJ, IN EARLY SUMMER AND AGAIN RECENTLY, HAS DELAYED PAYMENTS OF FOREIGN EXCHANGE TO BIDDERS.

10. ALTHOUGH THE GOJ PRETTY MUCH MET THE END-OF-SEPTEMBER TARGETS, THERE HAVE BEEN SOME PROBLEMS WITH ARREARS. IN AUGUST \$18 MILLION IN ARREARS HAD ACCUMULATED, BUT THEY WERE CLEARED UP IN SEPTEMBER. THE RESREP FELT THAT THIS EPISODE

NLS
BY OAS
FAS-OAS/1 #14
NARA, DATE 2/5/85

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Department of State

INCOMING
TELEGRAM

PAGE 02 OF 03 KINGST 10471 00 OF 04 250447Z
COULD BE OVERLOOKED BY THE FUND AS TRANSITORY
ARREARS ARE INEVITABLE. HOWEVER, JCTC IS CURRENTLY
\$5 MILLION IN ARREARS ON CAR PAYMENTS, AND THE FUND
HAS WARNED THE JAMAICANS THAT ARREARS OF STATE
ENTITIES WOULD BE CONSIDERED ARREARS ON THE BALANCE
OF PAYMENTS.

2288 ARA3042

KINGST 10471 00 OF 04 250447Z

2288 ARA3042

--SEAGA'S PRESCRIPTION--

11. EMBASSY/AID CONSIDER SEAGA'S PROPOSED ALTERNATIVE
APPROACH MISDIRECTED AND INSUFFICIENT AS CONSUMER GOODS
ACCOUNT FOR ONLY ONE-FIFTH OF JAMAICA'S IMPORT BILL. IN
ADDITION, AFTER HAVING REMOVED MOST LICENSING REQUIRE-
MENTS EARLIER THIS YEAR THE GOJ WOULD REINTRODUCE GOV-
ERNMENT RESTRICTIONS AND APPROVAL PROCESSES THAT WOULD
SHARPLY CURTAIL CONSUMER SOVEREIGNTY AND REQUIRE AN
ADDITIONAL BUREAUCRACY TO MANAGE THEM. WHILE FURTHER
RAISING OF IMPORT TARIFFS IS THE CLASSIC APPROACH TO
CURTAILING IMPORTS, WE TEND TO SHARE THE SKEPTICISM
OF THE IBRD COUNTRY ECONOMIST AND IMF RESREP THAT THIS
WOULD EITHER EFFECTIVELY REDUCE IMPORTS OR INCREASE
REVENUES. EVASION OF CUSTOMS IS EASY AND FREQUENT HERE.

--EMBASSY/AID VIEWS AND RECOMMENDATIONS--

12. IN OUR VIEW SEAGA IS RIGHT IN CONTENDING THAT THE
PRECIPITOUS FALL IN BAUXITE/ALUMINA EARNINGS RULES OUT
THE POSSIBILITY THAT EVER TIGHTER CONTROL OF AGGREGATE
DEMAND AND PRICE ADJUSTMENTS FOR BASIC CONSUMER GOODS
CAN STABILIZE JAMAICA'S ECONOMY UNTIL THE DECLINE IN
GDP HAS BEEN ARRESTED, AND STRUCTURAL ADJUSTMENTS ARE
IN PLACE TO PERMIT SIGNIFICANT SUPPLY-SIDE RESPONSES.
THE WRENCHING CHANGING OF ATTITUDES AND EXPECTATIONS,
BUILDING OF SKILLS, AND ACQUISITION OF CAPITAL THAT
ARE REQUISITE ARE NOT POSSIBLE IN JAMAICA IN A SHORT-
TERM TIME FRAME.

13. MEANWHILE, THE DECLINES IN PURCHASING POWER AND
SOCIAL SERVICES ARE CAUSING SEVERE HARDSHIPS AMONG
POORER JAMAICANS AND FRUSTRATION AND INCREASING EMIGRA-
TION AMONG THE MIDDLE CLASS. FURTHERMORE, THE RISK
GROWS THAT THE CONTINUING PURSUIT OF SOME OF THE IMF
POLICIES APPROPRIATE TO THE LONGER TERM WILL LEAD TO
MORE UNREST, EXPORT OF CAPITAL, AND SHORTFALLS IN
BUSINESS AND OTHER SKILLS. WE BELIEVE THAT FOR THE
PRESENT THE NEAR-TERM POLITICAL AND SOCIAL REPERCUS-
SIONS LIKELY TO BE ENGENDERED BY FURTHER DEPRECIATION
OF THE DOLLAR AND THE REQUIRED RISE IN FUEL PRICES
OUTWEIGH THE LONGER-TERM BENEFITS OF THE RESULTING
STRUCTURAL ADJUSTMENT.

14. WHILE THERE IS NO WAY TO BE SURE, WE THINK THAT
SEAGA'S REFUSAL TO CONTINUE TO PURSUE ELEMENTS OF THE
IMF PROGRAM IS SINCERE THOUGH PROBABLY MORE A REFLEC-
TION OF FRUSTRATION WITH SHORTER-TERM SOCIAL AND
POLITICAL CONSEQUENCES THAN OF DOUBTS ABOUT THE PROGRAM'S
PURELY ECONOMIC EFFICACY. THE VIEWS IN HIS LETTER ARE
CONSISTENT WITH HIS ADVOCACY AT THE RECENT IMF/IBRD
ANNUAL MEETING IN SEJOL OF A LONGER TIME FRAME FOR IMF
SUPPORT.

15. THE TONE OF THE RELATIONSHIP WITH THE IMF IS
PROBABLY ALSO A FACTOR. SEAGA HAS FOLLOWED IMF PRECEPTS
RELATIVELY FAITHFULLY IF NOT EAGERLY. YET HE HAS
RECEIVED LITTLE POSITIVE REINFORCEMENT FROM TOP IMF
EXECUTIVES WHILE AS FINANCE MINISTER HE ENDURES
QUARTERLY CRITICISM BUT SCANT PRAISE FROM THE TECH-
NICALLY EXCELLENT BUT RELATIVELY LOW-LEVEL IMF TEAM
FROM WASHINGTON.

16. ON THE OTHER HAND EVEN SEAGA MUST RECOGNIZE THAT
A BREAK WITH THE IMF WOULD HARM HIS RELATIONS WITH THE

PARIS CLUB, COMMERCIAL BANK LENDERS AND THE USG, CUT
OFF ACCESS TO OFFICIAL CREDIT LINES AND PRIVATE FOREIGN
INVESTMENT, AND TURN HIM TOWARD POLICIES OF BUREAU-
CRATIC IMPORT CONTROLS AND ALLOCATION OF FOREIGN EXCHANGE
ALONG LINES ADVOCATED BY THE PNP. HIS CHANCES FOR
RELECTION, ADMITTEDLY SLIM, WOULD HARDLY BE ENHANCED,
AND PNP CHORTLING WOULD BE GALLING.

17. TO DEAL WITH THIS SITUATION WE HAVE FOUR RECOM-
MENDATIONS:

D --ENCOURAGE THE IMF TO ACCEDE TO SEAGA'S REQUEST TO
A TEAM OF "FRESH EYES" TO REVIEW THE JAMAICA PROGRAM
URGENTLY. WE BELIEVE THAT IN DEFERENCE TO SEAGA'S
RESPONSIBILITIES AS PRIME MINISTER HIS REQUEST SHOULD
BE GRANTED, WHICH COULD HELP RESTORE THE TONE OF HIS
RELATIONSHIP WITH THE FUND. THE IMF PARTICIPANT SHOULD
BE A POLICY-LEVEL EXECUTIVE ABLE TO ASSESS THE POL-
ITICAL DIMENSIONS OF THE ISSUES AND ASSESS THE PROGRAM'S
MID-TERM POLITICAL SUSTAINABILITY. WE QUESTION THE
ADVISABILITY OF FORMAL AID PARTICIPATION. AID ACTIVITY
IS AN ELEMENT OF THE BILATERAL RELATIONSHIP BETWEEN THE
GOJ AND THE USG, WHEREAS THE IMF AND THE WORLD BANK
RELATE TO THE GOJ IN A BANKER-CLIENT MODE. WE THEREFORE
CONSIDER A FRIENDLY ADVISOR ROLE MORE APPROPRIATE FOR
AID THAN ONE AS A PARTICIPANT IN A PROCESS THAT COULD
LEAD TO AN AGREEMENT WE DO NOT CONTROL. MOREOVER,
THE IMF DOES NOT ENJOY WIDE POPULARITY IN JAMAICA.
ITS IMAGE COULD RUB OFF ON THE USG IF WE WERE PER-
CEIVED AS COLLABORATORS WITH THE FUND IN DEVELOPMENT
OF A PROGRAM THAT CONTINUES TO BE ASSOCIATED IN THE
PUBLIC MIND WITH ECONOMIC HARDSHIP. NEVERTHELESS
WE WOULD HOPE TO BE ACTIVELY INVOLVED IN CONSULTATIONS
AND DISCUSSIONS WITH THE FORMAL PARTICIPANTS THROUGHOUT.
--ENCOURAGE THE IMF TO TAKE INTO ACCOUNT THE OVERALL
THREAT TO IMF OBJECTIVES HERE POSED BY THE POSSIBILITY
OF ANOTHER ADVERSE REACTION TO THE IMMINENT FUEL PRICE
INCREASES, AND EITHER TOLERATE A DELAY OR ALTER THE
ARRANGEMENTS SO THAT SUBSIDIZATION OF LPG AND KEROSENE
IS FINANCED NOT FROM A TAX ON GASOLINE BUT FROM LESS
SENSITIVE SOURCES.

