DECLASSIFIED // SECRET; PRIORITY; EXDIS

Telegram From the Embassy in Chile to the Department of State

Identificador Archival:	frus:frus1969-76v21/d285
Agencia Emisora:	Departamento de Estado
Fecha del Documento:	1972-01-11
Colección / Serie:	FRUS 1969–1976, vol. XXI: Chile, 1969–1973

Nota de Archivo: *Santiago. Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. Secret; Priority; Exdis.*

---

162. Subject: Chile Copper/Debt Rescheduling. Ref: State 004069.

1. Summary: As instructed, I called on Pres Allende and expressed most serious concern of USG at recent Chilean actions suspending payment Anaconda and Braden notes. Allende said he respected Anaconda's full right of appeal to US courts. If Anaconda should win its case, he presumed some international tribunal would have to decide between Chilean and US jurisdictions. Re Kennecott, Allende said he was appointing committee of Chilean and Finnish experts to advise on investment utilization. He alleged that it was not his desire that determination be punitive or excessive. Re other creditors, Allende said GOC intended to respect obligations. I advised Allende that US looks forward to constructive discussion copper debt questions in Paris. End summary.

2. Pres Allende received me privately at his Tomas Moro residence at noon today. Telling the President I was speaking under instructions, I noted that recent GOC actions suspending payments of Anaconda and Braden notes had caused strong reaction in Washington. I said I had been directed to express most serious concern of USG. I added that our decision to participate in Paris talks was evidence of our continuing interest in maintaining normal relations. President interjected that he welcomed USG decision, and interpreted it in same spirit. I went on to cover other points contained para 2 reftel.

3. When I mentioned President's private statement to Ambassador Korry about Anaconda notes, President said he had indeed told my predecessor that he respected Anaconda's full right to appeal its case in US courts. If Anaconda should win its case in New York, while GOC won in Chile, he presumed some international tribunal would have to decide between jurisdictions. (Comment: From the way Allende described his conversation with Ambassador Korry, I got impression he regarded his remark as merely expressing recognition that Anaconda could appropriately seek legal remedy in US. Allende gave no indication he regarded GOC as committed to facilitate favorable outcome. I believe we should also avoid conclusion that his reference today to possible appeal to "international tribunal" is commitment to arbitration of our differences. Pres made comment in somewhat off-hand way, and I doubt that he was conveying considered GOC position.)

4. When I referred to Kennecott's belief that El Teniente notes would be paid, Allende launched into discussion of Chile's mining problems. He alleged Kennecott management had failed to install adequate water system at El Teniente and had overridden Chilean technical advice on a number of questions. He alleged Kennecott had failed to train Chilean personnel adequately in operation and maintenance of converters.

5. I made points contained para 3 reftel. We had some back-and-forth about need to preserve and widen flexibility on both sides. Pres asserted this was what he desired. When I noted our view of the nature of the Anaconda and Braden obligations

Allende acknowledged that Braden notes had originally been unconditionally guaranteed.

6. Allende took issue with me over his constitutional obligation regarding mixed mining companies' debts. He said constitutional commitment was explicit in giving him responsibility in this matter, remarking that Ambassador Korry had once acknowledged in conversation that Allende had been handed "hot potato." Having been given this authority, President had to explain his use of it or failure to use it to his people and nation.

7. With respect to Braden notes, President said his intention was to handle matter as fairly as possible. Considering that French consultants (he was not, he said, acting on basis Soviet advice) had posed question of improper utilization of expansion-program funds, Allende felt he had no alternative but to address this question. He intends to form advisory committee of Chilean and Finnish experts. He does not he said wish determination to be punitive or excessive. (Comment: While President Allende may at this moment mean what he says, we must recognize that political pressures on him and Chile's present financial plight make it doubtful that review will come out this way.)

8. I referred to views of Codelco on expansion program at El Teniente and fact they were not altogether sustained by the Contraloria. (I had not received State's 005020 when conversation took place, but I do not believe I left any implication that USG accepts Contraloria's $20 million deduction.)

9. I made other points contained para 4 reftel. Allende's reaction to my statement about Chilean majority ownership and majority representation on board of El Teniente was that management remained in Kennecott's hands and it was management that made investment decisions.

10. Re question of discriminatory suspension Braden notes, Allende alleged that investments covered by Braden loan were separate from investments made with other loans, and could be segregated from expansion program taken as a whole. Allende went on to say that his committee might well find most of Braden loan properly used, and would deduct only improper investments.

11. Re para 7 of Decree 124, Allende told me he had no intention of reducing payment to other creditors. I asked when and how other creditors might be reassured, in light of Decree 124, that obligations would be respected in full. Allende said he would try to work this out quickly.

12. Re Anaconda, when I made points contained para 4 (d) of reftel, Allende asserted Chilean constitutional amendment was clear, and GOC was obliged to act in accordance with its intent.

13. I reiterated desirability of maintaining maximum flexibility for reaching solution and invited President to consider possibilities. I added that US looks forward to constructive discussion debt questions during Paris talks. Allende asked me: "Are you saying you want to talk with us about copper debts before Paris discussions start?" I said my understanding was that US delegation would go to Paris prepared to hold discussions with Chileans at such time as US and Chilean delegations would mutually arrange.

14. In closing I reiterated concern over unilateral nature recent Chilean actions and expressed hope we could work toward solution both sides could accept. President Allende expressed hope USG would assume flexible and understanding attitude in Paris talks, as our posture would greatly influence attitudes of other creditors.