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Memorandum From the Assistant Secretary of the Treasury for International Affairs (Petty) to Secretary of the Treasury Connally

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Chile

(1) The Chilean Government has now declared publicly its intention to renegotiate its foreign debt. We have not yet been asked directly by them to participate, although informal feelers have been received through our Embassy, which indicate they wish to negotiate bilaterally with us and multilaterally with others. However, we have been asked by the French Government, if we would be willing to attend a general creditors' meeting in Paris at the end of November, chaired by them. (France has played a similar role in many debt negotiations before.) We have told them that any such meeting seems premature at this time for our participation.

(2) There has been no basic change in the situation of the U.S. firms in Chile. All three copper companies have filed appeals before the special tribunal and are expected to complete their briefs within another ten days. The operations of ITT Chile have been taken over and no negotiations are now in progress. The remaining, untouched U.S. firms (book value $175 million) have not had any change in status.

(3) The economic situation in Chile, particularly the foreign reserve level, has become worse in recent months, and this is why they want to stretch out their debt (see attached debt profile). It is believed that the weakening economic situation and its adverse political impact has caused Allende to present to Congress a plan for a unicameral legislature, increased Presidential powers and a weakened Supreme Court. This may cause a political showdown for Allende since there is opposition to these moves by both political parties and large segments of the population. He may welcome a U.S. showdown at this time to bolster his hand for a plebiscite to gain approval of the internal measures.

(4) The Next Step

There has been no U.S. response except for two public statements of concern on October 13 and 15 by Secretary Rogers and Assistant Secretary Meyer. Disbursement of the remaining undisbursed obligations of approximately $25 million continues, which includes project loans, food grants to voluntary agencies, technical assistance, and military credits. If the Cannon Amendment to the aid bill presently pending in conference is approved, it would stop all existing and new bilateral aid and probably any new multilateral assistance (our lawyers' interpretation).

Recommendations on the next steps to be taken by the U.S. Government will be going forward to the NSC shortly and ultimately to the President. A Treasury position is needed now. Given the present situation, we recommend that as a general strategy we continue to apply economic pressure and make it clear that the U.S. will not provide economic benefits

to Chile if it does not compensate. We would withhold strong retaliatory actions until the appeals process has proceeded further and it is clear that compensation will not be paid.

There are three major options on the debt rescheduling:

(a) Refuse outright to negotiate until they agree to pay all foreign debt (copper company notes) and compensate for expropriated companies. We would not compromise any eventual agreement to renegotiate—but rather make settlement of outstanding claims a pre-condition for consideration of any renegotiation.

(b) Negotiate a debt renegotiation of short duration (stretch out of the next year of debt service only) in return for agreement to compensate. This would open door for Chile's being declared "creditworthy" in international lending agencies and would allow Allende to consolidate economically (assuming he is willing to settle expropriation—which is very unlikely).

(c) Agree to renegotiate debt, but only multilaterally with other creditors. Try to restrict stretch out to 2 years maximum with stringent financial conditions (IMF agreements, etc) which Chile probably not willing to accept.

We recommend (a) above, as it applies maximum pressure and does not tie our hands to ultimately renegotiate. The first step would be to refrain from sending any representative to the Paris meeting, if held in November or early December. The following additional actions should also be taken now by the United States.

(1) A U.S. expropriation statement made within the next two weeks.

(2) Stopping existing pipeline of aid loans.

(3) Public—but low key—invocation of Hickenlooper (or Cannon) on January 15, 1972—if tangible progress towards compensation of the copper companies and ITT not made by then. This would be six months after the act of nationalization.

(4) Consider other retaliatory acts only after that, depending on their response.