2 --PERMIT A RUN-UP OF EXTERNAL PAYMENT ARREARS DURING
PERIODS OF SEVERE ECONOMIC CONTRACTION INDUCED BY
EXOGENOUS FORCES. (THIS WOULD REQUIRE ADJUSTMENT
OF THE NET INTERNATIONAL RESERVE AND NET DOMESTIC
ASSET TARGETS.)

3 --CONSIDER APPROACHING THE NSC REGARDING A FURTHER
QUICK PURCHASE OF BAUXITE FOR THE GSA STOCKPILE. AN
IMMEDIATE INJECTION OF FOREIGN EXCHANGE WOULD BE THE
MOST EFFICIENT PALLIATIVE FOR SEAGA'S PROBLEMS.

18. THE UNHAPPY FACT FOR JAMAICA IS THAT THE COLLAPSE
OF THE BAUXITE/ALUMINA SECTOR HAS SIGNIFICANTLY REDUCED
THE NATION'S REAL WEALTH. ANY DOMESTIC POLICY CHANGES
CANNOT, IN THE IMMEDIATE FUTURE, ELIMINATE THE PAIN
ASSOCIATED WITH THAT FACT. IN EFFECT THEREFORE,
DISCUSSIONS OF VARIOUS POLICY SETS ARE ONLY DISCUSSIONS
OF HOW THE PAIN MIGHT BE BETTER DISTRIBUTED ACROSS THE
COMMUNITY. AND, THE POWER OF POLICY TO CONTROL EVEN
THE DISTRIBUTION OF THE PAIN IS LIMITED. THE ONLY WAY
TO OFFSET FULLY A DIMINUTION OF REAL RESOURCES IS WITH
A COMPENSATING INFUSION OF REAL RESOURCES. FAILING THIS
HOWEVER, NO DEMOCRATIC GOVERNMENT CAN IGNORE THE SOCIO-
POLITICAL IMPLICATIONS OF THE WAY A REDUCTION IN NATIONAL
WEALTH IS DISTRIBUTED. IT IS SEAGA'S JUDGMENT THAT THE
SOCIAL AND POLITICAL COSTS OF THE DISTRIBUTIONAL IMPACT
IMPLIED BY THE PRESENT POLICY COURSE ARE UNSUPPORTABLE.
IT IS WHOLLY APPROPRIATE UNDER THE CIRCUMSTANCES FOR

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Department of State

INCOMING
TELEGRAM

PAGE 03 OF 03 KINGST 10471 00 OF 04 2504472 2288 ARA3042
WIM TO EXPLORE ALTERNATIVES. THIS IS THE BASIS OF OUR
SUPPORT FOR THE POLICY REVIEW HE IS SEEKING.

(DRAFTED: ECON: MTLORIMER/APPROVED: DCH: JTSTEWART)
STEWART

~~CONFIDENTIAL~~

10/28/85

Phil

The embassy's response to the Seaga letter to the IMF. Also some related messages.

Bob Blohm

UNCLASSIFIED
Department of State

INCOMING
TELEGRAM

PAGE 01 KINGST 10477 242131Z 0336 ARA2636
ACTION ARA-00

KINGST 10477 242131Z

0336 ARA2636

LEVELS WERE NOT IMF TARGET PERFORMANCE AREAS BUT THAT TO THE EXTENT A COUNTRY DOES NOT APPEAR TO BE MEETING ITS OVERALL TARGETS, THE IMF IS "BOUND TO TAKE THAT INTO CONSIDERATION." HE SAID THAT HE HAS PUT JAMAICA'S VIEWS ON THIS ISSUE TO THE FUND AND WAS AWAITING A RESPONSE.

(DRAFTED: ECON:RLKATES/APPROVED: ECON:MTLORIMER)
STEWART

ACTION OFFICE JM-02
INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01
PPA-01 DCAR-01 DEP-02 /017 A2 RD

INFO LOG-00 COPY-01 ADS-00 AID-00 INR-10 SS-00 CIAE-00
EB-00 DODE-00 N-01 EXIN-06 NSC-01 NSAE-00 COME-00
NA-00 L-03 LAB-04 TRSE-00 PH-10 ITC-01 OPIC-07
PA-02 OMB-01 STR-20 SIL-01 FRB-01 JUS-01 USIE-00
SP-02 SNP-01 PRS-01 SLPD-01 SPD-01 /002 W

-----121544 242135Z /63

P 242120Z OCT 85
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC PRIORITY 2628

UNCLAS KINGSTON 10477

E.O. 12956: N/A
TAGS: EFIM, IMF, JM
SUBJ: PRIME MINISTER SPEAKS OUT ON SEPTEMBER IMF TEST

1. DURING AN AIRPORT PRESS CONFERENCE OCTOBER 23 UPON RETURNING FROM THREE WEEKS OF INTERNATIONAL MEETINGS, PRIME MINISTER SEAGA ANNOUNCED THAT JAMAICA WAS SEEKING A TECHNICAL WAIVER IN CONNECTION WITH THE SEPTEMBER IMF TEST. SEAGA ATTRIBUTED THE NEED FOR THE WAIVER TO THE LATE INFLOW OF USAID FUNDS. THE PRIME MINISTER'S ANNOUNCEMENT RESPONDED TO THE PEOPLE'S NATIONAL PARTY CHAIRMAN P. J. PATTERSON'S CLAIM IN A STATEMENT ISSUED OCTOBER 22 THAT JAMAICA HAD FAILED ANOTHER OF THE IMF'S QUARTERLY TESTS. THE PNP STATEMENT MAINTAINED THAT AS A CONSEQUENCE OF THE "SEPTEMBER FAILURE OF THE IMF TEST", THE PRESENT PROGRAM WAS IN LIMBO AND THAT NO ONE KNEW WHEN AND UNDER WHAT CONDITIONS THE NEXT TRANCHE WOULD BECOME AVAILABLE. PATTERSON SAID THAT THIS WAS SEAGA'S "SIXTH CONSECUTIVE" FAILURE IN LESS THAN THREE YEARS.

2. IN HIS AIRPORT PRESS CONFERENCE, SEAGA EXPLAINED THAT THE SEPTEMBER IMF TEST WOULD REQUIRE A WAIVER LIKE THE APRIL 1985 TEST AND ANOTHER TEST IN 1984. HE NOTED THAT THE PRESENT WAIVER WAS NEEDED BECAUSE A FLOW OF FUNDS EXPECTED WITHIN THE TIME PERIOD FOR THE TEST DID NOT COME IN DURING THE PERIOD. HE SAID THAT JUST BEFORE HE LEFT JAMAICA THREE WEEKS AGO HE HAD BEEN ADVISED OF A US\$30-MILLION GRANT NEGOTIATED WITH USAID IN WASHINGTON LAST SPRING, OF WHICH A PORTION HAD BEEN RECEIVED IN JULY WITH THE REMAINDER TO BE FORTHCOMING IN SEPTEMBER. THE REMAINING PORTION WAS NOT AVAILABLE IN SEPTEMBER, HE SAID, BECAUSE IT WAS THE END OF THE U.S. GOVERNMENT FISCAL YEAR. SEAGA SAID THAT HE WAS ADVISED THAT THE FUNDS WOULD BE MADE AVAILABLE AT THE BEGINNING OF THE NEW FISCAL YEAR, I.E. EARLY OCTOBER. THE PRIME MINISTER DESCRIBED THIS AS SIMPLY A TECHNICAL MATTER AND SAID HE HAS MADE THE IMF AWARE OF THE SITUATION. THE IMF IN TURN ADVISED THAT IT WOULD BE IN ORDER FOR JAMAICA TO SEEK A WAIVER UNDER THE LAPSE OF TIME PROVISION.

