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Memorandum for the 40 Committee

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Nota de Archivo: *Summary: This memorandum requested additional funding for El Mercurio to prevent the independent newspaper from going out of business and thus losing an important opposition voice to Allende. Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page indicates the memorandum was approved by the 40 Committee on April 11.*

Request for Additional Funds for El Mercurio

I. Summary

In September the 40 Committee was presented with options of providing support to El Mercurio, the largest and most prestigious independent daily newspaper in Chile, to help bail it out of its financial problems or permitting it to go out of business. The ultimate decision was to support El Mercurio. As a result $700,000 was authorized and expended in support of El Mercurio. An additional [dollar amount not declassified] was given to El Mercurio between October and December 1971.

As a result of the current political and economic situation in Chile, it is proposed that an additional [dollar amount not declassified] be made available to El Mercurio. Of this amount [dollar amount not declassified] would be used to pay off a bank loan which may be called for payment at any time and [dollar amount not declassified] would be made available to cover El Mercurio’s monthly operating deficit through the March 1973 Congressional elections.

The balance of [dollar amount not declassified] would represent a contingency fund for meeting at least some of the bank debts, new taxes and other emergencies which seem to be constantly confronting the newspaper. One such emergency may arise from El Mercurio’s need for a better line of credit with the U.S. company from which it obtains essential printing and photographic material. Commitments from the contingency fund would be made to El Mercurio based on a documented need for such funds and the endorsement of the Ambassador.

The Ambassador and the Chief of Station indicate that El Mercurio is a significant element in promoting the opposition cause. In our view El Mercurio’s continued existence as an independent voice, highly respected both inside and outside Chile, is deemed essential in the forthcoming period leading up to the Congressional elections which, if Allende wins, will permit him to govern on his terms. This means any decision on future support for El Mercurio must be made on the basis of political rather than fiscal considerations.

This proposal has been approved by the Assistant Secretary of State for Inter-American Affairs. The Ambassador has also endorsed this proposal but he believes that it could be implemented with [dollar amount not declassified].

II. Background

A. Previous Funding of El Mercurio

1. In early September 1971 a memorandum presented two options to the 40 Committee in reference to the pressures being exerted by the Allende government on El Mercurio. One option would have withheld any financial support and allowed El Mercurio to go out of business, while the other involved financing the paper in the amount of $1,000,000 with an initial commitment of at least $700,000. On 13 September $700,000 was authorized to keep El Mercurio in business. These funds subsequently reached the El Mercurio principals. An additional $300,000 was authorized and expended in the period prior to the 16 January 1972 by-elections.

[2 paragraphs (19 lines) not declassified]

[chart not declassified]

B. Current Situation (see attached financial résumé in Tab A)

1. Despite the input of [dollar amount not declassified] El Mercurio still faces serious financial problems which could be aggravated by government credit policies, nationalization of the paper industry, additional back or new taxes, restriction of essential equipment imports, or, by the adverse effects on advertising caused by a further general decline in the Chilean economy. The paper's operating deficit, partly due to loss of advertising, is now [1 line not declassified] and this monthly deficit may well increase as Chilean economic problems become more acute.

2. External Bank Debts. The newspaper also has three pending external bank debts which were not covered by the previous [dollar amount not declassified] subsidy and are not included in the current operating deficit. These debts, with accumulated interest, now are at the following levels:

Our information indicates El Mercurio will have to liquidate the First Wisconsin National Bank debt in the near future. A factor affecting repayment of this debt is that Chilean law requires such debts be paid through the Chilean Central Bank at a special official rate of 43.4E:$1.00. (It should be noted that El Mercurio would need only [dollar amount not declassified] to handle its external bank debts totalling [dollar amount not declassified] if it could use escudos purchased at the current black market rate of 80E:$1.00.) It is our intent to enable the El Mercurio principals to obtain black market escudos so that the First Wisconsin National Bank debt could be liquidated in the near future at the least possible cost. This is necessary because the First Wisconsin National Bank has already requested full payment of indebtedness to it [dollar amount not declassified] and has been led to believe by El Mercurio that the requisite escudos have been deposited in the Central Bank, when in fact El Mercurio has not done so and does not have the funds available to do so.

A complicating factor in this transaction is that payment by the Chilean Central Bank to the First Wisconsin National Bank of Milwaukee is tied to the outcome of the Chilean government's current negotiations with U.S. banks on private Chilean debts as well as any rescheduling agreement reached with major foreign creditors in the Paris debt renegotiations.

