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Telegram From the Embassy in Chile to the Department of State

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1154. Subject: U.S.–Chile Negotiations. Ref: Santiago 1138, 1113 and 1110.

1. Summary: I have had a number of indications recently that GOC is privately projecting optimism over possibility of early agreement with USG on compensation and related issues. Press leaks also indicate apparent build-up of expectations. GOC purpose in creating this atmosphere may be related to General Prats' strong desire for an accommodation with USG and to Allende's belief that at least an appearance of rapprochement is necessary ingredient in "opening" to PDC. Opposition leaders are concerned that USG might somehow be prepared bail out Allende and urge careful middle course. End summary.

2. During past several days I have had occasion to talk informally and privately with ten or a dozen Chilean figures active in politics. Subject of U.S.–Chile bilateral talks has almost invariably been raised—always at their initiative. Chileans who have approached me have included: [4 lines not declassified]. Several themes have emerged consistently to merit reporting. These themes are also reflected in a number of our CAS reports.

3. Point widely made is that Chilean Government is projecting tone of optimism about possible U.S.–Chilean agreement on issues which divide us. Apparently, Senator Hugo Miranda (Allende intimate) has been discreetly disseminating reports that the Chilean Government has been engaging in direct, private talks with both Anaconda and Kennecott and has come to essential agreement to compensate these companies by some sort of disguised or under-the-table arrangements. Allegedly the State Department is presently the stumbling block, insisting that arrangements be "above the table" for reasons of world-wide policy. Other allegations are that Chilean Government is disposed to make arrangement with us and is thinking of brief, enabling constitutional amendment to open the way.

4. Rumors of an impending U.S.–Chilean accommodation have leaked to the press. For example, La Segunda's gossip column, "Top Secret," had this to say on March 13: "Governmental circles are awaiting with great optimism the result of the new conversations with North American authorities regarding the renegotiation of the debt with that country. According to leaks, conditions might perhaps have been worked out already, with amounts, periods and interest rates set." The article goes on to speculate that Maira has been championing a settlement and that Socialist hot-heads continue to be the principal obstacle. According to the article, hopes are high that Uncle Sam will open the sluice gates of credit.

5. The foregoing allegations are reminiscent of the period before Allende's foreign trip and the series of press leaks at that time about an Allende meeting with President Nixon. As in the November–December period, the Chileans have been circumspect in their official contacts with me and other Embassy officers.

6. Two elements connected with Chilean internal politics provide some explanation of the foregoing orchestrated leaks. First, there are reports—which I am prepared to accept as accurate—that General Prats is pushing hard for an accommodation with us as a way out of Chile's present economic-political dilemma. Not only does General Prats appear deeply concerned with the danger of civil strife, economic deterioration and institutional erosion within Chile, but he also fears that Chile's conversion into a distant outpost of the Eastern Bloc would make his country strategically and militarily vulnerable to irredentist neighbors.

7. The second explanation for the insinuations which are circulating may be Allende's interest in an "opening" to the Christian Democratic Party. "Centrist" Govt-UP figures seem to believe that at least the appearance of rapprochement with the United States—coupled with the vision of U.S. credits and economic easement—are crucial ingredients in their effort at blandishment toward the PDC. (It remains to be seen how much there is also an element of "setting the stage" for blaming the U.S. if our talks produce disappointment.)

8. The GOC's leaked optimism about our talks is producing considerable nervousness among opposition leaders. [name not declassified] point of view is somewhat representative: "We worry about the United States stepping in to solve Allende's economic dilemma because [garble] has received satisfaction on copper. This does not mean we hope the talks will break down, or that America will not pursue a reasonable and balanced course. We are nervous, however, that this course might result in an outpouring of credits and economic help. We need time, and the March 4 elections have shown that the time frame is longer than some had hoped. In the interim we must hope that the U.S. will steer the careful and difficult course between unmasked hostility and gratuitious economic rescue."