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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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SRG Meeting September 9, 1971—Chile

The issue to be considered at the SRG September 9 is whether to take a positive initiative with the Chilean Government to induce it to provide acceptable compensation to the copper companies. In essence this would be some version of the Anaconda proposal—endorsed by Connally—for a special emissary who would hold out the carrot of future international credits if the GOC compensates the companies. The paper prepared by the Ad Hoc Working Group (Tabbed) provides a very good summary of the situation and the relevant considerations for US policy at this time. I am summarizing the main points below, but I recommend that you read the entire paper.

Situation

Allende's public posture in recent weeks indicates that he has embarked on a course to justify limited or no compensation to the copper companies, and to pin the blame on the US for Chile's economic problems and for any deterioration in US-Chilean relations. The GOC has chosen to make a public issue of the Ex-Im Bank's position on the Boeing loan, and has achieved wide support on this issue. Ambassador Letelier has indicated that he will be delivering letters to Secretary Rogers and the President shortly.

The GOC apparently intends to complete the process of establishing compensation for the copper companies by October 14. The provisions of the law do not permit a settlement which would be "adequate" under normal standards, but Allende does have the flexibility to provide compensation approaching book value, which probably would be acceptable to the companies.

Ambassador Korry has been active in suggesting that a pragmatic settlement would have some benefits for the GOC, but so far the GOC has not pursued any possibilities. Meanwhile, Chile's foreign exchange reserves continue to decline and it appears that Allende will face a serious foreign exchange crisis in early 1972. If he does not obtain unforeseen large inputs, he will be forced to drastically curtail imports, or to seek rescheduling of debt payments or to default. However, even a debt renegotiation would have to be accompanied by further stabilization assistance.

Allende's Choice

Allende's choice is whether to seek a confrontation with us on copper compensation or seek a pragmatic solution which would reopen his access to international credits. Radical elements of the Socialist Party are pressing for the first course on

the grounds that it will lead to a more rapid socialization of the country and would have the immediate economic benefit of repudiating $1 billion in debt to the US. It would also allow Chile to rally Latin American support for the popular cause of opposing US “economic aggression” in Latin America. The factors favoring a pragmatic settlement, however, would be Allende’s desire to attain a debt rollover and access to credits.

The Issue

Anaconda has proposed that we send an emissary to Chile to indicate that if Chile provides satisfactory compensation, the US would take a positive attitude to opening up international credit for Chile. This could be done by a presidential emissary or by a third party such as McNamara. The advantages and disadvantages of this course are listed on pages 10–11 of the State Paper (Tabbed). The basic considerations are: (a) will offering the carrot have any serious impact on the chances for compensation; (b) even if it would not, would it improve our public posture for a confrontation; and (c) if the GOC agrees to a deal, would we have to give so much (in terms of rollover and new credits) that we would bail Allende out of the expected economic crunch.

My own feeling is that if we pursue this course, it should be done through a third party rather than by a direct USG representative. This would have the advantage of avoiding a direct negotiation and would keep the carrot somewhat fuzzy. It would also give us a third party to attest to the reasonableness of our position if Allende choses to go the confrontation route later.

Your talking points follow these general lines.