3. ON THE ISSUE OF THE RECENT SHARP DEPRECIATION OF THE JAMAICAN DOLLAR, SEAGA NOTED THAT SOME STUDIES HAD BEEN PREPARED DURING HIS ABSENCE WHICH HE WOULD TAKE A LOOK AT OVER THE NEXT SEVERAL DAYS. SEAGA ATTRIBUTED THE DEPRECIATION OF THE JAMAICAN DOLLAR TO THE FACT THAT IMPORTS HAVE BEEN HIGHER THAN TARGETED AND FOREIGN EXCHANGE INFLOWS FROM EXPORTS AND TOURISM HAVE BEEN LESS THAN EXPECTED. HE NOTED THAT THE GOVERNMENT WAS IN DIALOGUE WITH THE IMF "AS TO HOW ADJUSTMENT IS TO BE MADE IN TERMS OF THE SLIPPAGE (OF THE J-DOLLAR), SO THAT WE CAN MAKE THIS GOOD IN TIME FOR THE VARIOUS TEST PERIODS WHICH WILL COME." SEAGA NOTED THAT IMPORT

UNCLASSIFIED

LIMITED OFFICIAL USE
Department of State

ECRPS INCOMING
TELEGRAM

PAGE 01 OF 02 KINGST 10478 00 OF 02 250459Z 2336 ARA3057
ACTION ARA-00

KINGST 10478 00 OF 02 250459Z 2336 ARA3057

ACTION OFFICE JM-02
INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01
PPA-01 DCAR-01 DEP-02 XLE-01 /018 A2 DM
INFO LOG-00 COPY-01 ADS-00 AID-00 INR-10 CIAE-00 EB-00
DODE-00 N-01 EXIN-06 NSAE-00 LAB-04 TRSE-00 ITC-01
OPIC-07 ONB-01 STR-20 SIL-01 INM-07 AGRE-01 FRB-03
JUS-01 USIE-00 SP-02 SLPD-01 /075 V
-----137561 250500Z /21

DUDLEY, REPORTED THAT MINING HAD MET ALL PRODUCTION TARGETS AND THE PLANT COULD NOT PROCESS ENOUGH ORE TO SATISFY MARKET DEMAND. CAP, THE STATE-OWNED SUCCESSOR TO THE ALCOA OPERATION MOTHBALLED IN FEBRUARY, OPENED ON AUGUST 1 WITH ALCOA PERSONNEL MANAGING THE PLANT ON A CONTRACT BASIS. DUDLEY SAID THAT BY DECEMBER 2 CAP SHOULD BE PRODUCING AT FULL CAPACITY - A RATE OF 803,000 LONG TONS PER YEAR - FOR THE FIRST TIME IN PLANT HISTORY. UNDER ALCOA OWNERSHIP, HE NOTED, PRODUCTION RARELY CLIMBED OVER 50-PERCENT CAPACITY (400,000 TONS).

R 242135Z OCT 85
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 2629
INFO USDOC WASHDC

WHEN ASKED WHY CAP'S SITUATION DIFFERED FROM THAT OF OTHER ALUMINA FIRMS WHICH WERE EXPECTING A SLUMP IN DEMAND, DUDLEY SIDESTEPED THE QUESTION, NOTING THAT HE HAD BEEN DIRECTED TO GET THE OPERATION PRODUCING AT PEAK CAPACITY AND THAT BOTH WORKERS AND MANAGEMENT WERE RESPONDING TO THE CHALLENGE.

LIMITED OFFICIAL USE KINGSTON 10478

E.O. 12356: N/A
TAGS: ETRD, EMIN, EIND, EFIN, EAGR, JM
SUBJ: JAMAICAN ECONOMICS AND BUSINESS NO. 86
- THE WEEK IN REVIEW OCTOBER 17-23, 1985

4. BUSINESS GROUP SUGGESTS ECONOMIC ALTERNATIVE

1. THIS WEEK'S TOPICS INCLUDE:

- FIFTEEN-PERCENT INCREASE IN WINTER TOURISTS PROJECTED
- PRODUCTION BOOMING AT GOVERNMENT ALUMINA PLANT
- BUSINESS GROUP SUGGESTS ECONOMIC ALTERNATIVE
- CONSUMER GROUP THREATENS BOYCOTT
- GOVERNMENT TO REGULATE PESTICIDE USE

REACTING TO THE CONTROVERSY SURROUNDING THE CURRENT GOVERNMENT'S ECONOMIC POLICIES AND THE OPPOSITION PEOPLE'S NATIONAL PARTY (PNP) PROPOSED ECONOMIC ALTERNATIVE, A LOCAL BUSINESS LOBBY, THE PRIVATE SECTOR ORGANIZATION OF JAMAICA (PSOJ), OFFERED ITS OWN BLUEPRINT FOR LONG-TERM ECONOMIC PROGRESS. THE PLAN, DESCRIBED BY PSOJ SPOKESMEN AS A MARKET-ORIENTED PHILOSOPHICAL PRESCRIPTION, WOULD REDUCE THE ROLE OF THE GOVERNMENT IN THE ECONOMY AND ENCOURAGE MORE PRIVATE SECTOR PARTICIPATION. THE PLAN WOULD SEEK TO REDRESS THE CHRONIC SHORTAGE OF FOREIGN EXCHANGE THROUGH A PACKAGE OF INCENTIVES DESIGNED TO STIMULATE THE RAPID GROWTH OF EXPORTS. IN ADDITION, THE PSOJ ALTERNATIVE CALLED FOR A RESTRUCTURING OF THE COUNTRY'S INTERNATIONAL DEBT, A MORE EFFECTIVE CUSTOMS SYSTEM, AND INVESTMENT TAX REFORM. THE GROUP PROMISED TO RELEASE DETAILED POLICY PAPERS AND TO HOLD A SERIES OF ARGUING PUBLIC PRESENTATIONS IN AN EFFORT TO PROMOTE ITS IDEAS.

2. FIFTEEN-PERCENT INCREASE IN WINTER TOURISTS PROJECTED

ACCORDING TO SENATOR HUGH HART, MINISTER OF MINING, ENERGY, AND TOURISM, THE GOVERNMENT ANTICIPATES A RECORD TOURIST SEASON THIS WINTER WITH 15 PERCENT MORE VISITORS THAN LAST YEAR'S TOTAL. HART OBSERVED THAT THE PRESTIGIOUS MAZDA GOLF TOURNAMENT, TO BE HELD DECEMBER 16-21 NEAR MONTEGO BAY, SHOULD PROVIDE A ROUSING START FOR THE SEASON BECAUSE THE CABLE SPORTS CHANNEL ESPN HAS SCHEDULED EXTENSIVE TELEVISION COVERAGE OF THE EVENT IN THE UNITED STATES, WEST GERMANY, AND JAPAN. THE PUBLICITY SURROUNDING THE TOURNAMENT, ALONG WITH THE MARKETING OF GOLF TOUR PACKAGES, SHOULD ATTRACT NUMEROUS GOLF ENTHUSIASTS FROM THE U.S. AND JAPAN, HE SAID.

5. CONSUMER GROUP THREATENS BOYCOTT

HART URGED JAMAICANS TO SHOW TOURISTS THE COUNTRY'S "NATURAL INSTINCTS OF HOSPITALITY," AND REFRAIN FROM HARASSING THE WINTER ARRIVALS. HE STATED THAT HE DID NOT THINK THAT THE UPCOMING LOCAL GOVERNMENT ELECTIONS, WHENEVER HELD, WOULD HAVE ANY EFFECT ON THE TOURIST SEASON.

THE NATIONAL CONSUMER LEAGUE (NCL) HAS WARNED THE GOVERNMENT THAT IT PLANS TO URGE A BOYCOTT OF CERTAIN ITEMS IF THE PRICES OF THE BASIC NECESSITIES - FOOD, ELECTRICITY, AND HEALTHCARE AND PHARMACEUTICALS - DO NOT STABILIZE. AN NCL SPOKESWOMAN CHARGED THAT THE LATEST ROUND OF FOOD PRICE INCREASES REFLECTED THE SEAGA GOVERNMENT'S "DISREGARD FOR HUMAN WELFARE," AND STATED THAT THE GOVERNMENT SHOULD EITHER DISASSOCIATE THE COST OF BASIC FOODSTUFFS FROM THE ONGOING DEVALUATION OF THE JAMAICAN DOLLAR OR SIMPLY IMPOSE PRICE CONTROLS. THE GROUP PLANS A SERIES OF MEETINGS TO DISCUSS ISSUES OF CONSUMER CONCERN, WITH THE FIRST SET FOR OCTOBER 31.

IN HIS OCTOBER 20 GLEANER COLUMN, MORRIS CARGILL DISAGREED WITH THE GOVERNMENT'S ROSY PROJECTIONS, STATING THAT HE THOUGHT THE TOURIST TRADE MIGHT PROVE A FLOP THIS SEASON. CARGILL CONTENDED THAT THE PROMOTION OF LOW PRICED TOURS TO JAMAICA ATTRACTED THE WRONG TYPE OF VISITORS - "INDENTURED TRAVELLERS, FIXED WITHIN THE FRAMEWORK OF THEIR CUT-PRICE ADVENTURES, LIKE SO MANY IMPORTED COOLIES." INSTEAD OF OFFERING "PACKAGED POVERTY," HE WOULD HAVE TOUR OPERATORS CONCENTRATE ON THE UPSCALE, BIG-SPENDER MARKET.

