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Telegram From the Embassy in Chile to the Department of State

Identificador Archival:	frus:frus1969-76v21/d279
Agencia Emisora:	Departamento de Estado
Fecha del Documento:	1971-12-14
Colección / Serie:	FRUS 1969–1976, vol. XXI: Chile, 1969–1973

Nota de Archivo: *Santiago. Source: National Archives, RG 59, Central Files 1970–73, POL CHILE–US. Secret; Priority; Exdis.*

6082. Subject: Chile: USG Posture and Policy. Ref: Santiago 6008.

1. Summary: Developing Chilean economic and political crisis argues for continued US policy of quiet restraint—avoiding confrontation, postponing issues and "fuzzing" actions. Opposition leaders are unanimous in urging that we not give Allende pretext with which he can rally his divided nation against "foreign devil." In specific terms such policy would recommend allowing Europeans take lead in debt renegotiation while this slow and troublesome process works against GOC. In copper and ITT our interests would best be served by permitting appeals and negotiations to run their course as Allende's problems mount.

2. On aid side, we can best pursue these ends by continuing strategy of delay and unresponsiveness, while proceeding with rapid phase-out of all but people-to-people programs. By next month programs will essentially be at level and wind-up which would exist if Hickenlooper actually invoked on that date. Other than in symbolic sense, Hickenlooper would only be important as it affects military assistance. Here we believe it important to continue and possibly expand our modest programs as means of sustaining armed forces' US orientation and their potential as opposition power center. Strengthening of US informational and cultural activities might also be helpful at this juncture. Finally, I hope that we will prepare ourselves for critical times ahead in intelligence capabilities and in personnel policies of all agencies. End summary.

3. Policy recommendations made here are intended to lie in context of analysis contained reftel (Chile: An Initial Assessment). What seems clear to me and my colleagues is that: 1) Chile's fate is not yet a foregone conclusion; and 2) the pace of decision and confrontation is quickening. We may not have to wait too many months for Chilean political and economic crisis to come to some sort of head.

4. Newcomer is struck with compelling force of argument against giving Allende "flag" and "foreign devil" against which to rally his divided nation and consolidate his regime. Virtually without exception opposition leaders—businessmen, politicians and journalists—have taken occasion of their first contacts with me to plead for US policy of close-mouthed restraint. Every month of US self-discipline could be important.

5. It is difficult for great, open US democracy to maintain distinction between what we do and what we say. However, what Americans, Europeans and others are doing is proving highly effective in hastening Allende's economic crisis. Bankers and traders are doing what comes naturally, and Chile is revealing itself as among world's most unpromising credit risks. Our policy of prudent and quiet patience has been generally successful so far in depriving Chilean radicals of public, emotional target they need.

6. This diagnosis argues for avoiding confrontation when we can, side-stepping conspicuous retaliation, postponing issues, and "fuzz-ing" our actions. On occasion we may be well advised to resist the North American urge to tidy things up. In terms of specific issues, this might mean something along following lines.

7. Debt renegotiation. Multilateral negotiation with Europeans in the lead—and US in the lee—would seem to serve our purposes well. Europeans are doing fine. IMF, IBRD, IDB and other international agencies can carry much of the load. Hopefully we can avoid being ones to turn down Dec. 20 Paris Club meeting. Chileans are poorly organized, and there is little danger of their pushing pre-Christmas meeting to any meaningful result—even if Europeans should agree to meet on that date. I assume we shall simply hear-out Inostroza, Letelier and company when they come to Washington. Rather than pressing—either overtly or covertly—for stringency of terms, we might do better to take rather quiet role and let time and other actors work for us. Reality is that Chileans haven't the money to pay in any case, and no amount of stamping on the turnip is going to change that fact. By avoiding appearance of unreasonableness or disposition to public dispute we can help make sure GOC bears burden of its foreign exchange crisis and what will probably be, for GOC, a slow and unsatisfactory renegotiation. Ideologically and for practical domestic political reasons GOC will have great difficulty in accepting realistic reforms or stand-by which IMF and Europeans will want.

8. Copper. While there are signs of a few second thoughts on Allende's part over wisdom of his extreme finding, he doesn't have money nor economic or political conditions which would permit acceptable solution at this moment. It is conceivable that there might be time in future when some combination settlement involving payment over number of years would be possible. Allende's political-economic crisis is not so far away, and it would seem both in interests USG and copper companies not to force copper appeal to abortive conclusion in next month or two.

9. ITT. Same goes for ITT. I am happy talks opening in US, but not hopeful. Presumably ITT wants to be paid, and it is doubtful satisfactory outcome is in the cards at this time. ITT has long resisted physical appraisal, partly because of time required, but some passage of time in properly safeguarded appraisal might serve ITT's interest.

