DECLASSIFIED // SECRET; SENSITIVE; NODIS

Memorandum From William J. Jorden of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)

Identificador Archival:	frus:frus1969-76v21/d294
Agencia Emisora:	NSC / Casa Blanca
Fecha del Documento:	1972-04-10
Colección / Serie:	FRUS 1969–1976, vol. XXI: Chile, 1969–1973

Nota de Archivo: *Washington. Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–64, SRG Meeting, Chile, 4/11/72. Secret; Sensitive; Nodis. Sent for information. Concurred in by Hormats and Kennedy. Kissinger wrote at the top of the page, "Mexico—Where do we stand?" Attached are five documents: Kissinger's talking points for the SRG meeting on Chile; an analysis of the Chilean economy; a State Options Paper with attachments (telegram 1466 from Santiago, March 28, on the Chilean economy; background data on Chilean debt; telegram 1536 from Santiago, April 1, on debt rescheduling and ITT/Anderson); the April 4 paper "Next Steps Options on Chile" (see Foreign Relations, 1969–1976, vol. E–16, Documents on Chile, 1969–1973, Document 106); and a November 23, 1971, State Option's Paper (ibid., Document 92).*

SRG Meeting (April 11)—Chile

1) Review of recent developments in Chile and their implications for U.S. policy;

2) Specifically, what has release of the Jack Anderson–ITT papers done to our position in Chile? In the rest of Latin America?

3) What stance do we take in the next round of the "Paris Club" (April 17–18) regarding rescheduling of Chile's debt and the compensation issue?

This meeting provides an opportunity for a thorough-going review of our policy toward Chile. Has it worked? Are the assumptions behind it still valid? Is time working for us or for Allende? Have we reached a point where our goals are incompatible? If so, what are our priorities? It is especially pertinent to raise these questions at this time because:

—The OAS General Assembly is meeting in Washington this week;

—UNCTAD III begins in Santiago this week and will continue for the next few weeks (Jack Irwin will head the US delegation);

—the next round of the Paris talks on Chile's debt will resume on April 17.

—the OAS sessions will offer an opportunity for numerous bilateral talks between high US officials and Latin Americans.

In all of the above fora, the question of US-Chile relations will figure to a greater or lesser extent. So it is a good time to get our ducks in a row.

Our basic policy on Chile has been to put maximum pressure on the Allende government to prevent it from consolidating itself. At the same time, we have carefully avoided actions that would allow Allende to rally support domestically or

internationally, or to put the blame for his troubles on the United States.

The consensus around this town and the hemisphere appears to be that our policy has been highly successful. Allende certainly is in deep economic trouble (see Analysis paper). There is a strong feeling that Chile faces economic collapse, sooner or later, regardless of the outcome of the Paris talks on debt re-scheduling. Allende has also been under considerable political pressure. The opposition has grown and become increasingly vocal. Both economic and political unrest have caused the military to grow increasingly restive and uneasy (though there is no sign that they are prepared to unseat Allende or involve themselves directly in the political process at this point).

One still unassessed development has been the ITT/CIA affair, the Jack Anderson columns and the release of the ITT memoranda. This has been played to the hilt by the leftist press in Chile and elsewhere in the hemisphere. Marxist parties forming the Popular Unity (UP) coalition have been exploiting the affair. Thus far, however, President Allende has been fairly cautious about exploiting the matter. (In a major speech the other day, he made only a few passing references to the ITT affair.) The Government has translated the ITT memoranda into Spanish and made them available to the public in a cheap paperback edition.

There is no doubt that the Anderson revelations have hurt the opposition, especially former President Frei (who is named in several of the memoranda and is alleged to have been a central figure in ITT's block-Allende maneuvering. There are also signs that the Anderson revelations have stirred new concern among the military, but we have seen no careful estimate of this aspect.

Although hurt, the opposition has not run for cover over the Anderson/ITT scandal. They have managed to turn a government-sponsored investigation of the Anderson allegations against ITT into a broader investigation into all foreign influence (meaning especially Cuban support of subversion).

Our policy toward Chile has been a compromise among goals that are only partly compatible:

—We have wished to maximize the chances for favorable internal change in Chile while at the same time not giving Allende a chance to make us the scapegoat for his failures. This has meant adopting a cool but correct stance.

—We have sought to isolate Chile as much as possible politically and economically, while avoiding actions that would support the charge we are acting out of simple anti-Allende spite.

—We have been working hard to get prompt and fair compensation for and debt repayment to American companies, and to protect the principle of the inviolability of repayment of just debts and compensation for nationalized properties.

