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Minutes of a Meeting of the Senior Review Group

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Chile

Chairman—Henry A. Kissinger

State

Mr. John N. Irwin, II

Mr. John Crimmins

Mr. Sidney E. Weintraub

Mr. Samuel Eaton

Defense

Mr. Kenneth Rush

Mr. G. Warren Nutter

Mr. Raymond G. Leddy

JCS

Lt. Gen. Richard T. Knowles

Brig. Gen. Richard Hartman

CIA

Mr. Richard Helms

[name not declassified]

Treasury

Mr. Paul Volcker

Mr. John Hennessy

CIEP

Mr. Peter Flanigan

NSC Staff

Mr. Richard T. Kennedy

Mr. William J. Jorden

Mr. Robert Hormats

Mr. James T. Hackett

SUMMARY OF CONCLUSIONS

It was agreed that:

—Our negotiator will encourage the Paris Club to issue a statement acceptable to us on expropriations. If such a statement is issued, he is authorized to sign the agreement the group produces, but must check with Secretary Connally before doing so. If an acceptable statement on expropriations is not issued, our negotiator must check with Secretary Connally for guidance on whether to break with the rest of the group.

—We will not propose arbitration at the Paris Club meeting but will accept it if it is raised by others and the Chileans agree to it.

—An FMS credit of $10 million will be authorized for Chile after the conclusion of the Paris Club meeting, if the situation then prevailing justifies it.

Mr. Kissinger: Dick (Helms), would you give us a brief estimate of the current situation in Chile?

Mr. Helms: Well, I would like to refer you to our memo of April 4 entitled “Chile: Conciliation, Confrontation or Coup,” which I believe most of you have received (Copy attached). It’s a complicated situation and there is no simple solution. There is an increasing polarization of Chilean society, which is something new. Nevertheless, Chile has had problems in the past and has always managed to muddle through; there is a great deal of resiliency in the society. It is possible that the system of accommodation now operating will persist for some time, but I do want to stress that conditions in Chile are now different than they have ever been before and this makes predictions more difficult than usual. We do plan to do a complete National Estimate in May, when we know the results of the Paris Club meetings.

Mr. Kissinger: What is your estimate of the effect of the ITT disclosures?

Mr. Helms: The major effect is that they gave Allende a breather, but the outcome has not been nearly as bad as we thought it would be. When the story first broke I thought we were really in the soup, but everyone, including Castro, has acknowledged that we were not involved. Allende himself said that ITT had its hand in the cookie jar but that the U.S. did not. So it has been a plus for Allende, there is no question about that, but his bacon has not been saved by it. The opposition hasn’t been too put down by the affair and are continuing their efforts against Allende.

Mr. Irwin: Actually, we came out pretty well.

Mr. Hennessy: Can’t Allende use it against us by invoking the foreign devil theory?

Mr. Helms: Yes, perhaps.

Mr. Crimmins: It's clearly a net plus for Allende, and I want to stress that the episode is not played out yet. It will be exploited by Allende in the General Assembly, the OAS, UNCTAD, in every forum and at every opportunity.

Mr. Helms: I agree, but at the beginning we thought we'd really had it on this one and it hasn't turned out so bad after all. The discontent of the Chilean military is unchanged, for example.

(Mr. Flanigan arrived).

Mr. Kissinger: What's triggering the discontent in the military?

Mr. Helms: The Russians want to give them a lot of money; they are offering military equipment for re-equiping the Chilean Army and Allende wants to take it. However, the Chilean military leaders are conservative. They don't like dealing with the Russians and don't want to become dependent on them for their military supplies and equipment. They are also reluctant about changing the equipment they have.

Mr. Irwin: And now they have a military man in the cabinet.

Mr. Crimmins: They had one in the previous cabinet; they've had military men in the cabinet before, but not very many. The new one is the Minister of Mines and he is essentially a technician. The military aren't very happy about it because it cuts both ways. They may have some increased influence, but they also share the responsibility of government actions.

