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Minutes of a Meeting of the Senior Review Group

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Chile

Chairman—Henry A. Kissinger

State

Under Secretary John N. Irwin*

Mr. U. Alexis Johnson

Mr. John Crimmins

Mr. John Fisher

Defense

Mr. David Packard

Mr. G. Warren Nutter

Mr. Raymond G. Leddy

CIA

Mr. Richard Helms

Mr. William Broe

JCS

Lt. Gen. Richard T. Knowles

B/Gen. Joseph H. Belser

Justice

Attorney Gen. John Mitchell

OPIC

Mr. Bradford Mills

NSC Staff

Mr. Arnold Nachmanoff

Mr. C. Fred Bergsten

Mr. D. Keith Guthrie

* Not present at the beginning of the meeting.

SUMMARY OF CONCLUSIONS

1. Copper Nationalization. The State Department will prepare a draft scenario for an early approach by Ambassador Korry to the Chilean Government to offer his good offices in support of direct negotiations between the Chilean Government and the copper companies. The scenario should include the text of a draft instruction to Ambassador Korry and should outline anticipated developments after the initial approach is made. The scenario should be designed to insure that the United States can confine its role to that of intermediary, without becoming a party to negotiations.

2. M–41 Tanks. The SRG agreed to go forward with delivery of the remaining M–41 tanks already committed to Chile.

3. FMS Credits. Following a discussion of this issue, it was agreed that a decision on the amount of credit to be allotted to Chile in FY71 would be made by the SRG Chairman.

Dr. Kissinger: We have a number of items to discuss today. The principal one is the copper nationalization, but we also need to talk about FMS and M–41 tanks. I understand that Ambassador Korry has been approached on Allende's behalf about how to avoid a dispute over copper nationalization. I don't know how seriously we can take these approaches.

Mr. Crimmins: These approaches were made to Korry by several Chilean officials and by the new Chilean Ambassador to the U.S. In effect, these people have said that the Chilean Government would like to avoid a confrontation on nationalization and is looking to Korry's participation to help make this possible. Up to the present time, the U.S. Government role, as carried out by the State Department, OPIC, and Ambassador Korry, has been to coach the companies from the sidelines. We have emphasized to the Chilean Government that the most desirable technique for avoiding a confrontation would be for negotiations to take place between the companies and the Chilean Government. Korry has indicated that he is ready to assist insofar as this might be useful.

Dr. Kissinger: Do his judgment and ours coincide on what might be useful?

Mr. Crimmins: That is a question that has yet to be defined. The nature of a possible role for Korry is what we are addressing today. It should be noted that he was useful and effective as a mediator in the 1969 dispute between the copper companies and the Chilean Government. Of course, the circumstances today are different. In 1969 the Chilean Government was predisposed to a sensible arrangement. The current government is not by any means so disposed, and Korry's standing is not as sure.

Dr. Kissinger: That is a carefully balanced statement.

Mr. Crimmins: As we see it now, the choice is between Options A & B [of the Ad Hoc Group paper on copper negotiations]. C is really a sequential option; that is, if B is chosen but does not produce results, then we can consider going to C. It is important to understand the present position of the Chilean Government, as expounded to Korry by the cabinet

ministers and by Ambassador Letelier. They indicate that any negotiations with the companies would not begin until after the nationalization legislation is through the Congress. We now estimate this to be not earlier than mid-April.

In Option B we are therefore talking about a pre-negotiation effort to determine whether there is any basis for encouraging negotiations between the companies and the Chilean Government.

Dr. Kissinger: What would we do in C that we are not already doing under B?

Mr. Crimmins: C provides for direct government-to-government negotiations without the companies.

Dr. Kissinger: If the Chilean Government does not want to talk between now and the time the law passes, then there is nothing for us to say to them.

Mr. Crimmins: What we have in mind is a more active exploration of the flexibility of the Chilean position.

Dr. Kissinger: Wouldn't that make us a party to the negotiations?

Mr. Crimmins: No, we would only be sounding the Chilean position.