6. GOVERNMENT TO REGULATE PESTICIDE USE

3. PRODUCTION BOOMING AT GOVERNMENT ALUMINA PLANT

IN AN OCTOBER 22 GLEANER INTERVIEW, THE DIRECTOR OF CLARENDON ALUMINA PRODUCTIONS LTD. (CAP), MR. E. GERRY

CITING THE ECOLOGICAL DANGER POSED BY UNRESTRICTED PESTICIDE USE, ERROL ANDERSON, MINISTER OF PUBLIC SERVICE, ANNOUNCED THAT THE GOVERNMENT HAD DECIDED TO ENACT A STATUTE REGULATING THE ENTRY OF THESE CHEMICALS INTO THE ENVIRONMENT. ANDERSON'S ANNOUNCEMENT ADOPTS THE RECOMMENDATION OF A HIGH-LEVEL SCIENTIFIC ADVISORY PANEL CONVENED BY THE GOVERNMENT TO EXAMINE THE ISSUE OF TOXIC CONTAMINATION OF THE ECOSYSTEM AND SURFACE WATERS. THE PANEL NOTED THAT THE LEVEL OF PESTICIDE RESIDUES FOUND IN SOME STREAMS MIGHT PROVE HARMFUL TO THE ENVIRONMENT. ALTHOUGH THE LAW UNDER CONSIDERATION WAS DRAFTED IN 1975, ONLX NOW HAS IT BEEN SLATED FOR

~~LIMITED OFFICIAL USE~~
Department of State

INCOMING
TELEGRAM

PAGE 01 KINGST 10412 232047Z 6037 ARA2145
ACTION SIL-01

INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01
PPA-01 DCAR-01 DEP-02 JM-02 XLE-01 /018 A3 DM

INFO LOG-00 COPY-01 ADS-00 AID-00 INR-10 SS-00 CIAE-00
EB-08 DODE-00 H-01 EXIM-06 NSC-01 ARA-00 NSAE-00
COME-00 LAB-04 TRSE-00 ITC-01 OPIC-07 CEA-01 OMB-01
STR-20 FRB-03 JUS-01 USIE-00 SP-02 SNP-01 SLPD-01
SPD-01 /071 W

-----054755 240452Z /16
R 232047Z OCT 85
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 2581
INFO AMEMBASSY BRIDGETOWN

~~LIMITED OFFICIAL USE KINGSTON 10412~~

E. O. 12356: N/A
TAGS: ELAB, PGOV, EFIN, JM
SUBJ: TRADE UNION LEADER TREVOR MUNROE: "END IMF
- AGREEMENT"

1. THE OCTOBER 21 DAILY GLEANER REPORTED UNIVERSITY AND ALLIED WORKERS UNION (UAWU) PRESIDENT TREVOR MUNROE'S CALL FOR AN END TO JAMAICA'S PRESENT IMF AGREEMENT. DURING THE UAWU'S SEVENTH ANNUAL DELEGATES' SEMINAR HELD OCTOBER 19 AT THE TRADE UNION EDUCATION INSTITUTE AT THE UNIVERSITY OF THE WEST INDIES (UWI)-MONA, DR. MUNROE SAID THIS MOVE WOULD BE THE FIRST STEP TO HALTING THE SLIDE IN THE VALUE OF THE JAMAICAN DOLLAR.
2. UNION LEADER MUNROE IS ALSO GENERAL SECRETARY OF THE WORKERS PARTY OF JAMAICA (WPJ) AND A SENIOR LECTURER IN POLITICAL SCIENCE AT UWI. HE WAS ADDRESSING THE TOPIC "PROBLEMS AND PROSPECTS OF WORKING CLASS UNITY IN JAMAICA" AND MADE A RENEWED CALL FOR THE ESTABLISHMENT OF A NATIONAL ECONOMIC COUNCIL. THIS COUNCIL WOULD INCLUDE REPRESENTATIVES FROM THE POLITICAL PARTIES, TRADE UNIONS, PRIVATE SECTOR, PROFESSIONAL ASSOCIATIONS, AND THE CLERGY AND WOULD AMONG OTHER THINGS MAKE DECISIONS ON FURTHER IMF AGREEMENTS.
3. MUNROE SAID, AS A RESULT OF IMF DEMANDS ON JAMAICA, AT LEAST HALF OF THE FOREIGN EXCHANGE PURCHASED FOR THE AUCTIONS BY THE BANK OF JAMAICA FROM COMMERCIAL BANKS WAS BEING USED TO PAY FOREIGN DEBT.
4. (LOU) COMMENT: MUNROE IS NOTED AMONG HIS FELLOW UNION COLLEAGUES AS A HIGHLY EFFECTIVE ORGANIZER. HIS CALL FOR AN END TO JAMAICA'S IMF AGREEMENT MAY BE AN ATTEMPT TO INCREASE THE UAWU ROLLS. IT IS CERTAIN TO APPEAL TO A WIDER AUDIENCE THAN IS NORMALLY SUPPORTIVE OF HIS UNION OR THE WPJ. WITH THE FICKLE NATURE OF MOST JAMAICA WORKERS AND THE HOSTILITY MANY OF THEM FEEL TOWARD THE IMF, MUNROE'S TACTIC MAY BE SUCCESSFUL.
(DRAFTED: POL: PBRIDGEWATER/APPROVED: POL: DIKEMP)
STEWART

DECLASSIFIED

NLS

195-0431 #15

BY

Col

NARA, DATE

2/5/03

~~LIMITED OFFICIAL USE~~

ACTION
COPY

~~CONFIDENTIAL~~
Department of State

INCOMING
TELEGRAM

PAGE 01 KINGST 10345 00 OF 02 191809Z 6499 ARA9638
ACTION ARA-00

KINGST 10345 00 OF 02 191809Z 6499 ARA9638
NATIONAL PETROLEUM PRICES RISE OR THE JAMAICAN DOLLAR DEPRECIATES.

ACTION OFFICE JM-02
INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01
PPA-01 OCAR-01 DEP-02 XLE-01 /018 A3 DM

INFO LOG-00 COPY-01 ADS-00 AIO-00 INR-10 CIAE-00 EB-00
DODE-00 N-01 EXIM-06 NSAE-00 COME-00 LAB-04 TRSE-00
EPA-01 ITC-01 OPIC-07 OMB-01 STR-20 SIL-01 FRB-03
JUS-01 USIE-00 SP-02 DDEE-00 /067 W
-----214641 191810Z /41

R 182123Z OCT 85
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 2541

~~CONFIDENTIAL~~ KINGSTON 10345

E.O. 12356: DEB:OADH
TAGS: ECON, EFIN, ECT, EGOV, JM
SUBJ: RUMORS ON GAS PRICE HIKE

REF: KINGSTON 9834

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT

2. SUMMARY: WITH THE DEPRECIATION OF THE J-DOLLAR IN RECENT WEEKS, PUBLIC SPECULATION ABOUT ANOTHER INCREASE IN THE PRICE OF FUEL PRODUCTS IS RIFE. AS LAST JANUARY'S DEMONSTRATIONS INDICATE, OF ALL BASIC COMMODITIES IT IS INCREASES IN THE PRICES OF FUEL PRODUCTS, WIDELY USED FOR COOKING AS WELL AS TRANSPORT, THAT ARE THE MOST SENSITIVE. OUR DISCUSSIONS WITH BANK OF JAMAICA AND IMF OFFICIALS, AS WELL AS WITH LOCAL PETROLEUM INDUSTRY SERVICES, INDICATE THAT A PRICE INCREASE IS NEEDED IF THE GOJ IS TO REMAIN IN COMPLIANCE WITH THE ARRANGEMENT ON PETROLEUM PRICES CONTAINED IN THE CURRENT STANDBY AGREEMENT WITH THE IMF. A BANK OF JAMAICA DEPUTY GOVERNOR INDICATED THAT A PRICE INCREASE COULD COME IN THE NEXT THREE WEEKS. THERE IS SOME QUESTION, HOWEVER, WHETHER THE GOJ HAS THE POLITICAL WILL TO ANNOUNCE PRICE INCREASES AT THIS TIME OR WILL TRY TO HOLD OFF UNTIL EARLY NEXT SPRING WHEN THE CRUCIAL TOURIST SEASON IS ABOUT OVER. END SUMMARY.

3. SPECULATION ABOUT A PRICE INCREASE FOR GASOLINE, DIESEL FUEL, LPG AND KEROSENE CONTINUES UNABATED NOW THAT THE EXCHANGE RATE HAS SHATTERED THE PSYCHOLOGICAL BARRIER OF J\$6.00 EQUALS US\$1.00. (THE CURRENT EXCHANGE RATE IS J\$6.27 EQUALS US\$1.00.) OFFICIALLY THE GOVERNMENT HAS NOT REACTED TO THE SPECULATION. HOWEVER, ACCORDING TO THE OCTOBER 13 GLEANER, A SOURCE AT THE PETROLEUM CORPORATION OF JAMAICA (PETROJAM) INDICATED THAT THE PRESENT RATE OF EXCHANGE MEANS THAT THE PRICE OF PETROLEUM PRODUCTS MUST BE LOOKED AT IMMEDIATELY. OFFICIALS AT THE MINISTRY OF ENERGY AND MINING WOULD NOT TALK TO THE GLEANER.

