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EPB/ERC

EXECUTIVE COMMITTEE MEETING

January 5, 1975
Roosevelt Room
8:30 a.m.

- | | |
|--|----------|
| 1. Alaskan Gas Transportation System | FEA |
| 2. Liquified Natural Gas Import Policy | FEA |
| 3. Review of U.S. Policy Regarding Export-
Import Credits to South Africa | Commerce |
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DEC 31 1975

~~CONFIDENTIAL~~

MEMORANDUM FOR L. William Seidman
Assistant to the President
for Economic Affairs

SUBJECT: Request for a Review of U.S. Policy Regarding
Export-Import Credits to South Africa

The Los Angeles-based Fluor Corporation is seeking an exception to the U.S. policy which prohibits Export-Import Bank direct credits to South Africa. This policy was formulated in 1964, and no exceptions to it have been permitted.

Fluor has been awarded a \$1.5 billion contract to design, construct, and manage the second coal liquefaction and gasification plant for the South African State Oil Corporation (SASOL). According to Fluor, under this contract, the firm will also be responsible for purchasing at least \$800 million in foreign-sourced equipment. Fluor, an American firm, is familiar with American products and technology in this field and says that it would prefer to use American equipment. Fluor says, however, that direct Eximbank credits in conjunction with commercial bank credits are necessary if the bulk of these purchases are to be made from U.S. firms.

According to Fluor, equipment orders in the magnitude of \$800 million would require 25 million manufacturing man-hours to produce. The firms which would receive those orders are located for the most part in areas severely hit by heavy unemployment, i.e., Detroit, Buffalo, Newark, and Trenton.

Fluor and the participating U.S. suppliers would also acquire extensive experience in the actual design, construction, and management of coal gasification and liquefaction plants. Although the German-developed technology for these processes is well known, South Africa is the world leader in putting this technology to work. Fluor claims that the Federal Energy Administration, the Energy Research and Development Administration, and the Departments of Labor and Treasury support the firm's efforts to obtain Eximbank credits to make the purchase of U.S.-made equipment possible.

~~CONFIDENTIAL~~ WNM 5/15/00

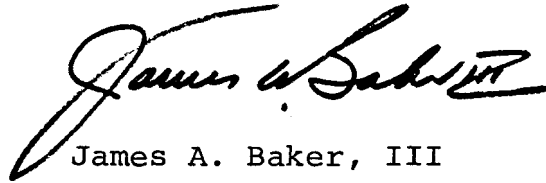
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I believe that the magnitude of the potential U.S. product sales for this project and its possible benefits for the U.S. energy program warrant National Security Council review and Economic Policy Board consideration of this matter. NSC review has been requested by the Exim Bank and by Commerce (see attached letters), and I request that the Economic Policy Board Executive Committee place this subject on its agenda for the week of January 5, 1976.


James A. Baker, III

Attachments

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EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

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PRESIDENT
AND
CHAIRMAN

CONFIDENTIAL

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

DEC 10 1975

Lt. Gen. Brent Scowcroft
Director, National Security Council Staff
The White House

Dear Brent:

A matter has come up which I believe calls for a review of U. S. policy on Export-Import Bank support for major exports to South Africa. Present policy restricts the Bank to guarantees and insurance of payment on private credits to South Africa.

The South African Coal, Oil and Gas Corporation, Ltd. will shortly buy equipment for the world's largest coal liquification facility utilizing coal deposits near Johannesburg. This facility will cost about \$2.5 billion and offers potential sales of close to \$1 billion in U. S. equipment and services. The facility will supply important portions of South Africa's gasoline, plastic feedstocks and fuel requirements.

The South Africans have visited the export financing agencies of the major industrial countries and all of them, except the U. S., have expressed a readiness to make financing available on favorable terms to facilitate the purchase of equipment and services from their countries. South African coal officials have told us that the non-availability of direct loans from Eximbank will seriously handicap U. S. exporters in selling equipment and services for the new facility.

With respect to this case, I have heard from U. S. companies, Chairman Mahon of the House Appropriations Committee and other Members of Congress, urging that the U. S. remove its present restrictions on the financing of exports to South Africa for this project. Copies of the Congressional letters, and of the underlying requests from U. S. companies which stand to get orders, appear at Annex B.

Over and above the large export opportunity and the accompanying economic benefits which this project represents, there also is an opportunity for U. S. companies to learn and get experience in the technology of coal liquification. The South Africans have been working for almost a quarter of a century in improving the process which enabled the Germans to fly their planes and roll their tanks with gasoline made from coal in World War II.

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E.O. 12958, Sec. 3.5

State Dept. Guidelines

By h/h, NARA, Date 5/15/00

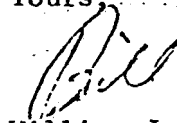
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Lt. Gen. Brent Scowcroft
Director, National Security Council Staff
The White House

We have been losing out significantly in the sale of capital goods generally in South Africa because other countries are not denying themselves the use of official credit in developing their trade with that country. All this is detailed in the paper at Annex A.

When this policy was last reviewed by the NSC the restrictions on export financing in South Africa were loosened a bit and I understand that it was recommended that U. S. Government agencies remain alert to the possible need to liberalize further to enable U. S. exporters to meet terms offered by foreign competition. It is my opinion that further review and modification in our policy are called for at this time if American exporters are to keep pace with the unrestricted support which their major competitors enjoy in selling to South Africa.

Yours,



William J. Casey

- Annexes: A. Eximbank Policy Towards South Africa
B. Congressional Correspondence

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DEC 30 1975

Honorable Brent Scowcroft
Assistant to the President
for National Security Affairs
The White House
Washington, D. C. 20500

Dear General Scowcroft:

The Fluor Corporation recently submitted to the Export-Import Bank of the United States an application for the preliminary commitment by Eximbank of direct credits in support of a project to be undertaken in South Africa. This project could result in U.S. exports of as much as \$500 million, which Fluor calculates would generate 25 million man-hours of industrial work.

United States sourcing of much of this equipment will not be possible without Eximbank credits, according to the firm. In addition to the export sales involved, production of this equipment in the United States could result in a significant technological spin-off to the potential U.S. suppliers; this would be a substantial plus to the U.S. energy program. Fluor has discussed this matter with us and with Labor, Treasury, the Federal Energy Administration, and the Energy Research and Development Administration.

Eximbank is unable to respond favorably to Fluor's application because existing U.S. policy--originally established in 1964--prohibits Eximbank direct credits to South Africa. Exim has, we understand, requested a NSC review of U.S. policy in light of the important economic considerations involved.

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Commerce, too, believes that the potential economic and technological gains involved are substantial enough to warrant a re-evaluation of our policy with respect to Eximbank credits to South Africa.

We would hope that the review could be made quickly, in view of the time constraints involved. Commerce will, of course, be happy to participate fully in this effort.

Sincerely,

JAMES A. BAKER, III

James A. Baker, - III

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