Dr. Kissinger: I understand what Option B says, but if the Chilean Government is unwilling to talk, what can Korry do?

(Mr. Irwin joined the meeting at this point.)

Between now and April Korry would be the only one doing any talking.

Mr. Mills: The Bethlehem Steel negotiation is going on now.

Dr. Kissinger: I can't see what Korry can do now.

Mr. Crimmins: He can offer his good offices to arrange negotiations.

Dr. Kissinger: Wouldn't that be hard to do?

Mr. Crimmins: The Chilean Government would much prefer to deal with us and leave the companies aside. We, of course, don't want that.

Dr. Kissinger: Exactly. So we send our Ambassador in to talk to them.

Mr. Crimmins: In 1969 his role was that of intermediary. He would again provide his good offices.

Dr. Kissinger: It seems to me that Option B really involves two choices. Ambassador Korry can go ahead and do what he has proposed. Or he can wait until the law passes and tell the Chilean Government then that he is prepared to provide his good offices. Then if they accept, he can go ahead.

I am afraid that we may find ourselves at the point of carrying out Option C before we get started on Option B. B could merge insensibly into C.

We ought to consider having Korry wait to mediate until there are some negotiations under way.

Mr. Crimmins: The situation has changed since Option B was drafted. There are now other purposes which more active involvement by Korry might serve. The principal one is that Korry could attempt to introduce some measure of moderation and flexibility into the Chilean Government's position as the nationalization bill continues through Congress.

Dr. Kissinger: How would he do that?

Mr. Crimmins: He could emphasize the negotiating track and set forth the requirements for a decent settlement.

Dr. Kissinger: Hasn't he done that already?

Mr. Crimmins: In a general, aloof way. Now he would pursue this more vigorously.

Dr. Kissinger: What could he say? What is a non-aloof, vigorous way to be involved?

Mr. Crimmins: The Minister of Interior, who alleges to be speaking for Allende, has asked Korry how to avoid a confrontation. It is possible that any discussions might escalate to the level of President Allende. But even leaving aside that possibility, he could pursue the nibbles he has had from various cabinet members. His purpose would be to move the thinking of the Chilean Government along a more flexible, moderate path in order to prepare the ground for negotiations between the Government and the companies. It is conceivable that Korry's efforts could produce negotiations between the companies and the Government before the passage of the nationalization legislation by the Congress. Our purpose would be to induce the Chilean Government to introduce modifications in the legislation in order to make subsequent negotiations easier. Korry would continue to work, as he has in the past, with opposition elements to get them to introduce useful modifications in the law.

Mr. Irwin: (to Crimmins) Have you discussed the attitude of the companies?

Mr. Crimmins: They are prepared to negotiate although they are not sanguine about the results.

Mr. Mills: Cerro was asked to come down but was totally rebuffed.

Dr. Kissinger: We want the companies to negotiate, but we don't want to get stuck with the outcome and be blamed by both sides. If it is true that the Chileans want us to do the negotiating, then I don't know how we can pursue this without ending up being sucked into negotiations. I have trouble visualizing this pre-negotiation effort. What would Korry do other than say what he is already saying and continue to work with the opposition?

Mr. Crimmins: I would not foreclose this pre-negotiation effort inducing some movement in the Chilean Government toward modifying the legislation.

Mr. Irwin: That's what I would say. However, I agree with Henry [Kissinger] that we don't want to get stuck with responsibility for the negotiations. I think we ought to do what we can to introduce flexibility into the law.

Dr. Kissinger: If Allende wants to negotiate, why is it not in his interest to have flexibility? What can Korry add to the equation?

Mr. Irwin: It is difficult for me to judge, since I don't know the attitudes of these people. However, Korry could make clear the effect of our laws and the necessity that the Chileans not adopt laws that limit their own flexibility. He could also push on negotiations with the companies.

Mr. Crimmins: He would have to be careful to shy away from assuming responsibility for the negotiations. That would be the sine qua non of any approach. He would have to emphasize this at the time he made the approach.

