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Memorandum From Ashley Hewitt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)

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The Copper Crunch in Chile

President Allende last night signed a decree determining that mines operated by Kennecott and Anaconda in Chile have earned some $774 million in excess profits since 1955. He was required to make this determination under the amendment to the Constitution which nationalized the copper industry last July. Two other American-run mines, Andina and Exotica, were not mentioned in the decree since they have just begun production and have earned no profits.

The copper nationalization amendment required the President to determine excess profits and the Controller General to determine the net assets of the companies after deductions for various reasons. The decision of the Controller on assets is not due until October 15. Taken together, the figures on net assets and excess profits would determine the level of compensation to be paid to the companies. Even without deductions, however, the assets of the companies were not expected to be more than $500 million. Hence, Allende's decision setting an extraordinarily high figure for excess profits indicates not only that no compensation will be paid, but that the companies may well wind up owing the government. The government may use this device to justify default on some $185 million owed to the American copper companies as a result of its purchase of a 51% interest in the equity in 1967 and 1969. About $85 million of this debt is covered by OPIC insurance payable to Kennecott.

Allende's punitive approach to the copper companies is probably based on domestic political considerations since it can only inhibit his efforts to open up the flow of credit to Chile from international sources and get the economy moving. His own Socialist Party is strongly opposed to payment of any compensation to the copper companies, and the Communists looked for a minimal payment at most. Moreover, it is difficult for the Christian Democrats to oppose the government line on nationalization and compensation since the Frei government began the process with the earlier takeover of a controlling interest in the companies. However, the process is not yet complete, and it is possible that Allende's action in setting such a high figure for excess profits is a tactic of some kind—not likely, but possible.