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Backchannel Message From the Ambassador to Chile (Korry) to the Under Secretary of State for Political Affairs (Johnson) and the President's Assistant for National Security Affairs (Kissinger)

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SITREP—October 5

1. Santiago 4079 sent unclassified on PDC Junta results.

2. Santiago 4087 which I just completed gives interpretation. Last paragraph offers only remaining constitutional hope and that is slimmest.

3. Sending septel to you [with] something on Army that might be straw in wind although no supporting evidence elsewhere.

4. First paragraph Santiago 4087 based on my telcon with Frei last evening in effort to convince him to appear at Junta. Only other fact unincluded (sic) for reason of discretion is that he said he had very much in mind William the Silent's line. He was totally beaten and depressed man and I could not snap him out.

5. Paul Rosenstein-Rodan (British citizen at MIT) whom I had go to Frei earlier October 3rd to try instill some fight thought he had success in persuading Frei to attend a 2nd Junta if there is one (see last paragraph 4087). Also provided Frei with a rationale for declaring himself National Unity candidate in second round with National Government for only three years and if unsuccessful in fulfilling goals, he would then resign.

6. I am convinced that I turned Lleras around and that he will weigh in again with Frei. Difficulty is that he must backtrack and that in interim he may be seeing Allende and have second thoughts.

7. Economic situation about same as last week. Too early to judge reaction to PDC Junta but my guess would be that it will have depressing effect on commercial community. Chile does great deal of its business on short term notes many of which are being protested at banks. Process of protesting usually takes ten days before creditor decides whether to roll over debt or foreclose. Because of large number involved, protesting process may be longer now than normal. Other factors:

a. Business generally living off inventories, selling off unpopular items rather than engage fresh capital. Sale about same level generally as Zaldivar reported 11 days ago in textiles, shoes, etc. Durable goods and hardware still below 50 per cent of normal. Private construction almost at standstill.

b. Head of CAP (national steel industry) tells me that in past two weeks orders have decreased by 40 per cent or a worsening of 10 per cent since ten days ago. His cash bind fierce and GOC not yet grant him extra cash to pay off but he (and I) believe he will get it shortly.

c. Valparaiso port is chuckablock with goods unclaimed by importers. Storage rates at port cheap while import duties very high. Importers obviously do not want goods in these market conditions and can afford storage while they wait to see. However congestion is having effect on ship lines who do not like costly unloading time and foreign lines might decide to skip Chile until port area clears. In any case we have some indications, which I having checked out currently, that imports are falling off rapidly which is expectable consequence of situation. That in turn will set back economy in later months.

d. Some US companies such as Kennecott are arranging large short-term credits by mortgaging more future copper contracts in Europe (they deal with “Franco-Italian Bank” here). Everyone in Chile happy to go along with this deal without realizing that it enables Kennecott to remit immediately more dividends—if fact 49 per cent of the $15 million loan they currently arranging on which they would have to pay GOC 30 percent tax leaving rough net $5 million—not bad for company about to be nationalized. Kennecott keeping me fully informed but this knowledge should not be imparted in any way to company in US.

e. ESSO is tightening credit across the board while paying its own bills in cash so as to justify its pinching of debtors. It also was struck October 3 at lubrication blending plant at San Antonio port and is prepared to hold out for a month. Plant is one of the main (but not only) suppliers for plastics industry here.

f. ESSO could not squeeze General Tire as much as it had hoped because Shell (British influenced here) and national company COPEC (private) are giving credits and oil. However both those concerns are now running into cash problems.

8. In sum, economic situation is continuing to bite but nothing spectacular has yet happened. Usually it takes four to six months for full effects to be felt from this kind of debacle but it not inconceivable that combination of PDC Junta and market conditions could set off bankruptcies that could have snowball effect in short run.

9. Action requests:

a. Particular effort to place stories on how Communists and Socialists planning to denigrate Frei immediately after Allende assumes office.

b. Particular effort to place stories on how U.P. intends to lock in technicians and professionals after November 3.

c. Effort to place story contained Santiago’s unclassified 4079 re president of Senate’s use of Foreign Ministry report on Hungarians and grass-roots vs intellectuals at PDC Junta per Santiago 4087.

d. Consider measures that would enable us immediately to reduce our MilGroup to the maximum level of 13 officers and men as agreed to by MinDefense, Armed Forces and USG several months ago. Originally we had planned slow phase out by non-rotation. I would like to do it now and so inform the Armed Forces here. We are collecting data on our men, their scheduled ETDs, etc., for dispatch one (sic) I have green light.

e. Consider what if anything you wish me to tell Felipe Herrera when I dine with him, at his request, October 7.