Dr. Kissinger: Let's say that Korry goes in and says, "We want you to negotiate with the companies. Having studied the matter, we have concluded that if you want to negotiate with the companies, you ought to take care that your legislation gives you the necessary flexibility." Then Allende says, "Thank you. We will take into account what you say." What happens then?

Mr. Crimmins: Then you could well get a change in the legislation.

Mr. Packard: At this point, the objective is to see whether the legislation can be influenced in some way. It is too soon to determine whether to negotiate or what we can negotiate.

Dr. Kissinger: Especially when Allende can always change the rules on negotiations.

Mr. Packard: It would be worthwhile to see if we can influence the legislation. In the course of doing so, we would seek to keep our options open.

Mr. Irwin: Exactly.

Dr. Kissinger: Is more involved than one visit by Korry to Allende?

Mr. Crimmins: I wouldn't want to preclude some approximation of the companies to the Chilean Government. A visit to Allende could well be preliminary to discussions between the companies and the Government. Thus, I would not want to say that we make a pitch to Allende and stop there. I would not want to preclude a scenario that would move the prospects somewhat further.

Mr. Mills: There are two points that are important here. One is that the legislation won't be ready for a month. The other is that right now negotiations between Bethlehem Steel and the Chilean Government are going on. The Chilean Government says these talks will be a prelude to the copper settlement. Thus, right now is the moment for us to take action.

Mr. Crimmins: The Bethlehem negotiations will not necessarily determine what sort of copper settlement can be arranged.

Mr. Mills: As Ambassador Korry just reported today, the Chileans have announced that the Bethlehem negotiation will be a trailblazer.

Mr. Crimmins: We don't have to view it this way.

Dr. Kissinger: (to Helms) What do you think?

Mr. Helms: I am no expert on how to handle these situations. However, it seems to me that anything we can do now to keep the Chilean Government's attitude from hardening would be desirable. I am sympathetic to your [Kissinger's] point that we ought to consider carefully how the dialogue might proceed. Still, it is worth making a try; the situation can hardly get worse. If the Chileans get what they want in the Bethlehem negotiations, they will advertise it in neon lights. It might provide an undesirable precedent.

Mr. Irwin: I can't really say how working out a settlement of the Bethlehem affair will help in getting desirable changes in the legislation. A Korry conversation with Allende might be a one-shot affair as you [Kissinger] say, but it might permit further talks with cabinet ministers. Also Korry can continue his efforts with the opposition.

Dr. Kissinger: These certainly do not endear him to Allende.

Mr. Packard: What is the situation with regard to Bethlehem? How are we involved?

Mr. Mills: We have been working closely with Bethlehem; in fact, OPIC has been telling them what to do. The original Chilean proposal was for payment over 20 years at four per cent. Bethlehem countered with eight years at 6½ per cent. Now Bethlehem wants to put forward a proposal that would call for payment over a period from 8 to 15–20 years based on the ability of the Chilean Steel Company (CAP) to consume iron ore. If the Chilean Steel Company will expand its production as much as its plans call for, then Bethlehem will take a long-term payout.

Mr. Packard: What about price?

Mr. Mills: They are not down to that yet.

Mr. Crimmins: Depreciated book value is being used. Bethlehem had a contract with the Chilean Steel Company going back to 1951 providing for CAP to buy out Bethlehem over a twenty-year period at 4 per cent.

Mr. Packard: In that case, the twenty-years-at-four-per-cent figure is almost fixed.

Mr. Crimmins: The circumstances are now different. Bethlehem says the contract is not binding.

Mr. Mills: The contract is subject to interpretation.

Mr. Packard: If that is the approach Bethlehem is taking, I imagine it won't come off. They are probably stuck with depreciated book value, twenty years, and four per cent. But if something could be worked out within those guidelines . . .

Mr. Crimmins: Bethlehem's latest formula could result in a ten-year payout.

Mr. Mills: This is much better than anything we have seen so far in the way of a possible settlement.

Mr. Packard: The pending legislation is not likely to affect this. What is there that we can influence?