Mr. Leddy: The Defense Attaché reports that the military are unhappy about accusations that they have been involved in coup plots. By making frequent allegations against them, the Ministry of Justice is keeping the military on the defensive.

Mr. Crimmins: We were in pretty good shape in Chile prior to the ITT problem. The economy was going to pot and the problems were clearly of Allende's own making. He wasn't able to blame any foreign devils until the ITT affair.

Mr. Leddy: We have a very serious problem with foreign military credits. The Russians have offered $300 million and we haven't been able to offer anything to counter it. We have requested an increase in our FMS credit from $5 million to $10 million, but we haven't been able to get it approved. The Chilean military need that small amount badly. If they can get it, they will be able to use it to argue against the Russian offer. If they get nothing, it will be very difficult for them to turn down the Russians.

Mr. Kissinger: Who is holding it up?

Mr. Leddy: Treasury won't approve it.

Mr. Crimmins: Let me explain this matter. The SRG reserved judgment on the amount of FMS credits to Chile, then State and Defense got together at the Assistant Secretary level and agreed to a figure of $10 million. However, we were concerned about going to the Hill and asking for an increase of 100% in the FMS credits for Chile at a time when they are nationalizing U.S. companies, so we agreed that it would be presented to the Senior Review Group for decision before anything is done.

Mr. Kissinger: Will you tell me what the purpose of an SRG meeting is if you get together at State and Defense and make the decision before the meeting?

Mr. Crimmins: We were acting in the proper role of assistant secretaries; consulting at that level and then presenting our conclusions to the SRG for decision.

Mr. Kissinger: Then if we had to turn you down I would be the SOB again.

Mr. Crimmins: I think it would be a serious mistake to refuse to do it.

Mr. Kissinger: I think I'll write a book on bureaucratic methods.

Mr. Crimmins: It was all perfectly proper.

Mr. Hennessy: We (Treasury) have a problem with this, but it is primarily one of timing. It would have been bad to increase FMS credits to Chile before the Paris meeting. The Paris meeting is supposed to end next Tuesday and we would like to make a decision on the FMS credits on Wednesday. We expect to approve it.

Mr. Leddy: We want to get something approved so we can assure the Chilean military we plan to stay with them, and to keep them from accepting the $300 million the Soviets are offering.

Mr. Irwin: We'd like to move on this after the Paris meeting.

Mr. Rush: The Chileans are paying their military equipment debts; those are not involved at all in the debt extensions being requested at Paris.

Mr. Kissinger: Let's discuss the debt rescheduling issues. The State paper suggests three options: 1) to insist that Chile acknowledge the obligation to pay in full all government and government-guaranteed obligations, including Braden and Anaconda; 2) to require Chile to acknowledge the obligations, but in the event of differences after Chile's courts have acted, both parties would agree to binding arbitration under international law; or 3) to insist on a statement recognizing Chile's obligation to honor all debts and requiring Chile to meet this obligation through either bilateral negotiations or arbitration. Chile, I am sure, would not accept number 1. So the question is which would we prefer, negotiation or arbitration?

Mr. Irwin: I would like to ask Mr. Hennessy how far he thinks we should fall back from our position if it looks as though we are going to be isolated at Paris and at what point we should break completely with the other members of the Paris Club.

Mr. Hennessy: That's the key issue. The question of arbitration has not yet come up at Paris. We've been reluctant to introduce the idea of arbitration because we at Treasury feel that we're likely to get less than a satisfactory agreement with eleven other countries involved. We prefer to negotiate an agreement bilaterally that is acceptable to us and to the Congress. We have not mentioned arbitration in any of our discussions at Paris or with the Chileans; we don't want to introduce the principle.

Mr. Irwin: On the other hand, we don't want to get ourselves too closely tied to bilateral negotiations, because the Latins don't care much for the concept of arbitration and they aren't likely to start out on a bilateral basis and then switch in midstream to arbitration.

Mr. Rush: Our position in Chile is a strong one. They have expropriated our property without adequate compensation. It is a position we can justify before world opinion. We can put it to the World Court and win.

