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Memorandum From Arnold Nachmanoff of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)

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Nota de Archivo: *Summary: Nachmanoff summarized a cable from Korry requesting that a program loan for Chile be approved by the U.S. Government. Source: National Archives, Nixon Presidential Materials, NSC Files, Box 773, Country Files, Latin America, Chile, Vol. I. Confidential. Kissinger wrote, "Let's stay on top of this. HK," in the upper right margin. Eagleburger wrote next to Kissinger's comment, with an arrow pointing at the comment, "Arnie—note." Attached but not published is telegram 1567 from Santiago, dated April 21.*

Chile Program Loan

In the attached cable, Ambassador Korry states that if the US does not approve a program loan which will quickly generate $10 million worth of escudos for the Chilean budget, the Chilean Finance Minister will try to squeeze that amount from the US-owned copper companies by a forced loan. Korry believes the companies will resist strongly and will look to the US Government to defend their position. He implies that we will have to provide the loan to avoid being placed in an IPC-like situation in Chile.

Korry further claims that failure to approve this loan would be interpreted in Chile as a political decision by the US to disengage from support of President Frei and the political center (i.e., Christian Democratic Party-PDC). It would contribute to the developing political vacuum resulting from the "atomization" of the PDC, and would be viewed by the Marxists as an "invitation to push with impunity their many projects to shift Chile radically to the left."

Korry warns that the PDC junta meeting next month could result in a radical shift leftward which in turn could lead to:

—nomination of a single popular front candidate with a good chance of winning the Presidential election in 1970;

—a call for recognition of Cuba this year;

—a strong demand for renegotiation of the copper agreements;

—a choking of private enterprise and other economically unwise policies.

Korry notes that US policy makers may believe that the US cannot smoothly influence the course of events in Chile, but he unequivocally disagrees. He believes he can influence the trend of events through Frei, with supporting help from Alessandri (the probable conservative candidate in 1970), presumably with a program loan which would have the qualitative effort of "demonstrating US interest in and support of moderation and stability in Chile."

Background

Negotiations for a $20 million program loan for Chile were authorized last December by President Johnson. The loan was designed to provide budgetary and balance of payments support for Chile's 1969 economic program. However, it was based on the assumption that the copper price would average 45-½¢ per pound or less (each 1¢ in the price of copper translates into $5.5 million in revenues for the Chilean Government and $9.5 million in foreign exchange earnings for the balance of payments). Since the copper price is up around 62¢ per pound, State and AID have concluded that the economic basis for the program loan no longer exists.

In March, Korry agreed that economic conditions had changed, but he proposed going forward with the loan on the basis of a different program—namely, support for further Chilean import liberalization. State and AID did not find this acceptable, and instead proposed a standby arrangement which would be triggered by a fall in copper prices: if the copper price falls to 51¢, $10 million would be made available; if it falls to 49¢, another $10 million would be made available.

This standby proposal is currently before the interagency Development Loan Committee, and State and AID intend to hold to that position. Korry indicates, however, that the Chilean Finance Minister has rejected the idea of a standby loan.

As far as I can tell, none of the Washington agencies believe there is an economic case for a program loan for Chile at this time. (Treasury and BOB even have some doubts about the need for a standby). Assistant Secretary Meyer will meet the Chilean Finance Minister in Guatemala (where they are both attending the IDB Board of Governors meeting) to listen to his account of the situation. However, John Crimmins (Pete Vaky's successor at State) tells me that unless something new appears, State and AID do not intend to go beyond a standby arrangement. They are not convinced by Korry's arguments that failure to provide $10 million immediately will result in an IPC-like situation and a radical shift to the left.

Comment

I think State and AID's handling of this issue is correct. There is clearly a prospect of increased pressure on the copper companies and of a shift to the left in Chile. However, the question here is whether there is a causal relationship between failure to provide a program loan and these developments. Korry believes there is; State and AID are dubious. Korry may come up to Washington to try to fight this issue out, and it may ultimately come to the President for decision. In the meantime, I think we should let this work its way out through the normal operational channels.

Ambassador Korry is a former journalist who practices a very activist and personal style of diplomacy. He is closely identified with Frei and the PDC, and he feels very strongly about the correctness of his position. Aside from the merits of his case, the emotional tone of Korry's cable indicates that if he does not get his $10 million now, the Nixon Administration might be charged at some future point with responsibility for the deterioration of the Chilean situation—which is likely to occur anyway—because it failed to support democracy in Chile when it had the opportunity to do so. While most serious analysts would recognize that the factors which could lead to increased pressure on the copper companies and a shift to the left are far deeper than the absence of a $10 million loan, it is also clear that no one could prove that the $10 million was not the critical factor. Thus, this particular question could be the focal point of a political domestic attack on the Administration's Latin America policy.

It may be worth considering whether a $10 million Supporting Assistance loan (for political rather [than] developmental purposes) should be offered to prevent this from becoming a domestic political football (and possibly to reduce the risk of—or delay—further Chilean pressure on the copper companies). However, no action will be taken before Meyer has had a chance to talk to the Chilean Finance Minister and make his own assessment of the problem. Meyer will be back from Guatemala on Monday. I would suggest that we wait to see what he has to say. Pete Vaky or I will keep you posted.