Mr. Crimmins: If the Bethlehem negotiations break down, the chances are that nationalization of the Bethlehem properties will be incorporated in the copper bill. The present terms of the legislation provide for payment over thirty years or less at a rate of at least 3%. This is a change from the original Allende proposal which set a flat 30 years at 3%. The present legislation has some vague technical points, such as whether expropriation applies to the assets or to the company (i.e. the shares).

(Attorney General Mitchell joined the meeting at this point.)

Mr. Packard: What you are really saying is that it is very important to keep the legislation flexible.

Mr. Mills: We also want to keep pressure on the Bethlehem negotiations to avoid having them set a very adverse precedent.

Mr. Packard: It seems that this is the time that something ought to be done.

Mr. Irwin: There is not much to lose, except for the risk that you get in so far that you end up negotiating for the companies. We have to make clear to Korry that he is not to do this.

Mr. Packard: We need someone down there to handle the game planning. Is someone else [besides Korry] called for?

Dr. Kissinger: I remember back in October all the things we were told would happen if we didn't turn Korry loose then. Not one of these things has happened.

Mr. Crimmins: I wasn't here at that time.

Dr. Kissinger: Korry wanted to go to see Allende one week before the inauguration. The quid pro quo was going to be our good will. None of the things that were predicted happened. If someone can write out exactly what we would have Korry say, it would be helpful.

Mr. Crimmins: Why don't we prepare a draft instruction and circulate it to the principals?

Mr. Packard: It is clear that this is the time for something to be done.

Dr. Kissinger: This is not just a commercial issue for us.

Mr. Mills: Following the Javits speech and Korry's recent discussions with Chilean officials, we have seen a marked change in the Chilean attitude.

Dr. Kissinger: The basic issue ever since October has been in whose interest it is to avoid a confrontation. Is it more in our interest or in his? If it is not in his interest to avoid a confrontation, then he can have one anytime he chooses. The basic point is that it may be in his interest to pretend that he has gone the extra mile in trying to get along with us as long as there are some opposition elements still in existence. Allende wants to maneuver us into an adversary position.

The best way to proceed would be for you to tell us exactly what you want Korry to say to Allende.

Mr. Crimmins: With regard to Allende's motivation, he does have an interest in preserving his international respectability and access to international financial institutions, though he would not seek to do so at any cost. He is not in such a vulnerable position that a cutoff of funds would be very damaging to him. But if he can on the cheap maintain his respectability and his access to the international institutions, then he will try to do so.

Dr. Kissinger: Four months ago I didn't know anything about Chile. But as an outside student of revolutions, it seems to me that Allende's problem continues to be what it has always been: to delay a confrontation with outside groups as long as possible until he can neutralize pro-Western and opposition elements in Chile.

(Mr. Johnson joined the meeting at this point.)

Perhaps he will try to maneuver us into the position of being the defenders of economic interests. This is the lousiest possible position in which to be in present-day Latin America. If we were dealing with Frei, who we could be sure was only interested in driving a hard bargain, then this issue would not have to come to the White House.

Mr. Crimmins: We have countervailing concerns. We don't want to take the onus for a confrontation, yet we want to keep pressure on Allende. We have to thread a path between these two.

Mr. Packard: What alternatives do we have? Is it really in our interest to be tough and force the issue?

Dr. Kissinger: No, we don't want to force it. Our approach could be to stay aloof, let them pass the nationalization law, offer our good offices when it is passed, and if we meet with no success, apply our own laws.

Mr. Packard: There may be some people and forces in Chile we want to encourage. By doing this, we may cause them to lose hope.

Dr. Kissinger: The problem is that precisely the forces we want to encourage may be told by Allende: "I am dealing with the Americans, and things are going along nicely. Who are you to scream?"

Mr. Packard: On that basis, we would conclude that we should not deal with Allende but with the opposition in the legislature.

Mr. Crimmins: We have had considerable success with them so far.

Dr. Kissinger: No one objects to dealing with the opposition. The problem is the danger of getting involved in negotiations with the Chilean Government.

Mr. Packard: We should not get very involved.