4. ACCORDING TO A PETROLEUM INDUSTRY SOURCE, WHEN THE GOVERNMENT SET NEW PRICES LAST JANUARY, IT THOUGHT IT WAS BUYING A CUSHION OF AT LEAST 18 MONTHS BEFORE ANOTHER ROUND OF PRICE HIKES WOULD BE REQUIRED. THE GOJ ASSUMED THAT WHEN THE JAMAICAN DOLLAR REACHED J\$6.50 EQUALS US\$1.00 AN UPWARD ADJUSTMENT WOULD BE MADE. GOJ ESTIMATES WERE THAT THE RATE AT THE END OF 1985 WOULD BE J\$6.00 EQUALS US\$1.00 AND REACH J\$6.50 IN JULY 1986. THE DECLINE OF THE LOCAL CURRENCY HAS BEEN MUCH FASTER THAN PROJECTED, HOWEVER. MOREOVER, THE UNANTICIPATED COMBINATION OF A DECLINE IN CONSUMPTION OF GASOLINE AND DIESEL FUEL AND INCREASE IN CONSUMPTION OF KEROSENE, WHICH IS SUBSIDIZED BY A SURCHARGE ON GASOLINE AND DIESEL FUEL, HAS PUT PRESSURE ON THE STABILIZATION FUND SET UP TO KEEP PRICES OF FUEL PRODUCTS STABLE WHENEVER INTER-

UNDER AN ARRANGEMENT BETWEEN THE GOJ AND IMF CONTAINED IN THE CURRENT STANDBY AGREEMENT, PRICES OF FUEL PRODUCTS SHOULD BE ADJUSTED ACCORDING TO AN AGREED FORMULA BASED ON MAXIMUM AND MINIMUM ANNUAL RATES OF ACCRUAL INTO THE STABILIZATION FUND OF J\$100 MILLION AND J\$65 MILLION, RESPECTIVELY. IMF RESREP TOLD ECON COUNSELOR THAT WITH THE DWINDLING INFLOW THE "ZONE OF IMMINENT INCREASES" HAS BEEN REACHED UNDER THE FORMULA, AND IF THERE IS NO INCREASE BY THE TIME IMF STAFFERS ARRIVE NEXT MONTH TO REVIEW JAMAICA'S PERFORMANCE UNDER THE STANDBY THIS WILL BE ONE OF THE ISSUES TO BE TAKEN UP. THE RESREP NOTED THAT IF THE GOJ BIT THE BULLET AND RAISED PRICES IMMEDIATELY, A 10-PERCENT INCREASE IN THE PRICE OF GASOLINE COULD SUFFICE TO MEET THE AGREED ACCRUAL TARGET. IF, HOWEVER, PRICES ARE NOT RAISED UNTIL MARCH, I.E. AFTER THE HIGH POINT OF THE TOURIST SEASON HAS PASSED, A 30- TO 40-PERCENT ADJUSTMENT MIGHT BE NEEDED, DEPENDING ON HOW THE J-DOLLAR FARES MEANWHILE. HE WONDERED WHETHER THE GOJ WOULD HAVE THE POLITICAL WILL TO RAISE PRICES AT THE MOMENT. DM THAT LAST POINT, BANK OF JAMAICA DEPUTY GOVERNOR ASGAR ALLY TOLD A MISSION OFFICER OCTOBER 16 THAT AN INCREASE IN THE PRICE OF PETROLEUM PRODUCTS COULD BE EXPECTED WITHIN THREE WEEKS, I.E. BEFORE THE IMF TEAM ARRIVES.

6. ANOTHER LOCAL INDUSTRY SOURCE TOLD EMBOFF THAT JUST PRIOR TO THE JANUARY 15 PRICE HIKE, THE STABILIZATION FUND WAS IN THE HOLE FOR J\$40 MILLION. HE ESTIMATED THAT, WITH THE JANUARY PRICE INCREASE, BY MAY THE FUND'S NEGATIVE BALANCE HAD BEEN WIPED OUT. OUR SOURCE INDICATED THAT HIS DISCUSSIONS WITH THE MINISTER OF ENERGY AND MINING HART AT THE TIME CONFIRMED HIS ESTIMATE. ACCORDING TO OUR SOURCE'S CALCULATIONS, THE STABILIZATION FUND SHOULD HAVE APPROXIMATELY J\$10 MILLION AT THE PRESENT TIME. HOWEVER, IN THE PAST SEVERAL WEEKS AS THE EXCHANGE RATE HAS REACHED J\$6.00 EQUALS US\$1.00, THE FUND HAS EXPERIENCED NET OUTFLOWS. HE ESTIMATES THAT AT THE RATE OF EXCHANGE J\$6.10 EQUALS US\$1.00 THE FUND EXPERIENCE A DRAWDOWN OF J\$600,000 PER MONTH. THE DRAWDOWN IS DOUBLED WHEN THE EXCHANGE RATE REACHES J\$6.20 EQUALS US\$1.00. SINCE THE FUND IS USED FOR PURPOSES OTHER THAN STABILIZING PRICES, THE AMOUNT CURRENTLY IN IT COULD BE MUCH LESS THAN J\$10 MILLION, OUR SOURCE INDICATED. IN THE PAST THE FUND HAS BEEN UTILIZED TO MAKE RETROACTIVE PAYMENTS OF J\$2 TO 3 MILLION TO GASOLINE RETAILERS, WHO SHUT DOWN THEIR STATIONS EARLIER THIS YEAR TO FORCE THE GOVERNMENT TO INCREASE THEIR PROFIT MARGIN, TO DEFRAY THE COSTS OF OPENING LETTERS OF CREDIT FOR SHIPMENTS OF CRUDE FOR THE REFINERY, AND TO OFFSET INCREASED DEBT REPAYMENTS IN JAMAICAN DOLLAR TERMS DUE TO THE DEPRECIATION OF THE LOCAL CURRENCY.

7. COMMENT: WITH NO IMMEDIATE EASING OF PRESSURE ON THE JAMAICAN DOLLAR IN SIGHT, A PRICE HIKE FOR PETROLEUM PRODUCTS APPEARS INEVITABLE. THE ONLY QUESTION IS TIMING. IF THE GOJ DOES BITE THE BULLET AND RAISE FUEL PRICES IN THE NEXT THREE WEEKS, IT IS IMPORTANT THAT THE ANNOUNCEMENT TO THE PUBLIC BE DONE MORE ADROITLY THAN LAST JANUARY. AT THAT TIME A SNAP ANNOUNCEMENT WITHOUT EXPLANATION LED TO PROTEST DEMONSTRATIONS THROUGHOUT THE ISLAND. END COMMENT.

(DRAFTED: ECON: RLNATES/APPROVED: ECON: HTLORIMER) STEWART

DECLASSIFIED

NLS 195-013/1 #16

BY: GS NARA, DATE 2/5/03

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~
Department of State

ENW

INCOMING
TELEGRAM

PAGE 01 KINGST 10345 00 OF 02 191809Z 6499 ARA9638
ACTION ARA-00

ACTION OFFICE JM-02
INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01
PPA-01 DCAR-01 DEP-02 XLE-01 /018 A3 DM

INFO LOG-00 COPY-01 ADS-00 AID-00 INR-10 CIAE-00 EB-00
DODE-00 H-01 EXIM-06 NSAE-00 COME-00 LAB-04 TRSE-00
EPA-01 ITC-01 OPIC-07 OMB-01 STR-20 SIL-01 FRB-03
JUS-01 USIE-00 SP-02 DOEE-00 /067 W
-----214641 191810Z /41

R 182123Z OCT 85
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 2541

~~CONFIDENTIAL~~ KINGSTON 10345

E.O. 12356: DECL: OADR
TAGS: ECON, EFIN, EPET, EGOV, JM
SUBJ: RUMORS ON GAS PRICE HIKE

REF: KINGSTON 9834

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT

2. SUMMARY: WITH THE DEPRECIATION OF THE J-DOLLAR IN RECENT WEEKS, PUBLIC SPECULATION ABOUT ANOTHER INCREASE IN THE PRICE OF FUEL PRODUCTS IS RIFE. AS LAST JANUARY'S DEMONSTRATIONS INDICATE, OF ALL BASIC COMMODITIES IT IS INCREASES IN THE PRICES OF FUEL PRODUCTS, WIDELY USED FOR COOKING AS WELL AS TRANSPORT, THAT ARE THE MOST SENSITIVE. OUR DISCUSSIONS WITH BANK OF JAMAICA AND IMF OFFICIALS, AS WELL AS WITH LOCAL PETROLEUM INDUSTRY SERVICES, INDICATE THAT A PRICE INCREASE IS NEEDED IF THE GOJ IS TO REMAIN IN COMPLIANCE WITH THE ARRANGEMENT ON PETROLEUM PRICES CONTAINED IN THE CURRENT STANDBY AGREEMENT WITH THE IMF. A BANK OF JAMAICA DEPUTY GOVERNOR INDICATED THAT A PRICE INCREASE COULD COME IN THE NEXT THREE WEEKS. THERE IS SOME QUESTION, HOWEVER, WHETHER THE GOJ HAS THE POLITICAL WILL TO ANNOUNCE PRICE INCREASES AT THIS TIME OR WILL TRY TO HOLD OFF UNTIL EARLY NEXT SPRING WHEN THE CRUCIAL TOURIST SEASON IS ABOUT OVER. END SUMMARY.

