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U.S. Insuring Agency May Face Claims of $216-Million in Chile

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WASHINGTON, March 5 — The Overseas Private Investment Corporation is a 14-month-old Government agency with a problem.

The agency has $85-million in reserves and it faces potential insurance claims from United States companies in Chile o $216-million.

Chile has seized the assets of these companies, insured by OPIC. The agency and Congress are now discussing how to pay the insurance claims of the companies, if Chile refuses to pay any compensation to the United States owners.

The Overseas Private Investment Corporation is the most recent in a series of agencies created by Congress to insure, finance and thus encourage private United States investment in developing countries whose governments and wobbly economies might normally cause investors to look elsewhere.

Bradford Mills, president of the agency, expressed confidence in an interview yesterday that Congress would grant the agency's recent request to raise its reserves to $200-million.

Some Catastrophes

"We would be happier with $300-million, but even with $200-million in reserves we would be able to meet all risks —barring a major catastrophe," Mr. Mills said.

The types of "catastrophe" referred to by Mr. Mills, an investment banker, include war, expropriation of United States private assets by a foreign government and inconvertibility, that is, a government's refusal to allow United States investors to convert local currency assets into hard currency.

An example of the second type is the economic nationalism pursued by the Chilean government of Dr. Salvador Allende Gossens, a Marxist.

Since taking office in November, 1970, for instance, the Allende Government has barred the International Telephone & Telegraph conglomerate from converting Chilean assets valued by the company at $108.5-million. In its drive to nationalize the country's copper-mining industry, it has seized assets valued by the Kennecott Copper Company at $84.6-million by the Cerro Company at $14.2-million and by the Anaconda company at $235-million.

Chile the Only Problem

"The only claims situation currently presenting a serious problem is in Chile," Mr. Mills recently told the Senate Appropriations subcommittee on foreign operations, headed by Senator William Proxmire, Democrat of Wisconsin.

"About two-thirds of our total liabilities in Chile are in two expropriations, namely, Kennecott and I.T.T. It is still too early to determine what losse, if any, on the insured portions of these investments will be incurred," he said.

According to a study recently completed by Keith W. Wheelock, a former Foreign Service officer with experience in Chile, the total of all potential expropriation claims against the agency in Chile stood last June at $631.8-million. Mr. Mills confirmed this figure, but he pointed out that it would be virtually impossible that all these claims would be presented at one time.

Mr. Wheelock said that the great bulk of this coverage was issued by IPIC's predecessor as the insurer, the Agency for International Development, between 1965 and 1968.

Friendly Government Then

On those years, he noted, soaring copper prices, large profits by United States mining companies and a friendly Christian Democratic Government headed by President Eduardo Frei Montalva led to large-scale United States investment and expansion in Chile.

In fiscal year 1968, he wrote, $452.8-million in insurance was issued to companies in Chile—a record amount for any country in one year. The agency for International Development's high-risk portfolio, plus suspected political pressure by both AID and the State Department to insure investments in friendly countries, led to mounting Congressional criticism, Mr. Wheelock wrote.

As a result Congress decided to shift investment insurance, financing and project development from AID to the new agency to be run less by Government officials and more by experienced businessmen.

Largely at the insistence of Senator Jacob K. Javits, Republican of New York, Congress authorized the creation of OPIC in the foreign aid bill of 1969. It was formally established by President Nixon on Jan. 19, 1971, under the direction of Mr. Mills. Six of its 11 directors come from private enterprise.

While Chile represents the unknown factor in the agency's future, the situation is not entirely gloomy, Mr. Mills remarked. Recently, he said, the Chilean Government announced its intention of repaying $84.6-million to the Braden Copper Company, a subsidiary of Kennecott.

Shortly before that announcement, the United States District Court in New York blocked the bank account of Chilean agencies after Chile failed to meet the first installment of $5.7-million in promissory notes to Kennecott on Dec. 31.

Moreover, Mr. Mills said, the agency has rejected an Anaconda claim for $159-million on two investments seized by Chile on the grounds that Anaconda failed to keep its insurance current in 1969—presumably to save $2.5-million in annual fees.

Reinvestment Prohibited

In urging Congress on March 1 to allow the agency to raise its insurance reserves from $85-million to $200-million, Mr. Mills said: "If different decisions had been made [in the past], we would not need to be asking your support today to rebuild our insurance reserve."

Mr. Mills asserted that "full independence of public funds" might have been achieved today had the Government-run insurance program "been allowed to retain its earnings and invest them over the past two decades with the same latitude that a private insurance company enjoys."

Since its creation in 1948, he said, the investment insurance program has earned $140-million in insurance fees and has paid out only $4.2-million in claims exclusive of claims recovered. He pointed our, however, that in the fiscal year 1968 Congress rescinded $200-million in Treasury notes held by the insuring agency. It diverted $50-million of earnings in 1970 to AID's Latin American housing guaranty program and prior to 1970 prohibited the program from investing income in United States securities—thus costing it an estimated $10-million in interest.

Mr. Mills urged Senator Proxmire's subcommittee to approve an additional $85-million in stand-by reserves. This would comprise the 50-million previously diverted, the $10-million in lost interest earnings and an additional $25-million, the sum requested for the current fiscal year. With existing reserves, plus unappropriated earnings of $30-million, the total reserves would rise to approximately $200-million, Mr. Mills said.

"We would have adequate cash reserves to meet the demands of even a wholesale nationalization of insured investors, as in Chile—an historically rare episode," he told the subcommittee.