Mr. Crimmins: It is important to remember that there is no Chilean sentiment opposed to the nationalization of the copper industry.

Dr. Kissinger: That is why we should stay the hell out. We are right at the point where we were last year when it was proposed to take a stand on political principle instead of finessing the issue. We run the risk of winding up in the position of defending an economic interest.

Mr. Packard: We are just being euchred along. We might as well admit it. But what alternative course do we have?

Dr. Kissinger: The point is that we don't want to let Allende use us to castrate his opposition in parliament by getting us in the position of being his chief adversary. He knows exactly what he is doing. He has run a superlative operation since his inauguration. We can assume he knows everything that Korry could tell him. If he doesn't do some of the things [we might warn him against], it is because they don't fit in with his strategy. (to Crimmins) Do you believe that he is really unaware of our concerns?

Mr. Crimmins: Not at all.

Dr. Kissinger: Let's take a look at what you want to have Korry say to him. Also we ought to have a scenario to show where we might wind up after making an approach. We want to be sure that we make clear that we don't want to negotiate.

Mr. Packard: I agree that we do not want to negotiate.

Mr. Irwin: So do I.

Mr. Crimmins: I agree, but if he nationalizes, we will become the negotiator as a result of the OPIC guarantees.

Mr. Mills: That's right.

Mr. Nachmanoff: That won't happen for a year.

Mr. Crimmins: We become the subrogees immediately.

Dr. Kissinger: Okay, do a game plan. I think you know what you are doing and that Allende knows what he is doing. The question is to find out how it all fits together. Now we can take up the military issues.

(Mr. Mills left the meeting at this point.)

Mr. Packard: We recommend going ahead with the credit and the tanks in order to keep our channels open to the military.

Dr. Kissinger: Our strategy is to try to be as close to the military as we can.

Mr. Packard: The trouble is that the military is unwilling to take a stand. However, by continuing our assistance, we may at least keep the Russians from coming in.

Dr. Kissinger: (to Packard) You are recommending the full $7 million?

Mr. Packard: Yes.

Mr. Irwin: We concur on the tanks. We don't really object to the $7 million FMS credit, but we feel that if we provide the full amount, it will look as though we are doing business as usual. Thus, we think it would be better to set a lower figure, say, $4–5 million in order to show that it is not business as usual. Our proposal is to provide the tanks and $4 million.

Mr. Crimmins: Allende has been handling the military with considerable success; they are essentially inert. There is a risk that he can use these credits to his own advantage. We can signal that business is not quite as usual; otherwise, Allende can say to the military: "There are no problems with the U.S. You are getting just what was programmed."

Mr. Packard: I am assuming that we can get a message to the military to counter this. I think we have good enough communications to deal with this.

Mr. Crimmins: The signals we are receiving all point in the opposite direction. The military say that they are constitutionally minded and that they are responsive to the will of the electorate.

Mr. Nutter: Back in October we concluded that the military would respond only if Allende steps down hard on them. I don't know whom we signal.

Lt. Gen. Knowles: It is hard to split the [proposed FMS] package. If we took out the C–130, we would have the air force fighting with the army. We would take something of a loss in our relations with the military.

Mr. Crimmins: Do you really think that the result would be altogether bad? Would there not be some virtue in getting across to the military that their approach is not costless?

Mr. Packard: I could see some advantage to that if I thought it could really be achieved. However, the problem now is to keep the military from going elsewhere to get equipment. I would much rather let them have the C–130 than allow that to happen.

Mr. Crimmins: Would you feel the same way if they came back and requested F–5s?

Dr. Kissinger: I guess I will have to take this to the President.

Mr. Packard: I hate to bother the President with this.

Dr. Kissinger: Would all of you like to think it over some more, and then we can take a poll tomorrow?

Mr. Irwin: We don't have any strong feelings about this. Let the Chairman decide it.

Dr. Kissinger: Let me think about it further. (to Irwin and Packard) Then I will call you tomorrow.

Mr. Leddy: There is a long delivery time on the weapons.

Dr. Kissinger: We will settle this tomorrow.