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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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Chilean Pressure for Ex-Im Bank Loan for Boeing Aircraft Sale

The Minister of the Chilean Embassy, Pablo Valdes, called on me Thursday, May 13 for what was supposed to be a courtesy call. However, he recalled your meeting with Chilean Ambassador Letelier on March 23 and your offer to be of assistance to him should the need arise in the future. He said the Ambassador, presently in Chile, had instructed him to bring to your attention a current issue related to obtaining Ex-Im Bank financing for the purchase of Boeing aircraft (two 707's and one 727) for the Chilean airline, LAN-Chile. Boeing and the Chilean Government apparently have reached agreement in principle for the sale of the aircraft, provided Ex-Im Bank finances 40% of the $26 million sale, and guarantees another 40% to be provided by private US banks.

The Minister made the following points in his conversation with me:

—Ambassador Letelier, after talking with President Allende, who has a strong personal interest in this project, had instructed him to inform you of the problem and to seek your assistance in obtaining a positive Ex-Im response;

—Boeing, in its preliminary consultations with Ex-Im and State was given to understand that the Bank might not be able to proceed with the loan for reasons not pertaining to the soundness of the project itself, presumedly for political reasons;

—While this project is not important in itself, the Ex-Im response will be regarded as a political sign of US relations with Chile;

—There is a time problem involved as the order must be placed with Boeing in the next few weeks in order to obtain delivery of the planes within the next year;

—His government does not want to make a formal request to the Bank until assured that it would be approved, for a turndown or excessive delay in considering the proposal would create obvious problems in US-Chilean relations which his government wishes to avoid.

Valdes left a copy of an Aide-Mémoire which Ambassador Letelier had presented to Assistant Secretary Meyer last week (Tab A).

I assured the Minister that I would inform you of his government's concern over the problem and of his request for your assistance and that we would look into the problem. I pointed out that Ex-Im makes its decisions based not only on the

soundness of a particular project but also in light of the overall economic prospects for the country in question. The Bank has to take broader factors into consideration; these are essentially economic, not political. I assured him of our desire to maintain good relations with Chile and expressed the hope that this particular issue, whatever its outcome, would not significantly affect relations between our two countries.

Valdes indicated he would call me next week to see if anything could be done. I again answered him that we will give careful attention to this, but it might take some time to look into the details of this somewhat technical matter.

Ambassador Korry reports that he was pressed by Ambassador Letelier on the Boeing sale. Letelier claimed that Ex-Im's action would be critical to the evolution of US-Chilean relations, and that Allende would view a refusal as "hostility." Korry comments that prior to Letelier's raising the issue, the Embassy had concluded that if an acceptable deal was worked out between the Chilean Government and Cerro Corp. (a settlement should be announced shortly), and if we wished to contain the Kennecott and Anaconda problems, then the Ex-Im Bank should go forward with the Boeing sale. He believes going forward will have a positive impact on the remaining copper negotiations, while a negative position would belie the President's declaration that we are willing to have the kind of relations with Chile that it wishes to have with us. He also believes such a negative impact would serve to make anti-Communist Chileans more receptive to the populist-nationalism which fuels Allende's strategy. (Cable at Tab B)

The issue is a very difficult one. The Ex-Im Bank is strongly opposed to financing the Boeing sale to Chile on banking grounds—i.e., unfavorable economic outlook for Chile, the Bank's already heavy exposure in Chile ($400 million) and the precedent with regard to other exports to Chile. The Bank is also concerned over possible Congressional reaction. Moreover, there is another serious political problem: the Chileans have clearly indicated they plan to use the planes on a route which would include a stopover in Havana. If not limited to humanitarian cargo and passengers, use of a national airline on a Havana route would trigger a suspension of aid under the Foreign Assistance Act.

I believe that State would like to go ahead with the Ex-Im loan for the Boeing sale, but until Korry's cable had been reluctant to press Ex-Im Bank to reverse its normal banking criteria and do something special in favor of Chile. However, the issue has now escalated to a level where the policy implications warrant an inter-agency review. Therefore, State is preparing a paper for the Senior Review Group. I believe the issue is serious enough to warrant SRG consideration, and recommend that you agree to place this on the schedule at an early date.

In the meantime, pending the SRG review, I will inform the Chilean Ambassador that we are giving careful consideration to this problem, emphasizing again, however, that the Ex-Im Bank operates primarily on the basis of banking criteria.

Recommendation

1. That you agree to consider the Ex-Im Bank/Boeing issue for Chile at an early meeting of the SRG.

2. That you authorize me to tell the Chilean Ambassador that we are giving careful consideration to this issue, emphasizing, however, that Ex-Im Bank's operations are based primarily on banking criteria.