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Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon

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Chile Financial Issues

Two significant events affecting our political and financial relations with Chile have occurred:

—President Allende announced before a large political rally of his supporters on April 18 that he would send legislation to the Chilean Congress for expropriation of all ITT holdings in Chile.

—Chile's foreign creditors meeting in Paris have reached agreement first with each other and then with Chile on a multilateral debt rescheduling agreement. The agreement was ad referendum but it will probably be acceptable to us.

There is apparently no causal connection between these two events. In announcing the ITT expropriation, Allende was probably reacting to domestic political pressures, especially a massive march and rally staged last week by the opposition parties in which as many as half-a-million people may have participated. The Popular Unity forces (UP) supporting the government staged a counter-rally on April 18 and the government pulled out all the stops to at least equal the show put on by the opposition. Allende presumably had to make a major gesture to satisfy the appetites of his supporters which had been aroused for the occasion. There is every indication he was prepared to accept certain costs, including increased difficulty in reaching agreement with Chile's creditors at Paris. On April 18 he called in our Ambassador and informed him that a major policy shift on ITT was in the offing. He also made a clear distinction between ITT and the U.S. Government, saying he understood the U.S. Government was not involved in ITT's plotting against his Government. He has since told our Ambassador that he intends to compensate ITT and will not resort to complex legal devices to reduce compensation (as in the case of the copper companies).

The Paris club members, including ourselves, had already reached substantial accord on a debt rescheduling agreement before Allende's announcement of the ITT expropriation. The terms included:

—a single year consolidation period, giving us an opportunity to reopen the issue at the end of this year if we wish to do so;

—agreement by Chile to pay all external public debt whether owed to governments or private corporations;

—agreement by Chile to provide just compensation for all nationalized property.

These terms were accepted by the Chilean delegation. After news of the ITT expropriation reached Paris, however, the Paris club members called in the Chilean delegate and asked him if ITT would be included under the terms of the agreement. He declared that the ITT nationalization announcement was a coincidence and that compensation would be paid in accordance with domestic and international law.

Holdings of ITT in Chile include: The Chilean Telephone Company, a telephone equipment manufacturing concern, two hotels and a minor publishing firm. The total value of its holdings is approximately $170 million, of which $150 million is invested in the Chilean Telephone Company. Approximately $100 million is covered by OPIC insurance. The Chilean Government intervened in the telephone company assuming direct control of its management last year. Under Chilean law the act did not constitute expropriation, but OPIC concluded that it was sufficient to justify payment of an insurance claim if ITT chose to file one. ITT has not done so in the hopes of reaching some kind of negotiated agreement with the Government of Chile.

We can expect proceedings to be protracted in the cases of both ITT and the copper companies, and we can expect that the Allende government will continue to avoid payment of either debts or compensation to major American companies. Nevertheless, its acceptance of a commitment to pay debts and make compensation in the international context of the Paris club is a major step forward.