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

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Chile

The Senior Review Group decided on Thursday, June 3, to present two issues concerning Chile to you for decision. These are:

—How to respond to Chile's request for Ex-Im Bank financing for three Boeing aircraft for the Chilean airline, LAN-Chile.

—How we should respond to Chile's request for FMS credits.

I. The Boeing Issue

Chile wants to buy two Boeing 707's and one 727 with Ex-Im financing of 40% of the $26 million purchase price and an Ex-Im guarantee for another 40% to be financed by private US banks. The Chileans have made clear that they regard our response to their request for Ex-Im financing of the Boeing aircraft as a political decision which will have significant impact on the prospects for the copper negotiations and our overall relations. They have indicated they would view a negative decision as belying your public statements that we are prepared to have the kind of relationship with Chile that it is prepared to have with us.

The policy you approved following Allende's election involved a two-level approach: (1) to maintain economic pressures on Chile in order to contribute to Allende's economic problems and to help prevent the consolidation of his regime; but (2) to maintain a correct public posture to avoid giving Allende an overt political issue which would help him to gain support in Chile and elsewhere in Latin America. Under that approach, the Ex-Im Bank was directed to issue no new credits to Chile and to gradually and selectively reduce its guarantees and insurance.

This policy has been carried out successfully so far, in that economic credits to Chile have been severely restricted while we have avoided giving Allende a clear issue on which to attack us. The Chileans are concerned about their international credit standing, and have been paying their debts, negotiating settlements with expropriated companies (including Bethlehem Steel and Cerro Corp.), and avoiding confrontation with us.

The Boeing loan cannot be treated solely as a special case because Ex-Im will be under heavy pressure to finance other exporter credits if it agrees to finance Boeing. Although a total opening of credits for Chile would not be necessary, it is

clear that going ahead with Boeing would entail some easing of credit restrictions toward Chile generally. The basic policy issue, therefore, is whether we maintain our very restrictive credit policy towards Chile in order to maintain pressures on a regime which is moving toward the establishment of a Marxist state, or ease credit restrictions somewhat in order to (a) improve the prospects for fair settlements for the US copper companies and other US investors, and (b) maintain the credibility, both in Latin America and the US, of your publicly correct posture towards Chile.

The advantages of allowing Ex-Im Bank to go forward with the Boeing deal and hence accepting some easing of our credit restrictions on Chile, are that it would:

—avoid damaging the prospects for fair compensation for Anaconda, Kennecott and other US investments; this in turn would limit the risk that OPIC would have to pay on its investment guarantees, totalling up to $400 million;

—benefit the US economy, rather than letting the sale go to the British;

—maintain the credibility of your publicly correct posture and avoid criticism that we are pushing Allende into a more radical direction;

—deny Allende a political issue with which he could gain support in Chile, Latin America and the US;

—require Chile to acknowledge and assume the debts of US companies it expropriates. (Ex-Im would make this a precondition.)

The disadvantages of easing credit restrictions in this case are that it would:

—help ease somewhat the economic pressures on the GOC resulting from the scarcity of foreign capital;

—increase the pressures for making available other credits in the future;

—increase the Ex-Im Bank's exposure in Chile, at a time when the economic outlook is very uncertain;

—could be interpreted as a softening of our stance towards the Allende regime while it continues to move toward its Marxist objectives.

A subsidiary but complicating question involved in the Boeing issue is presented by the GOC's intention to use the planes for a stopover in Cuba enroute to Europe. While there is no legal bar to Ex-Im's financing of aircraft under these conditions (in fact, Ex-Im has financed aircraft for Iberia, which flies to Cuba), use of the planes for service to Cuba would not be consistent with our overall Cuban policy.

State and JCS believe Ex-Im should be authorized to process the loan, including providing a preliminary commitment, under normal banking procedures, and that we should thus accept some easing of our credit restrictions. DOD favors processing the loan, too, but only if we obtain assurance from the GOC that the planes would not be used for service to Cuba. Treasury does not favor processing the loan. (See Tab A)

State, JCS and CIA believe the GOC probably would not accept a condition on the use of the planes to Cuba, and in fact would use such a condition to charge us with turning down the loan on political grounds. They propose instead that we simply inform the GOC of the statutory provisions which may apply (i.e., suspension of AID if they ship cargo to Cuba on their national airline). I concur.

My own feeling is that the time has not yet arrived for us to confront Allende directly by openly drawing the line on economic credits. Some easing of credit will not be decisive in determining whether Allende consolidates power. On the other hand, an openly restrictive policy would be inconsistent with our public statements on Chile (and with our more

forthcoming trade policies vis-à-vis the Soviet Bloc and China), and would help Allende gain sympathy in Chile and abroad, thus making it easier for him to treat the US companies unfairly. I, therefore, believe that we should process the Boeing loan, but in a way which would give us some flexibility to cancel it and cut off the flow of credit if the Chileans do not subsequently agree to fair settlements with the copper companies. Henry Kearns has indicated that he would do this in an indirect way by establishing defensible "banking" conditions before providing a preliminary commitment. Since the outcome of the copper negotiations should be known by next fall, while delivery of the first 707 would not occur until March 1972, we would retain flexibility to deny final approval of the loan (although Kearns points out that this could involve some difficult questions of interpretation for the Bank if expropriatory action is not clear-cut.)

Recommendation

That you authorize Ex-Im Bank to process the Boeing loan for Chile under normal banking procedures, with the understanding that could mean some general easing of credit for Chile, though subject to a cut-off if satisfactory copper settlements are not achieved. Pete Peterson concurs.

II. The FMS Issue

The Chileans have requested military equipment under the FMS program in 1971 totaling $19 million. In line with your policy directive to maintain contact and influence with the Chilean military, the Senior Review Group previously approved a $5 million FMS loan for Chile. The issue we now face is whether to:

(a) allow the GOC to use $5 million in direct FMS credit to guarantee $10 million of commercial credits (DOD has concluded that $10 million would be the upper limit that could be accommodated within the overall FMS ceiling.) Ten million would permit the Chileans to buy paratroop equipment and two C–130's which were the first two priorities on their list, or

(b) limit the Chileans to a $5 million FMS program ceiling, permitting them to buy the paratroop equipment and only one C–130 (we would agree in principle to provide the other C–130 in FY 1972 under this option).

A $10 million level would bring Chile close to the FMS levels currently projected for other major Latin American countries (e.g., Brazil, $15 million, Argentina, $13 million). Some of Chile's neighbors would undoubtedly be concerned about the US providing military equipment for Chile, and most would be resentful if they did not receive substantially better treatment on FMS from us than Chile receives.

State, Defense and JCS favor the $10 million level on the grounds that:

—it is the best way to maintain influence with the Chilean military;

—it would help prevent Chile from turning to other suppliers (most likely Western Europe, but possibly Soviet Bloc).

I question whether the additional influence we buy with the Chilean military (who have shown no disposition to oppose Allende thus far) for $10 million vs $5 million is worth the additional resentment and criticism we are likely to get from other friendly Latin Americans and Congress. (A substantial FMS program for Chile might be particularly puzzling to them in view of Allende's recent criticism of our military assistance program as contributing to an arms race.) I also doubt that $10 million vs $5 million is likely to be decisive in determining whether the GOC turns to other suppliers.

Recommendation

That you approve a $5 million FMS program ceiling for Chile.