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Memorandum From the Chairman of the Inter-Agency Committee on Debt Renegotiation (Weintraub) to the Senior Review Group

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Proposed U.S. Approach to Debt Renegotiation With Chile

The attached memorandum setting forth the proposed U.S. general approach to debt renegotiation with Chile is submitted for the consideration of the Senior Review Group. It is the result of many weeks consultation among the U.S. Government agencies concerned. As noted in it, various specific financial issues relating to the pursuit of our general objectives in the negotiations have been referred to the National Advisory Council on International Monetary and Financial Policies for continued study and recommendations.

Proposed U.S. Approach to Debt Renegotiation With Chile

The forthcoming debt renegotiation with Chile requires us to balance several complicated and important issues affecting our interests. While the Chilean request for debt relief is a measure of the serious economic deterioration which has occurred under Allende, it also gives the Government of Chile opportunities to try to make some significant political and economic gains at our expense. We can assume that the Chilean Government would effectively exploit any confrontation which it could lay at our door, rallying domestic and foreign support to consolidate itself in power and shifting the burden of responsibility for Chilean economic failures from itself to us. We can further assume that the Chileans will seize on the first justification which they deem is available to them to separate us from their other creditors and continue in default on their heavy debt to us. The Chilean debt relief issue is also highly sensitive domestically because of uncompensated copper expropriations.

The Chilean purpose thus will be to obtain the most generous possible debt relief from its creditors, among whom the United States is predominant, owning 57% of the total Chilean external public debt; to reestablish a greater degree of creditworthiness in the Western financial community; and at the same time to seek to turn to its advantage any move by the United States which could lead to our isolation from other creditors and our election to the role of Chile’s “foreign devil.”

Our purpose will be to see that Chile receives the least possible debt relief; that its creditworthiness be an accurate reflection of its own seriously deteriorated economy; and that the Allende regime continue to bear the full responsibility for its own failures without shifting it to us.

Inter-agency consultations carried on since early December have achieved substantial agreement on the recommended general approach to the negotiations. The first issues—whether to enter into negotiations and whether to do so

multilaterally—have already been decided in the affirmative, and with the authorization of the Chairman of the Senior Review Group we notified the Chileans and the French on January 5 of our willingness to participate in the Paris Club creditors' meeting expected to take place in early February. (We expect this first meeting will be limited to collecting information and exchanging preliminary viewpoints.)

The agencies agree that we should take a strong position in the negotiations that Chile must acknowledge official debt to U.S. private as well as official creditors, some of which the Government of Chile has put in question. This debt may be divided into four categories:

a) Debt unconnected with copper, which will probably offer little difficulty;

b) Copper debt to third parties, which may be more problematical;

c) Debt to Kennecott (OPIC-insured and GOC-guaranteed), which has been suspended pending a presidential determination of the usefulness of the investment; and

d) Copper debt consisting of notes given to Anaconda by the government copper corporation in 1969 in payment for the 51% ownership transferred to the government at that time, which may be most problematical because of its virtual nullification under the constitutional amendment on copper.

We would make known early in our discussions with other creditors and with the Chileans our expectation that Chile would assume all its debt without distinction, and would vigorously press our position at every suitable opportunity, stopping short of producing a confrontation with Chile (or damaging isolation from the other creditors) which would enhance the ability of Chile to reap benefits at our expense.

The agencies agree that while there is a reasonable chance that we can use our leverage in the negotiations to obtain Chilean assurances regarding much of the debt, there is no real possibility that the talks can be successfully exploited to obtain compensation for expropriated U.S. companies. They agree that the question of compensation should be raised at the discretion of our negotiators when they see suitable opportunities for injecting the issue into the talks, but that it would be futile and disrupting to attempt to make adequate compensation a condition for agreement on debt rescheduling and would simply lead to a breakdown.

An analysis of the Chilean request for debt rescheduling is attached.

The agencies have referred to the National Advisory Council on International Monetary and Financial Policies a series of questions on which our delegation will require additional advice as we get into the negotiations. These include the following:

a) Whether the international financial institutions (IBRD and IDB in this case) should participate in rescheduling of debt. The institutions have customarily not participated in rescheduling, and Chile has not requested them to do so.

b) The manner of handling the problems of assumption of debt, Eximbank debt payment acceleration clauses, and the subordination of various other copper debts to debts owed to Eximbank.

c) The manner in which we should press for strong substantive participation of the IMF in the debt rescheduling operation, possibly through a standby agreement or similar form of discipline.

d) The ranges of debt rescheduling terms, including interest rates, for which our delegation should strive.

The negotiations would proceed in two phases, the first multilateral and then, assuming a memorandum of understanding were reached between the creditors and Chile, bilaterally with Chile to reach agreement putting the new debt schedules

into effect on loans due to the United States Government. The question of assurances by Chile on paying its debt to private parties, and that relating to compensation for expropriated property, can be put on the table during the multilateral phase, but will be most relevant before any bilateral agreement is reached. The United States will thus have the option during each of these two phases to make decisions on signing agreements, depending on all circumstances then affecting our relations with Chile.

In accordance with established practice and with the memorandum to the Secretary of State from Dr. Kissinger dated January 8, 1970, the Secretary has designated the chairman of the U.S. delegation. This is Sidney Weintraub, Deputy Assistant Secretary for Economic Affairs. The Treasury Department, Eximbank, AID, OPIC and other agencies as needed will provide representatives on the delegation. The Treasury representative will be expected to play a major role in the financial aspects of the negotiations.

Recommendation

That the Senior Review Group approve the approach to the Chilean debt renegotiation as set forth above.