Mr. Hennessy: I don't believe we can use that kind of forum to achieve a settlement. We are interested in getting a settlement. The Chileans have to come to a decision to settle before we can make any progress with them. Once they have made that decision, the forum is irrelevant. If we sign some agreement to go to arbitration, they will then start delaying and at the same time will apply to the IFIs for a series of new loans.

Mr. Kissinger: Then you (Treasury) are against arbitration?

Mr. Hennessy: No, we are against proposing arbitration at this time.

Mr. Crimmins: Our (State) lawyers think it would be a very significant advance in international law to get an agreement on arbitration in such a significant case as Chilean copper. If arbitration were agreed to, would the international financial institutions be all that agreeable to new loans for Chile? I'm doubtful about that.

Mr. Hennessy: We (Treasury and State) disagree basically on the issue of arbitration.

Mr. Rush: In bilateral talks, it is difficult to break off discussion if things are going badly without being accused of bad faith. In arbitration, it is difficult either to break off or to be blamed for it.

Mr. Hennessy: We see arbitration as a face-saving device for Allende, which will permit him to go out and solicit new loans.

(Mr. Volcker arrived)

Mr. Kissinger: So you don't want anyone to suggest arbitration because it may be a face-saving device for the Chileans; but it would not be a way out of their economic problems for them, would it?

Mr. Hennessy: No, no one suggests that it would be a solution to their economic problems.

Mr. Irwin: They say they have not yet completed the constitutional process involved in the expropriations.

Mr. Volcker: They have severe psychological problems to contend with.

Mr. Kissinger: I am trying to determine your (Treasury's) position. If you don't want arbitration, then you want bilateral negotiations, is that correct?

Mr. Hennessy: That's right.

Mr. Kissinger: You don't want arbitration but will accept it, which means that we can't suggest arbitration to move the negotiations along.

Mr. Crimmins: I think it's quite likely that the Chileans will raise the issue on their own. I suspect that they will cite their readiness to go to arbitration on some narrow issue to demonstrate that they are trying to be conciliatory. In our opinion, their readiness to go to arbitration is not mere face-saving. It would be an important step for the Latins. Historically, they have been opposed to arbitration in principle and if we could get the Chileans to agree to it in a major case it would be a very important precedent for future compensation cases in Latin America.

Mr. Hennessy: But before any arbitration can begin you have to exhaust all local remedies and that may be forever when you get into local courts. It's now been four years in the IPC case in Peru.

Mr. Crimmins: Well, we're not pushing on IPC.

Mr. Irwin: And there is the Hickenlooper Amendment, too.

Mr. Hennessy: Hickenlooper doesn't apply here.

Mr. Kissinger: Just what is it that the President is supposed to decide?

Mr. Hennessy: Arbitration or no arbitration.

Mr. Kissinger: If arbitration is being discussed as a possibility around town I'm sure it's already been dropped to the Chileans.

Mr. Flanigan: If the Chileans say they want to go to arbiration, is there any reason our delegation can't request instructions?

Mr. Hennessy: We don't want to pin down our negotiator that way and tie his hands.

Mr. Kissinger: Who is our negotiator?

Mr. Hennessy: I am.

Mr. Kissinger: Now it is all perfectly clear.

Mr. Hennessy: We want to keep the pressure on Allende to settle, that's the key point.

Mr. Flanigan: Does it really keep the pressure on him if he gets an agreement with the other members of the Paris Club?

Mr. Irwin: That's what we want to avoid at all costs.

Mr. Rush: That would be the worst of all worlds.

Mr. Irwin: We would like to see some form of statement come out of the Paris meeting that recognizes the principle of compensation. If we don't get that, wouldn't it be better simply to walk away? State prefers that we stay with the Paris group, if we get a statement, even a statement in principle.

Mr. Kissinger: (to Hennessy) As I understand your view, you will accept arbitration but don't want to introduce it. You would like to stay with the group, but would leave if necessary. That seems quite clear; now why are we all here?

Mr. Flanigan: Is there a chance the Paris Group will have an acceptable statement on expropriations for consideration?

