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Telegram From the Embassy in Chile to the Department of State

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2192. Subj: Talk with Frei on Copper.

1. Although Frei had telephoned me from Vina immediately after my return here last weekend to suggest an early meeting, I did not see him until last night (May 28) because of his concern for his dying mother and cluster of problems. By then, he had received full report of my lengthy conversations in Washington May 22 and 23 with the two special reps he had sent (Carlos Massad President of Central Bank and Pepe Claro, Head of Chile Copper Corporation). Massad returned May 27 to Santiago after four day stay in US. He had reported to him my suggestion that rather than openly break copper agreement with some price-profit formula, they draft a non-discriminatory excess profits law which might also bag some Chilean companies. I suggested that they could even show their draft of such a law to Kennecott and to Anaconda and suggest the companies might wish to make a better deal by direct friendly negotiation. He also reported to him on their conversations with EX-IM, with IMF, with IBRD and on their impressions of the very favorable views the key elements in US society were taking of Frei's moderation. It was against this background that I discussed copper with Frei and delivered the response from President Nixon to his letter.

2. Frei read the Nixon letter slowly and attentively and pronounced it "very good, very good, verrrrry good." I explained that while the letter was dated the same day as his State of the Union speech to the new Congress it was signed prior to that speech and was in response to his original letter only.

3. Frei said he liked the excess profits idea. He urged me to stay in closest possible contact with the five Chileans who would deal with this problem. He would instruct all five to meet with me and not to take any decisions without first sounding me. He said that while he recognized that Minister of Mines Hales was anathema to the companies, he wanted me to know that Hales, because of his "Arab audacity," had been the most effective in jamming the Frei moderation line down the politicians' throats. He said that Hales and Min Finance Zaldivar, his two designated negotiators with the companies, had his fullest confidence and that since both trusted me totally, it was important that I not mirror any of the companies' prejudices towards Hales. He added that he understood the essential need for me to maintain total objectivity since without it, I could neither influence his people nor the companies, nor retain the confidence of the USG. (I had made this point repeatedly to Chilean Amb and to special envoys in Washington and thus was encouraged to know that my views were reported accurately to Frei.) He said that my role would be crucial to success of negotiations, that he was extremely grateful for efforts this far, that he was ashamed for Chile for political attacks I and US suffered here, and that he hoped we would not be discouraged. (He was very pleased with Washington Post editorial May 24.)

4. He said that he would not yield to political pressures come what may. He knew that his line was the only morally justifiable one. Moreover it was in the best economic interests of the country. Inter alia, he noted that no politician calling for nationalization (aside from Marxists and not all of them) was thinking of such action without compensation and that his PDC cohorts were not urging compensation by trickery of 30 year bonds as had been rumored in press.

5. He said that earlier this week he had met separately with PDC Deputies and all of PDC Senators (except for Fuentealba on which septel). They had arrived to urge full nationalization immediately of Anaconda. Frei said he had told them they shouted slogans without understanding their import, that they were manipulated like trained seals by the Communists without reading anything, without demonstrating any intellectual or moral right to represent the Chilean people. He asked them who would pay for nationalization? He asked them if they know the value of Anaconda? He asked if they understood that the productivity of the mines would have to be maintained by new people? And even if such a management miracle were to be achieved, did they understand that the operating costs of these enterprises ran into the tens of millions of dollars and that from date of nationalization to the date of some effective earnings, there would be a period of five months while new stocks were accumulated. And did they know that it takes a marketing organization to sell and that it was possible for copper prices to go down in the near future and that the technology of the US could make aluminum very much a substitute? He said these arguments had had their effect. He added that Hales had been very tough and loyal and successful with both PDC and others. Frei said he had no illusions about the political sickness of Chile and that arguments based on fact and reason were slim dikes against the flood of malice, ambition and sloganeering of an election period. But he said that firmness was the best weapon—that he had told the PDCers that if they yielded to the extremists, the Marxists, on copper that there would be another more extreme demand immediately thereafter.

6. Frei said that he did not worry terribly about Kennecott since Chile with 51 percent of El Teniente could defend its interests by various measures. The tough nut was Anaconda. I suggested that there were formulae to enable the GOC to buy out Anaconda over an extended period of time which would give the company time to readjust to its new situation and which would link the time-frame to the earnings of both parties. After all, prices could go down and Chile could discover it wished to use its resources for purposes other than a buyout. The crucial issue might become semantical and since all Chileans were Philadelphia lawyers, they surely could surmount the mere obstacle of words.