3. SPECULATION ABOUT A PRICE INCREASE FOR GASOLINE, DIESEL FUEL, LPG AND KEROSENE CONTINUES UNABATED NOW THAT THE EXCHANGE RATE HAS SHATTERED THE PSYCHOLOGICAL BARRIER OF JS6.00 EQUALS US\$1.00. (THE CURRENT EXCHANGE RATE IS JS6.27 EQUALS US\$1.00.) OFFICIALLY THE GOVERNMENT HAS NOT REACTED TO THE SPECULATION. HOWEVER, ACCORDING TO THE OCTOBER 13 GLEANER, A SOURCE AT THE PETROLEUM CORPORATION OF JAMAICA (PETROJAM) INDICATED THAT THE PRESENT RATE OF EXCHANGE MEANS THAT THE PRICE OF PETROLEUM PRODUCTS MUST BE LOOKED AT IMMEDIATELY. OFFICIALS AT THE MINISTRY OF ENERGY AND MINING WOULD NOT TALK TO THE GLEANER.

4. ACCORDING TO A PETROLEUM INDUSTRY SOURCE, WHEN THE GOVERNMENT SET NEW PRICES LAST JANUARY, IT THOUGHT IT WAS BUYING A CUSHION OF AT LEAST 18 MONTHS BEFORE ANOTHER ROUND OF PRICE HIKES WOULD BE REQUIRED. THE GOJ ASSUMED THAT WHEN THE JAMAICAN DOLLAR REACHED JS6.50 EQUALS US\$1.00 AN UPWARD ADJUSTMENT WOULD BE MADE. GOJ ESTIMATES WERE THAT THE RATE AT THE END OF 1985 WOULD BE JS6.00 EQUALS US\$1.00 AND REACH JS6.50 IN JULY 1986. THE DECLINE OF THE LOCAL CURRENCY HAS BEEN MUCH FASTER THAN PROJECTED, HOWEVER. MOREOVER, THE UNANTICIPATED COMBINATION OF A DECLINE IN CONSUMPTION OF GASOLINE AND DIESEL FUEL AND INCREASE IN CONSUMPTION OF KEROSENE, WHICH IS SUBSIDIZED BY A SURCHARGE ON GASOLINE AND DIESEL FUEL, HAS PUT PRESSURE ON THE STABILIZATION FUND SET UP TO KEEP PRICES OF FUEL PRODUCTS STABLE WHENEVER INTER-

KINGST 10345 00 OF 02 191809Z 6499 ARA9638
NATIONAL PETROLEUM PRICES RISE OR THE JAMAICAN DOLLAR DEPRECIATES.

UNDER AN ARRANGEMENT BETWEEN THE GOJ AND IMF CONTAINED IN THE CURRENT STANDBY AGREEMENT, PRICES OF FUEL PRODUCTS SHOULD BE ADJUSTED ACCORDING TO AN AGREED FORMULA BASED ON MAXIMUM AND MINIMUM ANNUAL RATES OF ACCRUAL INTO THE STABILIZATION FUND OF JS100 MILLION AND JS65 MILLION, RESPECTIVELY. IMF RESREP TOLD ECON COUNSELOR THAT WITH THE DWINDLING INFLOW THE "ZONE OF IMMINENT INCREASES" HAS BEEN REACHED UNDER THE FORMULA, AND IF THERE'S NO INCREASE BY THE TIME IMF STAFFERS ARRIVE NEXT MONTH TO REVIEW JAMAICA'S PERFORMANCE UNDER THE STANDBY THIS WILL BE ONE OF THE ISSUES TO BE TAKEN UP. THE RESREP NOTED THAT IF THE GOJ BIT THE BULLET AND RAISED PRICES IMMEDIATELY, A 10-PERCENT INCREASE IN THE PRICE OF GASOLINE COULD SUFFICE TO MEET THE AGREED ACCRUAL TARGET. IF, HOWEVER, PRICES ARE NOT RAISED UNTIL MARCH, I.E. AFTER THE HIGH POINT OF THE TOURIST SEASON HAS PASSED, A 30- TO 40-PERCENT ADJUSTMENT MIGHT BE NEEDED, DEPENDING ON HOW THE J-DOLLAR FARES MEANWHILE. HE WONDERED WHETHER THE GOJ WOULD HAVE THE POLITICAL WILL TO RAISE PRICES AT THE MOMENT. ON THAT LAST POINT, BANK OF JAMAICA DEPUTY GOVERNOR ASGAR ALLY TOLD A MISSION OFFICER OCTOBER 16 THAT AN INCREASE IN THE PRICE OF PETROLEUM PRODUCTS COULD BE EXPECTED WITHIN THREE WEEKS, I.E. BEFORE THE IMF TEAM ARRIVES.

6. ANOTHER LOCAL INDUSTRY SOURCE TOLD EMBOFF THAT JUST PRIOR TO THE JANUARY 15 PRICE HIKE, THE STABILIZATION FUND WAS IN THE HOLE FOR JS40 MILLION. HE ESTIMATED THAT, WITH THE JANUARY PRICE INCREASE, BY MAY THE FUND'S NEGATIVE BALANCE HAD BEEN WIPED OUT. OUR SOURCE INDICATED THAT HIS DISCUSSIONS WITH THE MINISTER OF ENERGY AND MINING HART AT THE TIME CONFIRMED HIS ESTIMATE. ACCORDING TO OUR SOURCE'S CALCULATIONS, THE STABILIZATION FUND SHOULD HAVE APPROXIMATELY JS10 MILLION AT THE PRESENT TIME. HOWEVER, IN THE PAST SEVERAL WEEKS AS THE EXCHANGE RATE HAS REACHED JS6.00 EQUALS US\$1.00, THE FUND HAS EXPERIENCED NET OUTFLOWS. HE ESTIMATES THAT AT THE RATE OF EXCHANGE JS6.10 EQUALS US\$1.00 THE FUND EXPERIENCE A DRAWDOWN OF JS600,000 PER MONTH. THE DRAWDOWN IS DOUBLED WHEN THE EXCHANGE RATE REACHES JS6.20 EQUALS US\$1.00. SINCE THE FUND IS USED FOR PURPOSES OTHER THAN STABILIZING PRICES, THE AMOUNT CURRENTLY IN IT COULD BE MUCH LESS THAN JS10 MILLION, OUR SOURCE INDICATED. IN THE PAST THE FUND HAS BEEN UTILIZED TO MAKE RETROACTIVE PAYMENTS OF JS2 TO 3 MILLION TO GASOLINE RETAILERS, WHO SHUT DOWN THEIR STATIONS EARLIER THIS YEAR TO FORCE THE GOVERNMENT TO INCREASE THEIR PROFIT MARGIN, TO DEFRAY THE COSTS OF OPENING LETTERS OF CREDIT FOR SHIPMENTS OF CRUDE FOR THE REFINERY, AND TO OFFSET INCREASED DEBT REPAYMENTS IN JAMAICAN DOLLAR TERMS DUE TO THE DEPRECIATION OF THE LOCAL CURRENCY.

7. COMMENT: WITH NO IMMEDIATE EASING OF PRESSURE ON THE JAMAICAN DOLLAR IN SIGHT, A PRICE HIKE FOR PETROLEUM PRODUCTS APPEARS INEVITABLE. THE ONLY QUESTION IS TIMING. IF THE GOJ DOES BITE THE BULLET AND RAISE FUEL PRICES IN THE NEXT THREE WEEKS, IT IS IMPORTANT THAT THE ANNOUNCEMENT TO THE PUBLIC BE DONE MORE ADROITLY THAN LAST JANUARY. AT THAT TIME A SNAP ANNOUNCEMENT WITHOUT EXPLANATION LED TO PROTEST DEMONSTRATIONS THROUGHOUT THE ISLAND. END COMMENT.

(DRAFTED: ECON:RLKATES/APPROVED: ECON:MTLORIMER)
STEWART

DECLASSIFIED

NLS F95-043/1 #17

~~CONFIDENTIAL~~

BY

CS

NARA, DATE 7/5/03

DECLASSIFIED

NLS

F95-043/1 #18

BY CJS, NARA, DATE 7/5/03

October 18, 1985

CONFIDENTIAL

EB: Mrs. Constable

EB/IFD: Clark Ellis, Acting

SUBJECT: Jamaica IMF Program Off Track

Fund staff reports that its review of Jamaica's performance for the end-September targets of its standby program has not been successfully completed because the GOJ has not taken the requisite demand management measures. As a result, Jamaica is out of compliance, and Fund staff is not now willing to recommend a waiver for noncompliance due to the late disbursement of US ESF.

