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Telegram From the Embassy in Chile to the Department of State

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Nota de Archivo: *Summary: In this third of four related telegrams titled "The Evident Becomes Obvious," Korry discussed the nationalization plans of the Allende regime and the attitudes of the other Chilean political parties toward the expropriation of foreign property. 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, and USCINCSO. Reference telegrams 43 and 46, Parts I and II, are Documents 44 and 45.*

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

1. Banks and copper have been the first major nationalization targets of the govt. Coal, a hopeless industry in Chile, was also taken over and Corvalan promises that shortly all the other basic units of Chilean industry will be nationalized. Since the first two are the most significant for Chile's economy and for its future structure, the procedures and the dominant attitudes of the govt are instructive.

2. A very reliable Chilean informant who spoke to Max Nolff, the head of the govt copper corporation, on Jan 4th, discovered that he believes (and it should be emphasized that Nolff is the most influential of the Marxists when it comes to copper) that (A) Kennecott should pay Chile for having too great a profit instead of receiving any compensation for its remaining 49 percent in the El Teniente mine; (B) that the reaction of the world press and the Western govts to the Allende regime has been so favorable that the GOC can be as tough as it wishes with the US companies; (C) that the GOC will insist on implementing the Allende proposal (in the draft constitutional amendment authorizing the copper nationalization) that past profitability can be adjudged excessive and the surpluses deducted from the compensation; (D) that eventual renegotiation of debts to Ex-Im and other creditors will not pose any great problem and (E) there is no danger of any effective foreign court action by the copper companies to block Chilean sales or to seize assets. My informant said that other equally reliable emanations from the Communists indicate that they feel there is no reason to be anything but severe with the copper companies and that if the US were to react, either by company or by govt, the US would then be cast in the villain's role of waging unjustified economic war that in turn would justify further turnings of the screw within Chile.

3. Some of these soundings may be nerve war rumblings since a tested Allende tactic is to use the Revolutionary Left (MIR) to push things to the extreme so that when he intervenes magistrally, his solution looks better, but better only in comparison to the most extreme. However it is increasingly evident that the U.P. is not so much interested in how the economy will operate in 1971 as it is in achieving the profound socio-economic changes that will set the country in socialism. It is so cockahoop with its success in mesmerizing the country, so self-satisfied with its $500,000,000 in reserves and so reassured by promises of substantial long-term credits from European and Japanese suppliers that both knowledgeable Christian Democrats and independents such as Felipe Herrera may be on the target with their judgment that

Allende is already drunk with success. If he is intemperate, the world press has contributed to his exaltation by its applause of his copper and bank nationalizations. When the London and New York Times characterize such proposals as moderate, any student of the law, whatever his views of social justice, can only throw up his hands.

4. The innocence abroad makes it extremely difficult for the opposition parties here to find firm footing to contest a bill that involves the nationalization of US copper enterprises. Both the Christian Democrats and the Nacionales consider most of the terms of the Allende proposal to be outlandishly severe. I have reason to believe that there is an even chance that the PDC will submit amendments that would simply have the GOC buy the remaining shares of the company at book value less depreciation. Payment might also be the 30 years at 3 percent that Allende proposes and that reduces the real cost to Chile to a fraction.

But such a proposal would in effect sanctify the deals for the first 51 percent negotiated by Frei and would render to the companies payment far in excess of what the GOC is contemplating. Other amendments might soften such harsh terms as the historic profit measure, depletion of mines as a deduction and the threat of non-payment to banking institutions such as Ex-Im because the money had not been spent for whatever the President deemed to be socially unuseful. The opposition will of course focus on workers rights, will seek to strike out the general clause that throws into doubt all contracts between all private entities and the govt whatever the nature of the accord and may insist on normal judicial review rather than the kangeroo court of political appointees to review any appeals that Allende is proposing. But they emphasize that to a large degree, the opposition is dependent on what the rest of the world is saying and that so far the only comments are encouraging to the extremists in the GOC.

