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

Identificador Archival:	frus:frus1969-76v21/d275
Agencia Emisora:	Departamento de Estado
Fecha del Documento:	1971-12-03
Colección / Serie:	FRUS 1969–1976, vol. XXI: Chile, 1969–1973

Nota de Archivo: *Washington. Source: Washington National Records Center, RG 56, Secretary's Memos, 1971: FRC 74 A 17, Memos to Secy 11–12/71. No classification marking. Drafted by E.J. Gordon; cleared by Hennessy. A copy was sent to Walker. The December 3 memorandum was signed by Petty on December 4.*

Tactics to Deal with Chilean Debt Negotiations Request

1. We should quietly increase our pressure on Chile. This is based on a judgement that as external assistance dries up and copper prices remain down, poor economic management at home will become increasingly apparent. Time is on our side.

2. Allende may sense this. He has stopped paying his foreign debts and he has asked for a rescheduling. There is probably something to the view that an open confrontation with the U.S. could be used to his domestic political advantage. A quiet international financial isolation would expose him at his worst. Riots in Santiago on Wednesday—prompted partly by food shortages—give signs of a deteriorating situation.

3. The immediate objective is to make sure that the creditors (excluding Russia) do not step in and (a) agree to a rescheduling, (b) provide new credits, or both.

These steps should be followed:

a. Put a slow man on the Chilean aid desk. A few million of old credits are still being disbursed and this can be brought to a virtual halt without actually proclaiming it.

b. Commence bilateral contacts with other creditors. The purpose would be to explain the U.S. position, slowly and carefully.

c. Early next year (February or March) the creditors could get together and talk things over.

4. Our position should appear reasonable, one deserving of cooperation:

a. Chile has seized U.S. property and we need a prompt and reasonable settlement.

b. In the meantime, new forms of assistance are out of the question.

c. Other creditors have too much at stake: a dangerous precedent could be set if a borrower is permitted to declare a moratorium on its own debt and then—without any economic program—obtain a generous rescheduling along with new funds. (Our action on Pakistan weakens this argument somewhat.)

5. The Chileans have stopped payment on all foreign debts since November 12 with the exception of those to the IFIs and short-term commercial obligations. They have formally proposed, on November 29, a deferral of all the principal and interest falling due to the U.S. during 1972–1974, to be repaid over thirteen years including a three year grace period. These are extraordinary terms, far more generous than the ones Chile received in 1965 when relations were very cordial.

6. A Chilean team is now visiting European creditors; France, Belgium, Great Britain, Italy, and West Germany. France reports that Chile has approached them about relief in a bilateral context but without mentioning specific terms. France stated that they could only consider relief if multilaterally negotiated and with an IMF approved stabilization program. France remains interested in chairing multilateral creditors' conference early next year.

7. I believe that Treasury and not State should take charge of these negotiations. That is a role we have not ordinarily played in the past. There would be strong support from EXIM, OPIC, and possibly from Agriculture for this position. It is a natural for the NAC which has always had considerable jurisdiction in this area. In fact, Walter Sauer of EXIM has written you a letter requesting an NAC meeting as soon as possible. I will have some suggestions on procedure shortly.

8. We are collaborating with State on a report to the President now which should be ready in the next few days but we may not agree.