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Nota de Archivo: *Summary: This paper, titled "Chile Strategy," examined the overall policies of Allende and the implementation of those programs to date. It argued that U.S. policy should remain static and emphasize the need for appropriate compensation for expropriated U.S. property in the upcoming bilateral negotiations with Chilean officials. The Department also hoped to rally maximum international criticism of Chile's economic policies. Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VII. Secret. The paper was drafted on December 1, but no drafters are indicated. Eliot sent this paper to Kissinger under cover of a December 2 memorandum.*

Chile Strategy

Chile Policy and Implementation:

The basic U.S. interests in Chile are to prevent the consolidation of the Allende regime; to minimize the acceptance and emulation elsewhere of the Allende regime; to protect the major principles of our international economic policy—the honoring of debt obligations and the payment of just compensation for expropriated investment; to protect the immediate financial stake in Chile of U.S. agencies (Eximbank, OPIC, AID, etc.) of approximately $1.1 billion; and to obtain just compensation for expropriated properties in Chile.

In pursuit of these interests, we seek to maximize pressure on the Allende Government while maintaining a correct but cool posture. Thus, pressure is to be tempered by restraint so that measures intended to prevent consolidation of the Allende regime do not in fact contribute to its consolidation of power or its ability to rally support. Our policy on Chile has proven reasonably successful to date and has been so acknowledged by our friends in Chile and elsewhere in the world. The unvarying advice we continue to receive from Allende's opponents and those who wish us well is to continue on the course we have taken.

Against the background of the copper dispute, the immediate issues to be resolved by the USG are whether to conclude and sign a bilateral debt rescheduling agreement with Chile for the November 1971–December 1972 debt and to prepare for an anticipated meeting in January with other creditor nations to discuss the payments due in 1973.

Background:

Following a unilateral moratorium on its external debt payments by Chile in November 1971, the twelve major creditor nations agreed in Paris in April 1972 to reschedule approximately $160 million of debt owed them by Chile from November 1971 through December 1972; the US share amounted to approximately $69 million, of which Eximbank accounted for $62 million, AID for $3 million, and PL–480 $4 million. (An additional $3.2 million in DOD credits may be rescheduled separately under somewhat different terms.) It now appears that all other creditor nations except the United States have concluded, or are about to conclude imminently, their bilateral rescheduling agreements with Chile under the

overall terms of the Paris agreement.

After strenuous negotiations the US succeeded at Paris in having the agreement include clauses in which the Government of Chile agreed to recognize and pay its debts, “to carry out direct negotiations for the purpose of finding a prompt solution” to problems involving compensation for expropriated properties, and “to grant just compensation in accordance with Chilean legislation and international law”.

The refusal of the special Chilean copper tribunal to review the President’s findings against Kennecott and Anaconda on alleged excess profits effectively foreclosed any local Chilean resolution of the problem of compensation for the major US copper investments. Following this, the USG in a note of September 15 asked the Government of Chile to enter into direct negotiations with the companies on copper compensation in accordance with its Paris Club commitment cited above. The Chilean reply of October 18 was polemical in tone and indicated that the GOC considered its domestic legal processes with respect to compensation conformed with international law. Nevertheless, the Government of Chile offered to enter into “wide-ranging discussions in Washington, through its Ambassador, accompanied by a high level political mission, on the questions affecting relations between the two countries.” In our note of November 22 we proposed that such talks begin during the week of December 11. Our note outlined in a firm but unpolemical tone the US position on obligations under international law on compensation for expropriated investment and made it plain that we intend to discuss the copper expropriation in the proposed talks. In reply, Chilean Foreign Minister Almeyda told Ambassador Davis that the GOC is prepared to make a “strong effort to achieve an understanding” at these meetings, which are now tentatively scheduled to begin during the week of December 18.

We began bilateral debt rescheduling talks with the GOC in Washington in June 1972. After an initial exchange of views and data there was a lapse of several months before the talks were resumed on October 2. There are no major differences regarding the USDA and AID debt, and agreement was quickly reached on possible terms for rescheduling the DOD arrearages. After considerable effort, the principal differences on the Eximbank debt have been narrowed and now appear close to resolution. The remaining major issue is the interest rate which can probably be negotiated.

The Paris Club was originally scheduled to meet again in December, if called by the Government of Chile, to examine Chile’s economic situation, fulfillment of commitments under the April agreement, and the need for a further rescheduling. Chile has not yet requested such a meeting. It is likely that with or without a request from Chile, the creditors will meet in January to consider their response to a probable nonpayment by Chile of international obligations falling due from January 1, 1973 on.

US Position for Coming Months:

Consistent with basic US policy outlined above, US strategy is designed to avoid actions which could be used by the Allende Government to influence the March 1973 Parliamentary elections in its favor. At the same time, we wish to continue pursuing our objectives of obtaining compensation for expropriated properties and maintaining maximum international economic pressure on Chile.

Since the GOC has agreed to direct negotiations on December 18 and has not sought to exclude discussion of copper, we believe it would be to the US advantage to proceed to resolve the remaining technical issues and sign a bilateral debt rescheduling agreement with Chile for the November 1971–December 1972 period, if possible before the December 18 talks begin. If we are not able to sign before December 18 we would hope to sign before the next Paris Club round, assuming that the high level talks proceed satisfactorily. An agreement prior to December 18 would put us in a more favorable tactical position for those talks. Agreement on rescheduling for 1972 would commit the GOC to resume payments on debts owed to USG agencies for the cited period (Chile now is enjoying total relief from these obligations) and thereby would increase the existing economic pressures on the GOC; it would demonstrate US compliance with the

Paris Club agreement; it would avoid possible isolation of the US from the other creditor nations; and it would deny Allende a basis for charging economic aggression.

The US would then emphasize at Paris our hope that the government-to-government talks will yield satisfactory progress on the compensation issue. We would also seek to obtain useful statements from the other creditors on the USG-Chilean talks. We can expect that at Paris other creditor countries—particularly Britain and Germany—will be highly critical of Chile's economic performance and policies. A factor particularly disturbing to other creditors because of its international implications is Chile's continued repudiation of certain debts to US copper companies.

We would hope to have maximum international criticism of Chile's economic policies aired at the Paris meetings. At this moment, it appears that it would be desirable to have the meetings extend through the March elections before reaching a decision on a rescheduling for 1973. The precise timing and terms of a 1973 rescheduling and conditions to be applied to Chile will be worked out in negotiations with other creditors and with Chile in the coming months. We would factor into our position on any 1973 rescheduling the progress, or lack of progress, in the forthcoming high-level talks with Chile. There are too many uncertainties in the situation for us to define our position within the foregoing framework in more detail at this time.