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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, Thursday, June 3—3:00 pm

Last week I sent you a memo covering drafts of the two papers to be considered at Thursday's SRG meeting, one on LAN Chile's desire for EX–IM financing to buy three jet aircraft from Boeing, and the other on the package requested by the Chilean Armed Forces under FMS. (Tabbed) I pointed out that the Ad Hoc Group's drafts forwarded to you were not final and would be revised prior to the meeting. We now have received final drafts on the Boeing problem (Tabbed) and the FMS issue (Tabbed). As anticipated, revisions are not major, but there are some changes from the earlier drafts.

The Boeing Problem

You will recall that the Chileans have asked for what amounts to high-level political clearance on EX–IM financing for the Boeings before they submit formal application for credit, and that they have indicated that the planes could be used on the Cuban run. They have also implied a link between our decision on this matter and their treatment of U.S. copper investments. While they genuinely want the planes, they are also using this issue as a lever in an attempt to pry us loose from our restrictive credit policies.

There are two principal issues involved in the Boeing decision:

—The major issue is whether to make an exception to our restrictive credit policy in order to avoid (a) damaging the prospects for the copper negotiations, and (b) possibly straining the correct relations we have maintained with Chile thus far.

—A subsidiary issue is the inconsistency with our Cuba policy of providing EX–IM financing for aircraft which may well be used to establish a new air service to Cuba.

The revised draft alters the options structure somewhat. There are now seven options falling within three categories:

—A prompt and unequivocal "no" (Option A).

—Three options providing for a conditional response, related to Chilean actions with respect to both copper and Cuba (Options B, C, and D).

—Three options providing for a more positive response, but conditional only on Chilean actions related to Cuba (Options E, F, and G).

The paper specifies that, with respect to the copper condition, we would ideally await copper settlements before giving final agreement to the Boeing loan, but favorable developments in the copper talks could lead to earlier approval of the loan. (You should explore what would constitute “favorable developments.”)

The three graded conditions on Cuba offered for choice in both the conditional and more positive sets of options are:

—Assurance that Chile will not fly these aircraft to Cuba.

—Assurance that Chile not carry cargo to or from Cuba on these aircraft.

—That we simply inform Chile of the legal consequences of using these aircraft to carry cargo in a Cuban service (i.e., a suspension of further U.S. aid).

The Options are discussed on pages 13–26 of the revised Boeing paper (tabbed).

DOD takes a hard line on the Cuban issue and will probably come down for either Option B or E, which retain the hardest Cuban line. State will probably favor either Option D or G, depending on how firm it wants to be on copper. Both options simply have us inform the Chileans of the legal consequences of carrying cargo in a Cuban service.

I continue to favor Option D (Option II in the previous draft) because:

—It makes Cuba a subsidiary issue; whatever our decision, it should be presented on “banking,” not political grounds.

—It puts us in a reasonable posture, while permitting us to wait out the Chileans on copper (rather than caving now to their pressure and subjecting ourselves to more blackmail prior to a copper settlement).

—Although it carries the implication of a positive response and hence a break in our restrictive economic policy, if the copper negotiations turn out satisfactorily, such a shift would be defensible, and perhaps inevitable if Allende treats the copper companies fairly.

The risk involved is that the Chileans may regard Option D as a negative posture, and react as they would to a flat “no.” However, if we do not have a Cuba condition, we can stress that this is being handled as a normal banking matter (the EX–IM Bank frequently takes months to process loans of this type).

Ambassador Korry has just sent in a blast affirming his view that we should go ahead promptly and unconditionally with EX–IM financing for the Boeings (cable tabbed). He believes the Chileans would flatly turn down any request for assurances on Cuba, and charge us with political blackmail. He also urges that failure to go ahead now with the EX–IM loan would push the GOC into harsher treatment of the copper companies and other U.S. investments, garner sympathy elsewhere in Latin America and the U.S. for Chile’s position, damage OPIC, and jeopardize our interests in Chile.

A point not dealt with in my previous memo is the relationship between the Chilean request and a similar desire on the part of the Peruvian Government to buy transport aircraft, in this case for an internal air service. We have followed a restrictive policy with respect to Peruvian requests for EX–IM credits. Our position on EX–IM financing for Chile has an obvious bearing on any subsequent decision on Peru.

You should also note there is a question of possible inconsistency between our position on the Boeing issue and our position on the FMS issue.

The FMS Issue

The options in the final draft on the FMS issue differ very little from the version I sent you last week. The issue is whether to restrict the Chileans to $5 million previously approved by the SRG, or to allow them to use the $5 million to guarantee up to $10 million in commercial credits. (The options are discussed on pages 7–10 of the FMS paper.)

Option 1a would provide the paratroop equipment and both C–130 aircraft in the Chilean second priority category. Option 1b would include the paratroop equipment the Chileans put at the head of their list and one C–130; this option includes commitment in principle to provide the other C–130 in FY 1972.

The considerations involved in this issue are maintaining our influence with the Chilean Armed Forces, the effect on our relations with the GOC, and the reaction of other countries and the Congress. With respect to the latter, we have now taken a sounding with other governments in the area, the results of which were not available earlier. They show some nervousness at the prospect of increased Chilean military capability, and this is particularly true of Argentina and Peru. However, the main reaction was, as I previously indicated, that they would be deeply disturbed if it appeared that we were treating Chile equally or better than themselves or other countries friendly to us.

State and DOD apparently favor Option 1a (the full $10 million covering the paratroop equipment and both C–130's). I am not convinced that this is required to maintain our lines of communication with the Chilean military and avoid a clear signal of hostility to the GOC. Moreover, the recent sounding with other governments shows that some would feel somewhat more threatened by greater Chilean military capability than they had previously indicated. Their main reaction is still one of possible resentment over too favorable treatment of Chile under FMS. I see no reason for contributing to their discomfort more than we have to in order to keep open our lines to the Chilean military. The basic $5 million already approved by the SRG may be sufficient for this purpose.

The main drawback of the lower level is that the Chileans may turn to third countries as a source of supply for some of the items in priority categories not covered by either option unless we whet their appetite by at least giving the full $10 million; but (a) they may do this anyway, and (b) they are likely to go to Western European sources, rather than the Soviet bloc.

Your Talking Points for the meeting are tabbed.