Mr. Hennessy: Yes, I think they will. There are several drafts around. There is a Spanish proposal and the French have a draft position that looks pretty good, so the question of our walking out may be a non-starter.

Mr. Rush: We should have our own draft and go in with a firm position, not wait around to see what is proposed by someone else.

Mr. Hennessy: The Chileans have never been pinned down before on the expropriation issue.

Mr. Kissinger: Will they be pinned down now?

Mr. Hennessy: Definitely.

Mr. Kissinger: If an unacceptable position is presented at Paris will it be referred here?

Mr. Volcker: It will be presented ad referendum.

Mr. Kissinger: Can you get a recess while you seek instructions?

Mr. Irwin: We will follow it carefully and seek a recess if necessary.

Mr. Kissinger: We here shouldn't get into the question of how arbitration is to be raised, but before we get into a position that isolates us from the other countries, can we be informed?

Mr. Hennessy: It would be very difficult. Things move very fast at these meetings and they can't always be stopped for one delegate to send a cable.

Mr. Kissinger: Why not place a telephone call?

Mr. Irwin: The time difference is advantageous.

Mr. Hennessy: I just don't know if it will be physically possible.

Mr. Helms: Mr. Hennessy is being broken to the saddle.

Mr. Volcker: Instead of tying him down like this, let's just say that he's not authorized to sign anything without approval from here.

Mr. Irwin: Is it agreed that if you get no acceptable language on expropriation you will break off?

Mr. Hennessy: Yes, if there is no language.

Mr. Irwin: Or if it is clearly unacceptable?

Mr. Hennessy: Yes, but the French proposal looks pretty good.

Mr. Crimmins: Our lawyers don't like the French language.

Mr. Kissinger: We need a chance to go it alone if things are not going well for us.

Mr. Irwin: I think we should decide these matters now. We will have a tough time making decisions at the last minute if we are not agreed in advance.

Mr. Hennessy: If it is necessary, we will separate from the other countries. I can see a possible announcement that we have so many bilateral problems with Chile that we plan to go to bilateral negotiations with them. That would not be seen as breaking off, but switching from multi-lateral to bilateral discussions.

Mr. Kissinger: I have to go to a meeting with the President. Pete (Flanigan), would you take over?

Mr. Crimmins: The best possible outcome for the Chileans would be for them to reach agreement with the other creditors, isolating us. So we feel that our isolation, resulting from a breakoff, would be the least desirable result for us and the best for them.

Mr. Hennessy: This matter has been brought up before in the Paris Club. We don't expect to settle it there, but we want to get a principle established on expropriation. The Paris Club has been much stronger on the issue of non-repayment of debt than on expropriation.

Mr. Crimmins: The odds are pretty good that there will be a statement on expropriation that is acceptable to us.

Mr. Hennessy: That is our judgment, too.

Mr. Flanigan: I see two basic alternatives here: 1) we don't know what is going to develop at Paris, so we give Hennessy the option to use his judgment and knowledge of the situation, and to act accordingly, or 2) we could have him keep in touch with Secretary Connally and seek guidance on what to do as the situation develops. I think the second alternative is preferable.

Mr. Irwin: Certainly the second one is preferable, but Hennessy has a time problem and I am not sure he can do it.

Mr. Volcker: We can tell him that he can't sign anything without checking.

Mr. Flanigan: Or that he can't sign without specific authorization. You're saying it's easier for him to check with Treasury and therefore Treasury should make the decisions.

Mr. Hennessy: As I say, the prospects for an acceptable statement look good, but there could be a combination of factors or wording that won't look good here domestically or in the Congress.

Mr. Flanigan: (to Mr. Hennessy) Do you feel that you understand the mind of this group?

Mr. Hennessy: Do I have the authorization to sign or to break off? I need the authority to sign if we get what we want.

Mr. Flanigan: I have no problem with your signing if we get what we want, but you should check before breaking off.

Mr. Volcker: Should he check with Connally?

Mr. Flanigan: I don't think that authority can be delegated to Connally without a decision. In any event you (Hennessy) will be checking with Secretary Connally either way?

Mr. Hennessy: Yes.