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Memorandum From Arnold Nachmanoff of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)

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Senior Review Group Meeting—Chile 3:00 p.m. February 17

The purpose of the Senior Review Group meeting Wednesday should be to (a) get a status report on developments in Chile and actions taken to implement our policy since the last SRG (b) decide two issues:

(1) what role the US Government should play in trying to influence the terms of the copper nationalization

(2) how much of the planned allocation of $7 million credit for FY 1971 should be offered to Chile.

DOD may raise a third issue—whether to proceed with delivery of previously committed M–41 tanks, on which we have been stalling.

Copper Nationalization (Options Paper Tabbed)

The most significant issue to be discussed is the US Government role in the copper nationalization situation. You will recall that the SRG decided on December 23 that the effort to negotiate settlements would be left primarily to the copper companies, though the US Government might provide assistance if an appropriate opportunity arises. It was also decided that the Chilean Government would be advised of our position on expropriation and compensation, and of relevant requirements of US law. (The SRG agreement memorandum and options paper for the December 23 meeting are at Tab A).

The options paper for Wednesday's meeting (Tabbed) reviews developments since the December 23 SRG meeting. These are principally:

—Korry's démarche on February 1 concerning our position on expropriation and compensation, other efforts by Korry to convey our position to both the Government and opposition leaders, and a strong speech by Senator Javits which criticized the proposed constitutional amendment on copper nationalization.

—approval by the Chilean Senate on February 10 of a modified version of the proposed constitutional amendment which offers greater possibilities for flexibility by the GOC.

—an impasse in discussions between the GOC and Bethlehem Steel Company over the terms of a takeover by the GOC of Bethlehem iron properties in Chile. OPIC (which is liable for insurance on the Bethlehem investment) and the Embassy are trying to hold off a decision on Bethlehem which could adversely prejudice the copper nationalization.

—Korry was approached by the Foreign Minister and the Interior Minister (alledgedly on Allende's behalf) to indicate that the GOC wants to avoid a dispute over copper and to sound out Korry on how this might be done. Korry recommends that he be authorized to talk to Allende and then to explore with both the Government and the copper companies the possibilities for a settlement. (Cable at Tab B).

The issues raised by the GOC approach to Korry are (a) should the USG get more deeply involved now in trying to achieve fair settlements between the GOC and the copper companies (b) if so to what extent and how (c) should Korry approach Allende.

The paper presents three options:

Option A—continue the relatively passive stance we have been following—further démarches to the GOC only on our general position on expropriation and compensation and the likely consequences of expropriation actions.

Under this option we would encourage the GOC and the companies to negotiate directly, but not get involved in details. We would continue efforts to influence the opposition to moderate the copper legislation, and to make investors and the US and Latin American public more aware of our position on copper expropriation.

Option B—provide informal but active good offices in support of direct negotiations between the GOC and the copper companies.

Ambassador Korry would be authorized to play the same kind of broker role he played in the July 1969 copper agreements.

Option C—if GOC/copper company negotiations do not develop, try to influence the terms of expropriation through direct Embassy–GOC talks.

This would go beyond démarches on our general position into specific exploratory discussions of possible measures by the GOC and their possible consequences.

Three major considerations should be taken into account in assessing the options:

—Their effect on the chances of achieving fair settlements which avoid a confrontation on the copper issue and prevent the need for OPIC to pay insurance.

—Do they strengthen or weaken our position vis-à-vis the GOC and the copper companies if negotiations fail and the GOC proceeds with an unsatisfactory expropriation?

—What implications do they have for other aspects of our policy—e.g., maintaining economic sanctions, building a case against the Allende Government.

Option A gives us least leverage for affecting chances of a settlement, and leaves us most vulnerable to subsequent charges by the GOC that we did not take every opportunity to try to work out a fair settlement (also to charges by the copper companies that we did not try to protect them.) On the other hand, it would make us less vulnerable to charges of interfering, and allows us to retain flexibility in determining our position later.

Option C would apply most leverage, but by getting us into the dispute so directly, would force us to take positions now and thus reduce our flexibility. It would put the GOC in the best position to bargain with us for concessions in other areas—e.g. economic sanctions. It would also make us most vulnerable to GOC charges of interference and pressure. On the other hand, if settlements are not achieved, we would be less vulnerable to charges by the companies that we did not try to protect their interests.

As might be expected, this leaves the middle option. Option B could give us some ability to influence settlements at what may be an optimum time, but would not expose us to charges of interference as clearly as option C would. If the negotiations fail, we could at least indicate that we made an effort to achieve fair settlements. This option would have to be carried out with considerable expertise and skill to act as a broker without allowing the GOC or the companies to pin the responsibility for failure on the USG.

My own feeling is that we should try option B, though with very careful monitoring by the SRG of Korry's efforts. The issues involved in the copper settlements are very complex and technical. This is one area where Korry has demonstrated his knowledge and ability. If he stays in the broker role, without exposing the USG too deeply, he may be able to bring off some reasonable settlements if Allende really wants to avoid a confrontation on copper. If Allende doesn't want a fair settlement, Option B would at least help us for the record by demonstrating that we made an effort to be reasonable (Allende could also get some benefit by claiming that we did not seriously take advantage of the opportunity he offered us to suggest fair solutions, but that is probably a risk worth taking). All of the options refer to the possibility of an approach to Allende, presumably because it will be difficult to determine how seriously the GOC wishes to avoid a confrontation on copper without a direct discussion with Allende. This assumption may be correct in the final analysis, but we may be less exposed by pursuing initial contacts at the Ministerial level until Allende asks to see Korry or until the SRG agrees that we are at the crunch point.

One implication of approving Option B is that it would require keep-ing Korry in Santiago long enough to see this through—possibly 3–4 months. It is highly unlikely that a successor could soon acquire the technical knowledge and contacts that Korry has in this area.

FMS Credit for FY 1970 (Options Paper Tabbed)

The Chilean Armed Forces submitted a request last March for $7 million in FMS credits, including a C–130 transport. The SRG's policy thus far has been to avoid a negative reply on Chilean requests to purchase aircraft but to defer actions as long as possible. DOD expects the Chileans to press soon for a decision on FMS credits. The paper presents three options:

Option 1—Offer no FMS credit

Option 2—Establish a limited FMS credit on the order of $3½ million with no acquisition of major items.

Option 3—Offer the Chileans the full $7 million FMS credit (or a part sufficient to provide for major items).

Option 1 would be consistent with our economic approach (i.e., no new loans) and be less subject to criticism by Congress, the press and other friendly Latin American countries. It would, however, jeopardize our relations with the Chilean military and could give the Allende government some justification for turning to Soviet bloc suppliers. Option 3 would have the obverse advantages and disadvantages. Option 2 is a compromise which attempts to balance our interests in maintaining a relationship with the Chilean military against the probable criticism by Congress and other Latin countries. I recommend approval of Option 2.

M–41 Tanks (Paper to be supplied by DOD at the meeting)

The SRG decided in November that we should delay any decision as to delivery of M–41 tanks which have been reconditioned in the United States under contract with the GOC. DOD may propose that we go ahead with delivery on the grounds that reconditioning has been completed and we may be vulnerable to criticism by the GOC for not meeting our commitment to deliver the tanks.

You may wish to determine whether the GOC has been pressing for the delivery of the tanks, or whether DOD is just concerned they will be pressing soon. If they are pressing us, we have no real choice but to meet our commitment. However, I suspect DOD is more concerned about getting the tanks off its hands now, rather than be forced to meet our commitment later, when we may be in a more direct confrontation situation with Chile and hence subject to more criticism for making the delivery.