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Memorandum From the Under Secretary of State (Irwin) to the President's Assistant for National Security Affairs (Kissinger)

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Considerations Affecting Next Steps Options for Chile

NSDM 93 established the following basic policy objectives in our relations with Chile: to prevent the consolidation of the Allende regime and to limit the ability of the Allende regime to carry out policies contrary to U.S. and hemisphere interests. To achieve these objectives, NSDM 93 calls for maximizing pressure on the Allende government while maintaining a correct but cool public posture. Thus pressure is to be balanced by a restrained public posture so that measures intended to weaken the Allende regime do not contribute to its consolidation of power or its ability to rally external support.

Although the process of appeal to a Special Tribunal remains to be concluded, there appears to be little prospect that the Allende regime will provide any significant compensation for the equity interests in the major U.S. copper properties expropriated by Chile in July, 1971. Thus, some form of a confrontation seems unavoidable. It remains to be determined how a confrontation would come about and how far it would go.

The Allende government is in considerable internal difficulty. Nationalization and other economic policies have been costly. Production and food shortages, labor indiscipline, an inflation rate of about 20 percent despite rigid price controls, sharply depleted reserves and sagging copper prices are creating increasing political as well as economic difficulties. The violence and repressive measures set off by the December 1 women's march protesting food shortages are evidences of growing popular discontent.

While President Allende's personal popularity is still considerable there are signs it is declining. Government candidates lost in a series of recent labor union and university elections, as well as in the July 1971 by-election for a deputy in Valparaiso, the nation's second largest urban center.

Allende could use a foreign scapegoat to take Chileans' minds off their internal problems and to rally them to his side. The question is not whether in our actions toward Chile we take a "hard" line or a "soft" line but rather whether we take the necessary measures quietly or contribute to a strident confrontation.

Our basic position on the copper compensation issue in Chile already has been stated publicly by Secretary Rogers. A broader statement of our position on expropriation in general will publicly establish what we need to say on this issue without singling out the Chilean situation.

Our efforts to keep the onus for our worsening relations on Allende have proven reasonably successful to date and have been so acknowledged by our friends in Chile and elsewhere in the world. The unvarying advice we continue to receive from Allende's opponents and those who wish us well is to continue to avoid playing into Allende's hands.

The advantages of not giving Allende gratuitous alibis to explain away his own bad performance outweigh, in our judgment, any possible risk involved via the "model effect" of such a policy on other countries. We would in any case undertake to explain our strategy to other countries, where appropriate, making clear that our actions, far from reflecting indifference to or acquiescence in Chilean policies adverse to our interests, are designed to maintain pressures while minimizing Allende's opportunities to exploit those pressures.

It has been our assessment during the past year that while our economic pressures can exacerbate the difficulties of the Chilean economy, the present downward course of the Chilean economy is so well defined that the economic pressures available to us will add only marginally to its deterioration. The element in doubt here is not what will happen but rather who will be blamed.

Any assessment of the effectiveness of economic sanctions against Chile should also take into account the vulnerability of the $1.4 billion which represents Chile's debt to the U.S., plus the OPIC exposure plus the remaining uninsured U.S. private investment in that country, which in a real sense are hostage against our actions. In this respect, it may be noted that negotiations are continuing with IT&T, and that the GOC continues to maintain the position that it will pay the debts of the mixed copper companies to third parties.

As regards our policies before international lending institutions, we should seek to obstruct and delay Chilean loan applications before the IBRD and IDB using technical and procedural reasons to the maximum feasible extent. Our objective would be to avoid as long as we could an unnecessary confrontation, the likely adverse repercussions stemming from Chilean charges of U.S. economic retaliation, and the negative effects on our other financial interests and on our relations with the multilateral institutions. It is quite conceivable, however, that after having exhausted available delaying tactics, we may have to face up to this dilemma. Should the issue then be posed in stark terms of voting for or against a loan to Chile, we would vote against loans.

The course of action which best corresponds to the guidelines established by NSDM 93 is to allow the dynamics of Chile's economic failures to achieve their full effect while contributing to their momentum in ways which do not permit the onus to fall upon us. Provocative actions or visible harassments on our part would only insure that we receive the blame for a confrontation and offer Allende the opportunity to shift to us the responsibility for his economic failures. In such circumstances, we also would run the serious risk of pushing Allende into closer Soviet relations and possibly large-scale economic and military assistance. With regard to the latter contingency, we share the Defense Department's concern for retaining our traditionally close and friendly relations with the Chilean military.

Though hard pressed, the basic elements of democratic choice in Chile are still intact. The outcome of the political struggle in Chile is still uncertain and Allende's revolution has not reached the point of irreversibility. We should therefore avoid, as best we can, prejudicing the survival of democratic alternatives in Chile.

We believe that selective suspension of assistance to Chile, without a formal invocation of the Hickenlooper amendment (so long as plausible grounds can be found to avoid the application of the amendment) and with the exact timing of our actions to be left flexible, would best serve the basic policy objectives indicated above while also defending the principle of just compensation for expropriated property. We therefore recommend the adoption of timing option Y and the following mix of key points from options C and D (see paper entitled "CHILE: Next Steps" dated November 23, 1971):

—Continue military assistance and people-to-people activities.

—Continue to withhold new AID or ExIm Bank loans. Continue suspension of ExIm loan disbursements, guarantees and insurance operations as made effective by the Bank on December 6.

—Slow down AID loan pipeline disbursements. (We could eventually deobligate funds whenever plausible technical grounds can be used, but since this would require formal notice we suggest holding off on actual deobligation for the time being.)

—Delay and discourage consideration of loans to Chile in the IDB and IBRD; as necessary vote against them in both institutions.

A detailed paper on the issue of debt renegotiation is in the process of preparation on an interagency basis and will be forwarded to you shortly.