Balance of Payments Developments

The recent Fund review mission found Jamaica's balance of payments "way off track" due to both higher imports and lower than anticipated receipts from tourism, nontraditional exports and bauxite. The current account deficit for the current Jamaican fiscal year (ending in March) is now expected to

exceed \$300 million, a nearly 50 percent increase from the standby program's \$209 million estimate. As a result, the current account deficit will deteriorate to a whopping 15-16 percent of GDP this fiscal year, compared to 12 percent last year.

Balance of payments prospects are equally grim. The financing gap for the next fiscal year, which begins in April, is now expected to reach \$200 million, even after commercial bank and Paris Club rescheduling.

Demand Management Policies

Fund staff continues to see virtually no action on demand management. The GOJ has failed to abide with its agreement for both monthly price increases for basic food stuffs and for indexed petroleum prices. Indeed, petroleum prices have not been increased since the January increase which led to violent protests.

Staff remains concerned with the GOJ's continued interference with the foreign exchange auction system and the GOJ's failure to comply with its promise to cut government expenditures by an amount equivalent to one percent of GDP by September. Staff is particularly interested in seeing the GOJ reduce state enterprise subsidies through increased prices for water, gas and electricity. Such measures are deemed essential

if the fiscal deficit is to be reduced by three percent of GDP.

Next Steps

Fund staff had been prepared to recommend a waiver if end-September noncompliance were due entirely to the late disbursement of US ESF. At this stage, however, staff is not prepared to recommend such a waiver. The review of end-September data is not yet completed, but staff is confident at this point that Jamaica would have been out of compliance even if the ESF disbursement had been made in September as anticipated.

The Managing Director did not see Prime Minister Seaga in Seoul, but Seaga's speech to the Board of Governors attacked the IMF model for economic adjustment. Seaga has now written the Managing Director, with copies to Clausen and McPherson, complaining of the IMF's attempt to impose standard demand management measures on Jamaica's unique economy. In his letter to the MD, a copy of which we have not seen but are trying to obtain, Seaga apparently refuses to increase gasoline or food prices on the grounds that such actions would lead to violent protests and his political downfall. He also suggests that the Jamaican dollar should appreciate against the US dollar (from the current rate of 6 Jamaican dollars per US dollar to an "equilibrium" rate of 5.5).

4

Ambassador designate Michael Sotirhos will be meeting this afternoon with Secretary Baker to discuss Jamaica's economic situation. We have informed him of this latest readout on the Fund program.

Drafted: EB/IFD/OMA - MGlover

Wang 690 10/18/85

Clearance: EB/IFD/OMA - NBurakow

EB/IFD/OMA - LPeters

*Rec'd
10/21/85
g*

NSC/S PROFILE

UNCLASSIFIED

ID 8508381

RECEIVED 18 OCT 85 20

TO LAROSIERE, J

FROM SEAGA, EDWARD

DOCDATE 15 OCT 85

JOHNSON, KEITH

17 OCT 85

KEYWORDS: JAMAICA

IMPORT CONTROLS

ECONOMICS

SUBJECT: LTR FM PM SEAGA RE IMPORT QUOTAS

ACTION: APPROPRIATE ACTION

DUE: 24 OCT 85 STATUS S FILES WH

FOR ACTION

FOR CONCURRENCE

FOR INFO

HUGHES

NORTH

WIGG

LEVINE

DANZANSKY

TILLMAN

CANNISTRARO

COMMENTS

REF#

LOG

NSCIFID

(PS)

CTION OFFICER (S)

ASSIGNED

ACTION REQUIRED

DUE

COPIES TO

Close Out OBE - Hughes 3/11
3/11 OBE Per Hughes

SPATCH

W/ATTCH FILE

1054

RPB

Ok per chuo 9/9
35666155

THE WHITE HOUSE
WASHINGTON

Received SS

April 8, 1986

1986 APR -9 PM 3:

15044
PE002-01

MEMORANDUM FOR RON GEISLER

FROM: ROBERT H. TUTTLE *RT*

SUBJECT: PAS Nomination

The President approved the appointment of the following individual:

MARY KATE BUSH, of the District of Columbia, to be
U.S. Alternate ~~United States~~ Executive Director of the
International Monetary Fund for a term of two
years. This is a reappointment. *dy*

All necessary clearances have been completed.

Please prepare the nomination papers.

Announced: 4/9/86
To Senate: 4/10/86

NOTED
dy

To DC - 4/9/86
3:15 PM

THE WHITE HOUSE
WASHINGTON

April 8, 1986

MEMORANDUM FOR DAVID CHEW

FROM: ROBERT H. TUTTLE *RT*
SUBJECT: Personnel Announcements

The following Personnel Announcements are scheduled for release Wednesday, April 9, 1986. According to our records, all necessary clearances have been completed. Please arrange with the Press Office the President's intent to designate/nominate the following individuals:

WEDNESDAY, APRIL 9, 1986

- (R) MARY KATE BUSH (of the District of Columbia) To be ~~the~~ United States Alternate Executive Director of the International Monetary Fund for a term of two years. This is a reappointment. (PAS)
- (R) ROBERT CLIFTON DUNCAN (of Massachusetts) To be an Assistant Secretary of Defense (Research and Technology), vice Robert S. Cooper, resigned. (PAS)
- (R) ROBERT W. SEARBY (of Virginia) → Deputy Under Secretary of Labor for International Affairs, to be a Member of the Board of Directors of the Overseas Private Investment Corporation, vice Francis S. Lilly, resigned. (PA) *(INTENT TO DESIGNATE)*

cc: Kennedy
Holland
Geisler

rrg

THE WHITE HOUSE
WASHINGTON

April 8, 1986

NOTE FOR LARRY SPEAKES

We have double-checked this with Legislative Affairs and Counsel. This is ready for review at the 8:00 operations meeting.

~~David~~ L. Chew

4/8 ok per Diana
OK per Jane

THE WHITE HOUSE
WASHINGTON

Received 30

1986 APR -8 PM 3:05

April 8, 1986

MEMORANDUM FOR DAVID CHEW

FROM: ROBERT H. TUTTLE *RT*
SUBJECT: Personnel Announcements

The following Personnel Announcements are scheduled for release Wednesday, April 9, 1986. According to our records, all necessary clearances have been completed. Please arrange with the Press Office the President's intent to designate/nominate the following individuals:

WEDNESDAY, APRIL 9, 1986

MARY KATE BUSH
(of the District of Columbia)

To be the United States Alternate Executive Director of the International Monetary Fund for a term of two years. This is a reappointment. (PAS)

ROBERT CLIFTON DUNCAN
(of Massachusetts)

To be an Assistant Secretary of Defense (Research and Technology), vice Robert S. Cooper, resigned. (PAS)

ROBERT W. SEARBY
(of Virginia)

Deputy Under Secretary of Labor for International Affairs, to be a Member of the Board of Directors of the Overseas Private Investment Corporation, vice Francis S. Lilly, resigned. (PA)

cc: Kennedy
Holland
Geisler

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

April 9, 1986

The President today announced his intention to nominate Mary Kate Bush to be United States Alternate Executive Director of the International Monetary Fund for a term of two years. This is a reappointment.

Ms. Bush has been serving as United States Alternate Executive Director of the International Monetary Fund since December 1983. Previously, she was Special Assistant to the Deputy Secretary at the Department of Treasury. She was Vice President and Team Leader of the World Corporate Department at Bankers Trust Company in 1979-1982.

She graduated from Fisk University (B.A., 1969) and the University of Chicago (M.B.A., 1971). She was born April 9, 1948 in Birmingham, Alabama and now resides in Washington, D.C.

#

C.F.

401661CA
IT044

THE WHITE HOUSE
WASHINGTON

September 24, 1986

MEMORANDUM FOR DONALD T. REGAN

FROM: ALFRED H. KINGON *AK*
SUBJECT: IMF-World Bank Meetings

I had a lengthy lunch with Dick Darman on international monetary, taxes, and general matters.

He reports the following regarding this weekend's meetings:

- A. Mexico. The private banks are very close to an agreement on a new round of loans. They are being pressured by the Treasury. He thinks that an announcement could be made early during the week of September 29.
- B. Monetary Reform. There is very, very slow progress. The G-5 will meet on Friday, the G-7 on Saturday. There are still disagreements on the economic outlook, i.e., there are inconsistencies within the country estimates on individual and overall growth. (Incredibly the IMF has bought Gramm-Rudman and has used the targets as the U.S. deficit projection.)

Treasury believes Japan will grow nicely for the balance of the year. Treasury has offered to trade a stabilized yen/dollar (145-165) for a cut in the discount rate. Nakasone has said "no" pending the Central Bank of Japan getting Volcker's approbation. As part of this package, Treasury has also asked Japan to stagger their tax reform.

The Germans will have 3 percent growth through early 1987. They have steadfastly refused to drop their discount rate but Poehl will arrive late for the meeting of the G-5 because their Central Bank is considering anew the question of rates and they may accommodate us somewhat to relieve the tension.

- C. The Future. Baker will hold over the others the outstanding report to the President on whether there should be convened an international monetary conference. In other words, he wishes that the G-5 and G-7 could cooperate and coordinate policy but if that fails more radical action will be necessary and that can be accomplished by a broader group.