10. Aid. We are rapidly phasing out aid programs. While we currently have theoretical aid loan pipe-line of approximately $17 million, in fact we have already made decisions not to go forward with programs which represent over $13 million of that amount (San Vicente port, bid no. 7 and local currency financing under education loan, certain feasibility studies, etc.). On grant side, excluding approximately $8.5 million in Food for Peace commodities used mostly to feed school children, our program during FY 71 ran at rate of about $1.5 million. By end of FY 72 we will have reduced this by more than half and will be left with grant activities limited to AIFLD scholarships to US, RTAC books, special development activities, and technical support. Except for school feeding, these programs neither ease GOC's foreign exchange problem nor do they relieve GOC's economic crisis. They do, however, enable USG to maintain constructive contact with varied elements of Chilean population. Even school feeding can only marginally be regarded as substituting for imports which would otherwise be made, and is being cut back in any case.

11. As for Hickenlooper, within a month aid programs will consist essentially of same activities which would exist if Hickenlooper actually invoked on that date (wind-up under Section 617 of FAA, plus activities mentioned above which might continue even if Hickenlooper applied).

12. In our strategy, we have employed delay, inactivity, and unresponsiveness—and hope this strategy can be continued. For example, de-obligation requires notice to GOC, and hopefully we can resist urge to tidy-up, and simply leave obligated balances on books for a few months for political reasons. Sums are not large, and no actual financial cost would be involved. When GOC requests firm answers and clarifications from USG (or even multilateral institutions where we have influence), there is no reason we must comply. A thick skin may help us a lot in months immediately ahead. (It is interesting that issues over which President Allende flailed at us in his recent CUT speech were all symbolic and highly

public exchanges between two countries—and not quietly terminated aid programs.)

13. Military. One of our broad policy objectives is to sustain potential opposition power centers here in Chile. Military establishment (including Carabineros) is among most important of these, if not the most important. Therefore, it is worth considering seriously how we can buttress military independence and maintain our own ties with armed forces. Military is trying to stave off reorientation of armed forces to Soviet weapons, matériel and training despite heavy pressures. Without some US help, military may not be able to sustain its position.

14. Other than its symbolic role, Hickenlooper is really important to US policy only in its applicability to military assistance. In this respect timing of copper appeals process may allow us to continue modest military assistance—particularly military assistance training—at least for a time. We should not underestimate effect of this program on Chilean military attitudes. Their fear of "abandonment" continues to be a critical psychological factor here. Funding should at least be maintained at present level of $850,000 or preferably increased—perhaps to level last CAS Country Team submission ($1,250,000). We should consider whether some small matériel gestures to Chilean military are possible. Under present restrictions, only military service we are in position to assist is Chilean Navy, through US Navy's ship lease program. We shall soon be submitting proposal for leasing one aging, noncombatant ship—useful principally for its symbolic value to Chilean Navy as evidence of our continuing cooperation. It would also be worth considering whether we could restore Chile's eligibility for MIMEX, SIMEX, MAPEX and PAMEX items. Chile's removal from eligibility in 1968 was based on economic conditions here which no longer prevail. Some flexibility in providing matériel would strengthen our hand in trying to ensure continued reliance on the US for military support. My understanding is that FY '72 Foreign Military Sales credit is planned at $5 million level. This figure should be maintained and, if possible, somewhat increased. We understand intensity of US domestic pressures and difficulty of maintaining and defending military assistance to Chile. Nevertheless, in terms of our own real interests in this country, the stakes are high.

15. Information and exchanges. With phasing out of aid, departure of most US business, and other reduction of ties, our information and cultural presence takes on increasing relative importance. In these terms Chile becomes more like Eastern European countries where we have long recognized high priority in information and cultural field. Recent Duke Ellington visit was of disproportionate cultural and political significance here. Other high quality cultural presentations, intellectual exchanges (e.g. Paul Nash), exhibits (we should consider UNCTAD III), continued budgetary support for educational exchanges and our bi-national centers, good 35 mm color shorts and TV series dubbed in Spanish, and sophisticated placement of quality materials with newspapers and radio, are among important elements of effective public affairs program.

16. Internal administration. In some ways we are in a time of preparation for tests ahead. In our intelligence collection effort, if we need people or sophisticated equipment for programs deemed of high priority, we had better not too long delay in implementing our plans. Not only may time come when we need to be well prepared, but introduction of men and matériel may become increasingly difficult. In period ahead this Mission must more than ever have its contacts out. In our personnel programs, I hope all agencies will give Chile sufficient priority to assign top-flight personnel, with substantive and language preparation, to enable us to do best job possible with as few people as are necessary.