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Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon

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Chilean Copper

In the discussion on U.S. policy toward Chile in a recent NSC meeting, you directed that General Lincoln prepare a study on possible developments in world copper markets and U.S. stockpile disposal actions as they may affect the marketing of Chilean copper. General Lincoln's response (Tab A) and the NSC staff review indicate:

—The world market price of copper has fallen sharply in recent months and may remain at lower levels for a considerable period. Copper was selling for 80 cents a pound in April 1970 but is now down to less than 50 cents a pound. Excess capacity in the free world's copper mines will probably tend to hold copper prices down for the next several years. Excess supply on the world market has already led to the accumulation in private hands of stockpiles in Britain and Belgium totalling 380,000 tons, a total amount more than 50% greater than the U.S. stockpile.

—Since Chilean copper exports generate about 80% of Chile's total foreign exchange earnings, the decline in the world copper price has had and will continue to have a substantial adverse impact on the Chilean economy.

—The U.S. stockpile of copper is 250,000 tons. Initial findings of the stockpile analysis suggest that copper need not be retained in the stockpile for national security purposes. However, Congressional authorization is necessary before this copper can be disposed of.

—Disposal of the U.S. copper stockpile would bring about a temporary further softening of copper prices. It is difficult to estimate the effect of this disposal on the world market price of copper; but the fact that the American stockpile is only about 3% of annual world production indicates that the effect on the market price would not be substantial or long-lasting.

—Any softening of the world copper price caused by disposal of the U.S. copper stockpile would affect those countries that rely on exports of copper for foreign exchange earnings—primarily Chile, Zambia, Congo (Kinshasa), and Peru and secondarily Canada, South Africa, and the Philippines.

Several considerations seem to argue that disposal of the U.S. copper stockpile would not be an effective or desirable instrument with which to affect the Chilean economy:

1. Immediate or near-term disposal of the U.S. copper stockpile would not be possible because of the need to obtain prior Congressional authorization.

2. Disposal of the stockpile would not have a significant lasting effect on Chile's export earnings.

3. Other exporters of copper would be hurt along with Chile by any fall in the world copper price caused by U.S. disposal of the copper stockpile.

4. Disposal of the U.S. stockpile might well cause exporting countries to blame the United States for the low level of copper prices, which has in fact been brought about by market forces unrelated to U.S. stockpile policy.

We are looking into other possible approaches involving Chilean copper exports. The U.S. now buys about 15% of Chile's annual exports of copper, and vessels under contract to U.S. copper-producing companies carry a substantial quantity of Chile's exports. The complexities of the world copper market and the arrangements involved in production and shipping are such that the feasibility of possible U.S. actions to affect production, shipping and purchase of Chilean copper can be determined only after detailed study. These possibilities are now being examined in depth to determine whether they might offer opportunities for effective action by the U.S. should we wish to take some action to affect the Chilean economy.