DECLASSIFIED

NLRR F95-04311#19

D. Other Nations. There are continuing problems, of course, with Argentina and Brazil. Argentina is in bad shape according to Darman but unwilling to make the necessary changes because of the "political" situation. Darman feels that Brazil will play it cool for a while and then perhaps begin to restructure their own debt and open their doors to a more forthright interchange.

Darman thinks the next stage will be slow but that there has to be more public investment as well as private investment (read World Bank) in the LDCs with less stringent repayment schedules -- all in exchange for relaxation of anti-investment rules in these countries.

C.F.

401661CA

IT044

MS

IT023

F0012

F0006

THE WHITE HOUSE
WASHINGTON

September 24, 1986

MEMORANDUM FOR DONALD T. REGAN

FROM: ALFRED H. KINGON *AHK*

SUBJECT: IMF-World Bank Meetings

I had a lengthy lunch with Dick Darman on international monetary, taxes, and general matters.

He reports the following regarding this weekend's meetings:

- A. Mexico. The private banks are very close to an agreement on a new round of loans. They are being pressured by the Treasury. He thinks that an announcement could be made early during the week of September 29.
- B. Monetary Reform. There is very, very slow progress. The G-5 will meet on Friday, the G-7 on Saturday. There are still disagreements on the economic outlook, i.e., there are inconsistencies within the country estimates on individual and overall growth. (Incredibly the IMF has bought Gramm-Rudman and has used the targets as the U.S. deficit projection.)

Treasury believes Japan will grow nicely for the balance of the year. Treasury has offered to trade a stabilized yen/dollar (145-165) for a cut in the discount rate. Nakasone has said "no" pending the Central Bank of Japan getting Volcker's approbation. As part of this package, Treasury has also asked Japan to stagger their tax reform.

The Germans will have 3 percent growth through early 1987. They have steadfastly refused to drop their discount rate but Poehl will arrive late for the meeting of the G-5 because their Central Bank is considering anew the question of rates and they may accommodate us somewhat to relieve the tension.

- C. The Future. Baker will hold over the others the outstanding report to the President on whether there should be convened an international monetary conference. In other words, he wishes that the G-5 and G-7 could cooperate and coordinate policy but if that fails more radical action will be necessary and that can be accomplished by a broader group.

DECLASSIFIED

NLRR 995-0431 #19

D. Other Nations. There are continuing problems, of course, with Argentina and Brazil. Argentina is in bad shape according to Darman but unwilling to make the necessary changes because of the "political" situation. Darman feels that Brazil will play it cool for a while and then perhaps begin to restructure their own debt and open their doors to a more forthright interchange.

Darman thinks the next stage will be slow but that there has to be more public investment as well as private investment (read World Bank) in the LDCs with less stringent repayment schedules -- all in exchange for relaxation of anti-investment rules in these countries.

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

IT044

O - OUTGOING

H - INTERNAL

I - INCOMING

Date Correspondence Received (YY/MM/DD) 86/05/23

Name of Correspondent: Jim McClure

MI Mail Report

User Codes: (A) _____ (B) _____ (C) _____

Subject: Urge in the strongest terms that the U.S. oppose the IMF vote on whether to grant membership rights to the government of Poland. "Now is not the time to reward this repressive regime for a record of financial responsibility + escalating political repression."

ROUTE TO:

ACTION

DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response Code	Completion Date YY/MM/DD
<u>LA BALL</u>	ORIGINATOR	<u>86/05/27</u>		<u>C86 05/29</u>
<u>✓ 99TRES</u>	R	<u>86/06/02</u>		<u>A86 06/23</u>
<u>LABALL</u>	R	<u>87/01/29</u>		<u>C87/01/29</u>

ACTION CODES:

- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure

- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:

- A - Answered
- B - Non-Special Referral
- C - Completed
- S - Suspended

FOR OUTGOING CORRESPONDENCE:

- Type of Response = Initials of Signer
- Code = "A"
- Completion Date = Date of Outgoing

Comments: _____

Keep this worksheet attached to the original incoming letter.
 Send all routing updates to Central Reference (Room 75, OEOB).
 Always return completed correspondence record to Central Files.
 Refer questions about the correspondence tracking system to Central Reference, ext. 2590.

23 JUN 1986

Dear Senator McClure:

I am writing in response to your letter to President Reagan expressing opposition to Poland's membership in the IMF. As you may know, the Treasury Department is the lead agency on the IMF and the other multilateral financial institutions.

The U.S. Government has given careful consideration to the issue of Poland's membership in the IMF. We appreciate the concerns you have expressed regarding the human rights situation in Poland. Moreover, we recognize Congressional views on IMF financing for Communist countries that were reflected in the 1983 IMF quota legislation which requires the United States to oppose IMF loans to those countries unless certain criteria have been met.

In view of reservations regarding Poland's membership in the IMF and uncertainties as to whether the United States would be in a position to support IMF financing for Poland, the United States abstained in the IMF Board of Governors' vote. As you may know, however, the membership resolution was approved. We will, of course, carefully scrutinize any request by Poland for IMF financing in light of the criteria established by Congress in the 1983 IMF legislation.

Sincerely,

J. MICHAEL HUDSON

J. Michael Hudson
Assistant Secretary
(Legislative Affairs)

The Honorable Jim McClure
United States Senate
Washington, D.C. 20510

T H E W H I T E H O U S E O F F I C E

REFERRAL

JUNE 2, 1986

TO: DEPARTMENT OF THE TREASURY
ATTN: MIKE HUDSON

ACTION REQUESTED:
DIRECT REPLY, FURNISH INFO COPY

DESCRIPTION OF INCOMING:

ID: 415172
MEDIA: LETTER, DATED MAY 21, 1986
TO: PRESIDENT REAGAN
FROM: THE HONORABLE JIM MCCLURE
UNITED STATES SENATE
WASHINGTON DC 20510

SUBJECT: URGE IN THE STRONGEST TERMS THAT THE U. S.
OPPOSE THE IMF VOTE ON WHETHER TO GRANT
MEMBERSHIP RIGHTS TO THE GOVERNMENT OF
POLAND. "NOW IS NOT THE TIME TO REWARD
THIS REPRESSIVE REGIME FOR A RECORD OF
FINANCIAL IRRESPONSIBILITY & ESCALATING
POLITICAL REPRESSION."

PROMPT ACTION IS ESSENTIAL -- IF REQUIRED ACTION HAS NOT BEEN
TAKEN WITHIN 9 WORKING DAYS OF RECEIPT, PLEASE TELEPHONE THE
UNDERSIGNED AT 456-7486.

RETURN CORRESPONDENCE, WORKSHEET AND COPY OF RESPONSE
(OR DRAFT) TO:
AGENCY LIAISON, ROOM 91, THE WHITE HOUSE, 20500

SALLY KELLEY
DIRECTOR OF AGENCY LIAISON
PRESIDENTIAL CORRESPONDENCE

THE WHITE HOUSE

WASHINGTON

May 29, 1986

MEMORANDUM FOR:

MIKE HUDSON
Assistant Secretary for
Legislative Affairs
Department of the Treasury

FROM:

KATHY RATTÉ JAFFKE *KRJ*
Director, Congressional
Correspondence

SUBJECT:

IMF Vote on Membership Rights
for Poland

Attached are two letters addressed to the President regarding Tuesday's vote on the question of admittance of Poland as a member nation of the International Monetary Fund.

David Malpass confirmed that the Secretary abstained, and we agreed that the letters to the President should be directed to Treasury. It is my understanding that Secretary Baker also received a letter from House Members on this issue. I would appreciate it if the Secretary's response could include an acknowledgment on behalf of the President.

Thanks very much for your assistance.

cc: Records Management - FYI (ID# 415172, ID# 403611)

United States Senate

WASHINGTON, DC 20510

May 21, 1986

415172

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We understand that, on Tuesday, the International Monetary Fund will vote on whether to grant membership rights to the government of Poland. We would urge, in the strongest terms, that the United States oppose that initiative.

To begin with, Poland has amply demonstrated itself to be a poor economic risk. It has engaged in unverifiable and highly questionable accounting procedures in order to qualify for foreign credit. It has failed on numerous occasions to keep its financial commitments to foreign creditors. If the government of Poland were a U.S. business, its officers and directors would be in jail.

Aside from that, however, Poland has continued to demonstrate that it is one of the world's most oppressive regimes. It has resumed the arrest of political dissidents, thereby reversing the hopeful signs evidenced by its earlier amnesty proposals. It has continued its ruthless suppression of the Solidarity movement, in addition to regular violations of rights of speech, religion, and assembly.

Now is not the time to reward this repressive regime for a record of financial irresponsibility and escalating political repression. Please do what you can to prevent this result.

Sincerely,

Jim McClellan

Jim Abston

Steve Symms
Jeremiah Denton

CC:

Assistant to the President office of communications
Assistant to the President for National Security Affairs
Chief of Staff
Secretary of State