DECLASSIFIED // SECRET; LIMDIS

Telegram From the Embassy in Chile to the Department of State

Identificador Archival:	frus:frus1969-76ve16/d45
Agencia Emisora:	Departamento de Estado
Fecha del Documento:	1971-01-05
Colección / Serie:	FRUS 1969–1976, vol. E-16: Documentos sobre Chile, 1969–1973

Nota de Archivo: *Summary: In this second of four related telegrams titled "The Evident Becomes Obvious," Korry reported on the media and financial counterattack of anti-Communist opponents of Allende. Specifically, Korry noted that the conservative Chilean paper, El Mercurio, had ended its truce with the administration and was engaged in a final battle with Allende. As a result of its political attacks, advertisers had stopped investing in the newspaper and the paper was having difficulties paying its employees. Source: National Archives, RG 59, Central Files 1970–73, POL 2–2 CHILE. Secret; Limdis. Repeated to Asunción, Bogotá, Bonn, Brasilia, Buenos Aires, Canberra, Caracas, Guatemala, Kingston, La Paz, Lima, London, Madrid, Managua, Melbourne, Mexico City, Montevideo, Ottawa, Panama, Paris, Port au Prince, Port of Spain, Quito, Rio de Janeiro, Rome, San José, San Salvador, Santo Domingo, Tegucigalpa, a*

---

46. Subj: The Evident Becomes Obvious (Part II of IV). Ref: Santiago 43.

1. The past Sunday's Mercurio signalled the end of the two-month truce between that once loud anti-Communist thunderer and the Allende regime. For the first time since the paper's management decided Nov 5 to seek to woo Allende rather than to wound him, it moved undisguisedly over to the attack. Its representatives have come to me to explain their decision and to inform us that the paper will go down fighting rather than be sapped of its prestige and influence by a drip-drip economic torture or by a provocative labor conflict. It wants the world to know that when it ceases to publish it was for political reasons. It has little doubt now that it will not last the years that transpire before the mass of Chileans become equally aware.

2. In the interim, the ownership of Mercurio (no longer Agustin Edwards who has emigrated to the US and is now working for a US concern) is stripping for this final battle by unloading liabilities so that it can hurl bolts at the Marxists for the longest possible time. Mercurio had difficulty meeting its payroll the past week. In pre-electoral times, it was the organ for 69 percent of all daily advertising in the Chilean press. Its average advertising has been almost halved and is steadily sinking. (Its circulation is only off by 5 percent while its sister publications, the afternoon tabloid Ultima Noticias is holding its own at 45,000.) Mercurio is proprietor of the finest and most modern print jobber in the country if not the continent, Lord Cochrane Press. The latter has assets of 100,000,000 escudos and liabilities of 60,000,000; although it keeps 700 employees busy three shifts and has annual sales of 130,000,000 escudos with a good profit, its cash flow, because of debt, is negative and a heavy drain on Mercurio. If the govt, which is planning to establish a state editorial house is unwilling to buy the enterprise at book value, Lord Cochrane will soon declare itself bankrupt and force creditor banks (including [omission in the original] to make the best possible deal. Similarly Mercurio is seeking to unload its once profitable and popular radio sta-tion, Corporation of Santiago. Corporation has a book value of some 2,000,000 escudos but is now running a monthly loss of 400,000 escudos as the private sector retrenches and as govt advertising is withheld. Mercurio has been negotiating to sell Radio Corporation to the proprietor of a provincial station Radio Bio Bio. And therein lies a revealing tale about this govt.

3. When the Banco Edwards was intervened by the govt last month for allegedly having violated the regulations governing import of capital, Allende Socialist intimate Erich Schnake approached the Mercurio–Banco Edwards management to offer a deal. He revealed that the would-be purchaser of Radio Corporation was a dummy for Ancieto Rodriguez, the Secretary-General of the Socialist Party. He said that Allende did not want Rodriguez to gain control of the station and that he wanted it for his own faction. Schnake said that if Mercurio would sell the station to him and to other Allende associates, the President would see to it that the Banco Edwards matter was arranged amicably.

4. Meanwhile the Banco Edwards lawyers were meeting with the Socialist Alfonso Inostroza, head of the Central Bank, and two other high bank officials, both Socialists, to arrange an out-of-court settlement. The Central Bank's counsel admitted in these talks that the charges against the Edwards Bank would not be sustained by any court and that therefore an amicable accord was preferable. Mercurio then decided to accept the Schnake deal.

5. The final episode came last week:

A. Schnake after seven days in which he claimed to have talked three times to Allende confessed he could not deliver his end of the deal.

B. The directors of the Edwards Bank were summoned to the Central Bank last Wednesday where the number two man in that hierarchy, the Communist Hugo Fazio, informed the directors they would be prosecuted, the bank manager would be charged criminally and that none of the directors could leave the country pending the judgments. When the Edwards Bank lawyer protested that he had been given to understand in negotiations with the govt that an amicable settlement was possible, the Communist snapped "this govt does not negotiate" and demanded to know who had spoken for the govt. Since the three Socialists who had participated in the earlier informal talks were present, including President Inostroza, and since they turned white with fear, the Edwards Bank people covered for them.

6. Finally, the Edwards–Mercurio managers have been seeking to save from bankruptcy one of the biggest industrial enterprises in Chile, their beer business with 3000 employees in eight cities. Cash flow is again the problem since no price increases have been allowed for a year despite 35 percent inflation and wage increases of some 40 percent that the govt has decreed must be incorporated into costs. As with most other enterprises, management has been unable to see any cabinet official although bankruptcy is certain with two months without price relief. When an appointment was finally secured last week with the head of the price-setting agency Dirinco, it was informed:

A. No price increase would be permitted for all 1971.

B. No management rep would again be received. Only reps of a blue-collar union would be given audiences.

C. The company had assets it could sell to keep operating until [omission in the original].

D. In 1972, the company would be incorporated into the mixed-economy area with a govt majority ownership.

7. Now if we deemed the Edwards case rather unique because of the dominant position that this one clan had in Chile, the foregoing details would not be all that noteworthy. But they typify the rule more than the exception insofar as any significant enterprise in Chile is concerned. The beer business, strangely enough, is enjoying a 30 percent rise in consumption since the elections, and has attracted the interest of West German investors, with whom management is now in discussion. But in many other cases, there are no buyers aside from the govt in sight. I continue to rely on Corvalan's candor: "The people have won the government," he said, "which is part of the political power. They must consolidate this victory and advance further so that the entire political power and state apparatus should pass into their hands." (End Part II)