So far, we have been able to pursue these goals simultaneously. However, the Anderson affair has raised our posture and brought into question our political motivation. More important, the Paris talks on renegotiation of Chile's debts force us to decide what blend we wish to make of "maximum pressure" and a "correct outward posture".

Ever since Allende's election (in October 1970), a central problem has been whether time was on his side or on ours. There was some feeling during the first six months of his rule that time was working for him. But over the past year, that estimate has changed and our specialists have assumed that, in the long run, time was working against Allende. Developments inside Chile, especially the defeat of Allende's coalition in Congressional by-elections earlier this year, support that conclusion.

The question now is: will the Anderson affair, or the outcome of the Paris talks, materially affect the assumption that time is on our side?

You will wish to get the assessment of State, CIA and others on the Anderson matter. My own judgment is that this has been a temporary setback. It does give Allende a breather. But it does not provide him with a solution to his problems. These things do tend to blow over after the first sensational impact. It is not, of course, going to make Chile's settlement with ITT anything but tough and probably confiscatory.

Similarly, it seems unlikely that Allende will be able to avoid for long the consequences of the economic situation he has created in Chile. Regardless of the settlement arrived at by the Paris Club, Allende faces likely economic disaster in another 12 to 18 months—unless, of course, the Russians and Chinese undertake a massive bail-out operation.

They seem reluctant to move in that direction. Moscow certainly does not want another Cuban rat-hole. A very tough settlement at Paris—along the lines we originally sought—would maximize the pressure on Allende and hasten economic collapse. A "soft" settlement—with generous terms for rescheduling and the offering of new lines of credit—would delay the day of reckoning. In fact, something between these extremes is the likely outcome at Paris.

My own conclusion is: we should continue our present policy of keeping pressure on Allende but avoid giving him a chance to blame the US for his troubles. That is going to mean compromising somewhat our strictly financial objectives. At Paris, we should:

—work for the toughest rescheduling formula we can get;

—but in doing so, avoid at all costs getting isolated from the other principal creditors (especially the British and Germans);

—keep pressure on Allende by preventing debt relief through simple repudiation, forcing him to resume payments to us and to the other creditors as early as possible, and seeking to restrict the flow of new credits to Chile from the US and other non-communist sources.

On strictly financial questions, there are three issues:

—How strongly do we insist that Chile repay all the debts owed to US companies?

—How strongly do we demand that Chile pay all we feel she owes in compensation for expropriated US companies?

—If other creditors refuse to go along with our position, to what extent do we modify our position to get a unified stand, at least among major creditors? Or do we allow the others to enter into a rescheduling agreement without us?

US Objective

We want:

1) a rescheduling agreement that gives Chile the least possible debt relief;

2) one that forces the Allende regime to bear full responsibility for its own failures;

3) the largest repayment possible of debts owed to US companies;

4) a commitment that will give the best chance that our companies will receive adequate repayment for seized properties;

5) an agreement that avoids lengthy default or possible repudiation of debts to US official and private creditors.

However, while working for an agreement that would contain as much of the above elements as possible, we should find a position that is both acceptable to us and to enough of the other creditors that they will stand firm if Chile rejects the offer. At all costs, we must avoid a situation in which creditors peel off one by one leaving us isolated. This would allow Chile to continue its present default indefinitely and deprive the US Government and companies of repayment.

Chile's Objective

Chile's major motive is to get relief from external debt burdens and thus avoid an imminent foreign exchange crisis.

Chile's internal and external economic positions are deteriorating seriously. A year ago, its foreign reserves were $365 million. Now, they are less than $100 million. Chile's debt for the 1972–74 period is $974 million (37% of her over-all debt of $2.6 billion). She wants to reschedule 85% of her debt for the next three years.

(Breakdown of the terms Chile wants and what the creditors have thus far been willing to offer is on page 4 of the Analysis paper.)

The Issues

Debt: The issue is whether the US should countenance the unilateral repudiation of debt undertaken by a sovereign government. There are two particularly tough problems. Chile has passed a constitutional amendment that:

—allows its President to determine that loans made to Chile by the copper companies will not be repaid if they were not "usefully invested." (Allende has ruled that $8.1 million of the $92 million owed to Braden (Kennecott) should not be repaid on these grounds.)

—provides that Chilean government promissory notes to Anaconda ($152 million)—arising from the 1969 partial nationalization of mines—will be paid only to the extent that a positive compensation award is made by the courts. (Allende has determined that Anaconda is not entitled to compensation because it allegedly took excess profits over a number of years.)