5. Nolff's case against Kennecott is that in the original 1965 deal with the Frei govt, the book value of the company's 51 percent was overstated by $8,000,000 and that by applying the historic profit test, the final result would be negative compensation. PDC negotiators, seeking of course to protect the Frei administration record and to preserve the fundamentals of the Frei Chileanization program, argued with Nolff that the purchase of the remaining shares would cost Chile approx $275,000,000 paid out over long term (in addition to the original 51 percent already negotiated). Against that they say that the GOC formula would immediately provoke full calls by the Ex-Im and other bankers and would require either a $400,000,000 payoff in the short-term by Chile or a confrontation with the US. Hence they stress the importance of the role of the world press, particularly serious analytical material in the most serious press, daily, weekly, monthly.

6. Opposition experts feel that, to use Frei's word, the most "brutal" segment of the Copper nationalization is the inclusion of Andina mine, the 70 percent owned by Cerro brand new undertaking (30 percent GOC) and of Exotica (Anaconda 75 percent GOC 25 percent). The measure the NYTimes applauds applies in theory only to what the Chilean law terms "Gran Mineria" which is defined as 75,000 tons output yearly. Andina which has yet to make any money, which has a projected capacity output of 65,000, which required approx $160,000,000 to open, almost double the planned investment, and which brought a very high degree of technology to the most difficult exploitation in Chile is included in discriminatory fashion in the bill. (Exotica produces 25,000 tons but is much integrated in big Chuqui operation.) Although Andina will only produce 40,000 tons its first year, a French mine with 41,000 tons and a German mine with 31,000 tons output, both with high profits over many years, were excluded. Two executives of Cerro arrived here from New York Jan 4 for a Jan 5 appointment they had sought with the Minister of Finance (Communist) who promptly shunted them off to the Central Bank without discussing their problems. They encountered no satisfaction at the Central Bank and are now reverting to my original suggestion of last week that they write a forthright letter to Nolff stating why they cannot meet their Ex-Im Bank or Sumitomo payments on loans and why the company will be forced to stop work next week if there is no financial relief authorized by the GOC. They also will use their time here to sound the possibilities for a possible deal by which they will contract for copper and operate the mine.

7. As for the 22 Chilean banks, they too are encountering the gravest difficulties in responding intelligently to Allende's ploy of offering to buy out all shareholders at a better price than that offered in the nationalization bill he will shortly submit. While the PDC had planned to fight this bill to prevent a centralized state control which, as Mercurio pointed out Sunday, will give the state total power over all debtors, including politicians and their supporters, the bank owners and managers met privately Jan 4 to consider their tactics. The majority felt that they required a political solution, which meant support from the opposition parties; but they quickly concluded that Allende had left the opposition high and dry, particularly when the biggest private bank, the Banco de Chile, noted that its shares are very widely held and that a majority of its modest stockholders would wish to avail themselves of Allende's offer to pay cash for the first 10,000 escudos of stock at market values of one year ago and the next 40,000 in readjustable savings certificates. Also the half score of banks controlled by rich Arab families were anxious to accept the Allende offer since they believe that cooperation in this instance may gain some transitional but essential favors for their other varied industries. The meeting ended without agreement as is typical in the Chilean private sector, thus providing further maneuverability to the Marxists in their divide and conquer strategy.

8. Nonetheless anti-Marxists of the PDC, the PN and of the small Democratic Radical Party are having intensive talks to determine whether they can put forward this week a public proposal that would offer exactly the same buyout terms as Allende's to the stockholders but that would be included in a counter version of a nationalization law. The distinguishing difference in the alternative nationalization would be decentralization rather than centralized state control. Each bank would be run by the workers and employees as a cooperative. As with everything else, the opposition is less than united and the diehard conservatives of the Nacional Party are still opposed to any accords, public or otherwise, with the Christian Democrats. The latter are now controlled by the Frei faction and are much more disposed to negotiate realistically than even a fortnight ago; the Nacionales are still led by those who consider Frei to be Chile's Kerensky and who still have the conviction that a deal with the Socialists is preferable and possible. However this faction of the Nacionales is weakening daily as their supporters are hit from every side; it is not impossible that a change of leadership will be effected in the near future with party head Onofre Jarpa supplanted.

9. As for the four foreign banks (two US being Bank of America and First National City) the current private report is that Allende intends to pay full book value ($12,000,000 total for the four), that he will give the four the full calendar year 1971 to settle their in-house affairs, that the doors of the four will be closed by July 1 and that if they wish, they can then maintain representatives here to deal with foreign banking. The obvious purpose is to keep open the lines to Western credits and to give a fair enough deal so as not to prejudice such access. (End Part III).