Recently, the Ambassador requested the Department of State to intercede with the First Wisconsin National Bank in an attempt to have the bank relax its pressure on El Mercurio. This was done, but to no avail. In short, El Mercurio will have to pay the First Wisconsin National Bank debt in the very near future or stop publishing under the present management.

3. Government Pressures. In addition to its operating deficit and its foreign bank debts, El Mercurio has tax problems. The government has been trying for some time to force El Mercurio to pay 20,700,000 escudos in additional back income taxes. The newspaper's lawyers will contest the payment in the courts, but this claim nonetheless remains a serious threat since, under Chilean law, a substantial portion of such a claim may well have to be placed in escrow pending the outcome of the case.

El Mercurio also is quite vulnerable to other government pressures including actions restricting the importation of essential printing supplies and equipment, labor problems, credit restrictions, and various types of legal harassments. For example, El Mercurio must import some $500,000 worth of printing and photographic materials each year from the Sun Chemical Company in the United States. These supplies have been purchased on a line of credit which now runs at the $100,000 level, but may have to be raised to $300,000 to cover delays encountered with the Chilean Central Bank in exchange authorizations. El Mercurio computes this expense into its normal operating costs, so it does not require any special allocation of funds for this purpose. It only needs an extension of its line of credit with the Sun Chemical Company. This is no longer possible through regular commercial channels because U.S. banks have ceased guaranteeing credits for exportations to Chile.

If circumstances require us to extend El Mercurio's line of credit from $100,000 to $300,000, [2 lines not declassified]. This would provide cover as well as the basis for a bank to underwrite the new line of credit. The [dollar amount not declassified] will be a guarantee to the bank but not subject to expenditure [less than 1 line not declassified] without U.S. Government assent [1½ lines not declassified].

III. El Mercurio Effectiveness

In terms of public impact and political effect, El Mercurio is considered by both the opposition and the Allende government as the most effective anti-Allende media outlet operative in Chile today. (See Tab B for substantiating detail.)

IV. Proposal

It is apparent that El Mercurio is in serious financial difficulty while at the same time being quite vulnerable to various forms of government harassment. Thus, any intermediate steps to provide El Mercurio with financial relief, including those proposed herein, do not guarantee the U.S. Government immunity from future requests to help bail it out financially. If, as it now appears, the First Wisconsin National Bank of Milwaukee cannot be persuaded to relax its pressure on debt payment, the paper's most pressing need will be to meet this debt of [1 line not declassified]. The next problem is its operating deficit, which so far has been covered by short-term promissory notes with local banks. These banks may well be reaching the limits of their ability to accommodate El Mercurio, thus each additional loan will become more difficult.

Because of many uncertainties, such as the outcome of the Paris debt renegotiations and the attitude of the Chilean courts toward the current El Mercurio tax case, it is not proposed that funds be approved at this time to cover all of the major deficits which might have to be met by El Mercurio between now and the 1973 elections. It will, however, be essential to have sufficient funds authorized and readily available to meet legitimate and urgent needs which cannot be predicted with any precision. It is, therefore, proposed that an additional [dollar amount not declassified] be approved for support to El Mercurio. From these funds [dollar amount not declassified] will be used to pay off the loan with the First Wisconsin National Bank of Milwaukee; [dollar amount not declassified] will be used to cover El Mercurio's current operating deficit of [dollar amount not declassified] monthly (through the March 1973 elections); and [dollar amount not declassified] will be held in reserve to underwrite with Sun Chemical Company an extension of El Mercurio's line of credit from $100,000 to $300,000 while the balance of [dollar amount not declassified] will be used to meet other contingencies. This latter amount obviously is much less than the total of El Mercurio's indebtedness considering back taxes, foreign bank loans and purchases of supplies abroad. Commitments from contingency funds would be made based on documented need and with the concurrence of the Ambassador.

The secure passage of funds and their insertion into El Mercurio in Chile in a legal manner will employ techniques previously used [1 line not declassified].