State's paper lists three options:

1) insist that Chile acknowledge the obligation to pay in full all government and government-guaranteed obligations, specifically including Braden and Anaconda;

2) require Chile to acknowledge the above obligation; however, in the event of differences after Chile's courts have acted, both parties would agree to binding arbitration under international law;

3) a statement in the overall agreement recognizing Chile's obligation to honor all debts and requiring Chile to meet this obligation through bilateral negotiations or arbitration.

Treasury and State believe we can probably get agreement from the other creditors somewhere between Options 2 and 3. The major difference between the agencies is: Treasury thinks Chile, and perhaps some of the creditors, would be willing to submit the debt dispute to binding arbitration in order to prolong discussions concerning the forum and parameters of such arbitration—in other words, to stall. Treasury also thinks the arbitration process could be prolonged indefinitely, during which time Chile would claim that—having entered into arbitration—she should be given new international credits. Treasury also thinks we could exert more leverage on Chile in negotiation than would be possible in arbitration. Specifically, we could put pressure on Chile to make adjustments in the judicial process now underway which will affect the Anaconda debts.

State, while it has not yet taken an official position, most likely will favor going along with arbitration. By doing so, they feel we would not be compromising our insistence that Chile pay its debts and that agreeing to this compromise formula would probably assure creditor unity and avoid a direct confrontation with Chile.

Our view is that we should not let Chile off the hook by agreeing to arbitration which could be prolonged. If, however, we are forced to fall back to arbitration we should insist that in the Paris Club Minutes of Understanding, the arbitration forum and the time frame should be agreed in advance, thereby preventing Chile from using arbitration as a dilatory tactic.

Compensation

The gap between the US and Chile on compensation is great. The Paris Club has indicated willingness to include a clause in any multilateral rescheduling agreement covering the compensation issue. However, there is likely to be a difference between the US and Chile and the US and other creditors, concerning the content of such a clause. The State paper lists the options as:

1) Require Chile to agree to pay prompt, adequate and effective compensation for expropriated properties. Differences would be submitted to binding arbitration under international law after a reasonable period of time for the Chilean judicial process to work.

2) Require a statement in which Chile would recognize its obligation to pay just compensation and a clause calling on Chile to meet its obligations through bilateral negotiations or arbitration.

These options somewhat confuse the issue. The essential point is whether we agree to arbitration or negotiation. Chile has recently indicated that she might submit to arbitration, but also at times has taken the position that determinations of compensation, including deduction for excess profits, are entirely domestic matters subject to final jurisdiction by the Chilean courts. Our agreeing to arbitrate would limit Allende's capacity to exploit the matter domestically—since a precedent was set in the case of the 1964 rescheduling for Brazil. But it would not necessarily improve our prospects for obtaining acceptable compensation and could delay resolution of the question indefinitely.

Here again there is a difference between State and Treasury. The latter believe that negotiations would be preferable in that progress in negotiations can be measured more easily than in arbitration, which can be drawn out in debate over forum and scope. They attach substantial importance to avoiding prolonged arbitration, although they may be more inclined to agree to this on the issue of expropriation compensation than debt. State's position is as yet unclear, although they will probably favor arbitration as a way to hold open the chances of getting compensation while avoiding a direct confrontation with Chile.

In our view, because the hope of getting any repayment at all is quite small, arbitration—even if prolonged—would probably give us a better opportunity to receive some payment and would, if conducted under international auspices, have an international sanction. However, it admittedly would allow Chile to delay the process if it so desired. Neither alternative sanctions Chile's failure to compensate for expropriation. Domestically we could indicate that we had agreed to negotiate or arbitrate because the compensation issue was still pending in the Chilean courts. And—because the rescheduling only applies to debts over a 12–14 month period—if compensation is not forthcoming we would have another crack at the Chileans at the end of this year. In this connection, the terms (length of consolidation, interest rate and percentage of debt rescheduled) are important. The less debt relief Chile gets now, the sooner she will have to apply for another rescheduling. If at that time she has not lived up to her obligations on debt and compensation, we can take a tougher line—and be in a much stronger international position to do so.

[NB: Secretary Connally feels quite strongly that he has a mandate from the President to handle the Paris negotiations. Treasury has been informed that the SRG meeting is designed to put these negotiations in context of our overall relations with Chile. They accept this premise but clearly wish not to be instructed on such matters as a fallback position in an open meeting where the existence of a fallback, or our desire to be flexible, could be leaked to the Chileans and thereby weaken our negotiating position. We suggest, therefore, that after the meeting—if you feel it necessary—you take Volcker and

Hennessy aside for a few minutes to indicate that while you agree that we should not compromise our principles on debt and compensation, you are pleased that there is some flexibility in their position and that they are interested in assuring creditor unity and avoiding a confrontation with Chile if possible. You might indicate that from a foreign policy point of view this is desirable.]