

April 7, 1970

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Subject: Status of the Bolivian-Gulf Oil Company
Nationalization Problem

Bolivia's actions against the Gulf Oil Company on October 17, 1969, triggered the running of the six-month period under the Hickenlooper Amendment, which will expire on April 17, 1970. The Bolivian Government has continually asserted its intention to make compensation for the nationalized assets. The nationalization decree itself appointed a commission to establish the "amount, conditions, and terms of compensation." The Bolivian Government has engaged a reputable French consulting firm to assess the value of the physical assets of the nationalized company. President Ovando has been in direct discussions with Gulf executives on compensation questions.

A promising line of action, apparently acceptable to both parties, has been identified. This would involve the creation of a Spanish corporation, wholly owned by the Spanish Government, which would contract with the Bolivian State Petroleum Company, YPFB, to exploit the former Gulf fields, market the product, and supervise completion of the gas pipeline project to Argentina. As part of any arrangement between Bolivia and the Spanish company, provision would be made for compensation of Gulf. While no agreement on specifics has yet been reached, active negotiations are in progress and there are reasonably good prospects for settlement.

While there can be no certainty that agreement will be reached on compensation, there is no question but that appropriate steps for purposes of the Hickenlooper Amendment are being taken. Unless the situation should deteriorate sharply before April 17, as seems unlikely, there would be no need to consider application of the Hickenlooper sanctions on that date.

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Group 3

Downgraded at 12-year intervals;
not automatically declassified.

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If negotiations should be broken off at any time thereafter, and Bolivia should proceed to a unilateral determination of compensation unacceptable to Gulf, the Department would have to consider whether the Bolivian procedures and determination constitute "appropriate steps." This judgment could entail an assessment of the reasonableness of the Bolivian Government's offer of compensation. We are keeping the situation under continuous review and will provide low-key advice and assistance to the two parties as needed in an effort to assure that negotiations do not break down and that a mutually acceptable agreement is ultimately reached.

In the event that the negotiations should break down under circumstances where the application of the Hickenlooper Amendment would appear to be indicated we would have to consider our position in light of the IPC case in Peru. We are mindful of the inconsistency that would be apparent should we apply the sanctions of the Amendment to one of the Hemisphere's poorest and weakest countries while holding our hand in its stronger neighbor.

Immediately after the nationalization, we adopted a policy of refraining from new commitments and starts on U.S. assistance programs. While we continue to maintain this policy generally, we have, in an effort to achieve a political climate conducive to a settlement, made some modification. On January 9th, a partial resumption of military assistance deliveries and the total resumption of military training activities were authorized. (These had been suspended at the time of the coup d'etat on September 26, 1969 and had not yet been resumed at the time of the nationalization.) On March 12, 1970 we authorized the resumption of all previously authorized MAP activities with the exception of training ammunition. At the specific request of the Minister of Government and President Ovando, we also authorized on March 12 the resumption of a small program of police assistance. We propose to continue a gradual thawing in our assistance relations with

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Bolivia, where this is possible without major new financial commitments, so long as the outlook for an appropriate settlement with Gulf continues to improve.

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