V. Risks and Contingency Planning

It is considered that the funds requested in this proposal can be made available securely to El Mercurio without making outside support of the newspaper obvious to the Allende government, since the advances would be made in comparatively small increments. Each new infusion of funds, however, does increase the security hazards, because insertion of funds requires some legal transactions for cover purposes which do leave a trail that is subject to possible future examination. The trail will, however, not lead back to the U.S. Government. Without doubt Allende wants badly to put El Mercurio out of business prior to the 1973 elections, and it must be assumed that past pressure on the paper will only increase in the future. The paper is vulnerable to legal actions under the Chilean system as well as to physical attack. (One of El Mercurio's publishing plants was vandalized recently, and the paper has been forced to stop its presses three times as a result of technical difficulties which are suspected to have been caused by sabotage.) If Allende is determined to silence El Mercurio, he will probably find the means with some semblance of legality regardless of the amount of financial support the U.S. Government may provide. Under these circumstances any decision with regard to further financial support of El Mercurio must be based, not on fiscal considerations, but on value judgments regarding the importance of attempting to ensure the paper's continued existence for political purposes.

VI. Coordination

This proposal has been approved by the Assistant Secretary of State for Inter-American Affairs. The Ambassador has also endorsed this proposal but he believes that it could be implemented with [dollar amount not declassified].

VII. Cost

The cost of this proposal is [dollar amount not declassified] which is not available within the Agency budget and would have to be sought from the Agency Reserve for Contingencies.

VIII. Recommendation

It is recommended that the 40 Committee approve funds in the amount of [dollar amount not declassified] for El Mercurio and on the basis outlined in paragraph IV above.

SUMMARY OF EL MERCURIO FINANCIAL STATUS

(thru February 1972 and calculated at 80E:$1)

[chart not declassified]

COMMENTS ON EL MERCURIO'S EFFECTIVENESS

1. If the El Mercurio chain, which includes La Segunda and Las Ultimas Noticias, should cease publication the opposition forces would be gravely handicapped. In terms of circulation, available data indicates El Mercurio averages 120,000 copies daily and 300,000 on Sunday; La Segunda 80,000 daily; and Ultimas Noticias 100,000 daily. Also, both the Christian Democratic Party's (PDC) La Prensa (estimated circulation 12,000), and the National Party's (PN) La Tribuna (estimated circulation 28,000) rely completely on El Mercurio's facilities for distributing their newspapers outside Santiago.

2. El Mercurio's reputation for reliable reporting is unequaled in Chile. The government makes a clear distinction between what El Mercurio says about an issue and what is being said by other opposition media outlets. Articles in El Mercurio produce a quick response from government officials and the government-oriented press, while hard-hitting articles in the other papers cause a lesser reaction. For example, last month Allende, in a series of private conversations with UP leaders, repeatedly stressed that the two major problems facing his government at the present time are the Chilean Armed Forces and "the information media of the political opposition" (of which El Mercurio is acknowledged as by far the most respected and influential). In the past months, Allende himself has responded to El Mercurio editorial criticism in a

nationally broadcast speech, sent personal letters to El Mercurio challenging or criticizing specific editorials on at least several occasions, and even characterized El Mercurio as a “defender of bastard interests” at a public rally. In addition, UP congressmen and Allende’s cabinet ministers have engaged in a running battle of attacks and exchanges with El Mercurio.

3. El Mercurio has provided the spiritual leadership and acted as a rallying point for the opposition forces on such key issues as the University of Chile crisis, the “single chamber” issue, and the “three areas of the economy” bill—all extremely significant in the Chilean political context. El Mercurio has highlighted in a continuing campaign the economic chaos brought on by Allende’s policies, stressing such aspects as the scarcity of food and consumer items, lack of production, worker dissatisfaction, and credit difficulties.

4. It has also taken advantage of political “windfall” incidents, such as the recent physical harassment by the police of cripples demonstrating in front of the presidential palace, and the government’s dual standard in permitting a 23 March demonstration by the Communist-controlled labor confederation while cancelling an opposition rally scheduled for the following night.

5. El Mercurio, in addition, regularly publishes items designed to influence the military’s attitude on the Allende government. For example, the surfacing of Communist Party (PCCh) documents in a four-part series by El Mercurio in early March 1972 exposed the PCCh’s efforts to infiltrate the Chilean Armed Forces. This is, of course, a most sensitive issue with the military. The pro-government press reacted quite strongly to the publication of these stories.

6. It is for the foregoing reasons that El Mercurio’s continued publication is considered an essential part of the opposition effort now and through the March 1973 elections.

[attachment (2 pages) not declassified]