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Telegram From the Embassy in Chile to the Department of State

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Nota de Archivo: *Summary: This telegram outlined the emerging Chilean nationalization policy and set forth options for U.S. companies to pursue in the light of recent moves to expropriate property. The closing paragraph provided a grim picture of Allende's ongoing efforts to reshape Chilean society. Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. Secret; Priority; Exdis. Repeated to Rome for Ambassador Martin. Reference telegram 24218 to Santiago, February 12, is ibid.*

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875. Pass OPIC. Subj: Current US Options on Nationalizations. Ref: State 024218.

1. Setting aside external factors (effects on other countries) the Chilean elements are:

A. The GOC. Rumor notwithstanding, Allende will make the decision. His immediate aim is to maximize his bargaining position. Congress, unions, financial pressures, propaganda, investigations of mismanagement are among the array of weapons of which all but the first he controls totally and will use without inhibition. His present preference is to prevent a reaction that will damage a stagnant economy, that would jeopardize a thumping April electoral triumph, that would affect other sources of capital or that would make him a prisoner of automatic processes. Once he has the election results, he will take a new reading.

B. Congress. The Senate has passed a copper bill that introduces some flexibility but retains unacceptable provisions regarding past GOC commitments, evaluation methods for future compensation and debt. These provisions would not satisfy the companies, OPIC or international norms. The House will shortly begin consideration of the bill. There is a chance that some of the most intolerable conditions (the inclusion of Andina and Exotica excepted) of the measure will be either eliminated or significantly improved. If substantial amelioration were the result, OPIC's and Ex-Im's greatest concerns would be eased and our diplomatic problems would be tolerably contained for a time. We are informed by the Senate information office that the Upper House will "suspend sessions" Feb 17 to March 1 while the House "recesses" Feb 15 to March 1st. Presumably this summer vacation for the legislators will be followed in late March by similar pre-electoral recesses or by large scale absences to permit grass-root politicking. Thus it is unlikely that the House will act finally until after the Sunday April 4 elections, the results of which could have a determinant effect on final outcome of the bill. If the House altered the measure or if the GOC were to amend the constitutional amendment to include iron, the bill would return to the Senate. In other words it would be May before the 60 day cooling period for constitutional reform began during which time Allende's direct responsibility would come into play. Indirectly until then he will affect the timing and the content of the measure by an unlimited number of possible transactions with his disorganized and fearful opposition.

C. Political parties. Their present feeling is that the copper issue has been contained as a short-term electoral issue and that once the elections are out of the way, they will have some greater degree of maneuver. They are aware, at the same time,

that other pressures could develop, particularly if the extreme Socialists now in command of the party and the MAPU can increase their leverage over Allende as a result of a poor showing in the elections. An impressive Allende triumph could cow the opposition parties into submission or could make him less heedful of extremist pressures and more responsive to responsible statesmanship.

D. The companies. Of the three copper companies, Andina is reduced to hoping that the bill will permit debt insurance recovery from OPIC and sufficient flexibility to allow a true negotiation with Allende. Kennecott tends to the same view with less hope for any satisfactory settlement; therefore it feels that the worse the copper bill, the faster and less difficult the collection of its $80 million insurance from OPIC. Anaconda's only hope lies in the bill as the essential prerequisites for protecting its 51 percent received and for effective negotiations for the remaining 49 percent and Exotica. All three are interested in effective and adequate compensation in the form of copper.

E. The USG. Our parochial interests have been that:

(1) There be nationalization of equity interests only with companies debts being honored.

(2) Notes given for original Anaconda 51 percent be honored.

(3) A reasonable compensation package (price, term, interest) be offered for equity.

2. Unless the foregoing three conditions were met, the USG would not be satisfied and to this end, I have been working through the political parties, the GOC, the copper companies and Bethlehem. The basic tactical assumption has been that our first two objectives could only be achieved in Congress while the third objective can only be gained directly with the GOC after the first two have been achieved in Congress.

3. We have been seeking to utilize the Bethlehem negotiations to attain our three objectives by trying to establish favorable precedents for copper or alternatively prevent precedents that would adversely affect the copper companies. Bethlehem has provided a useful opportunity to sound out the GOC on its intentions. Then too a break-off in Bethlehem talks with GOC would bring to a head the issue of the expansion program (almost all the material is here) and criminal responsibility of Bethlehem executives for operations.

4. If we take into account each of the foregoing factors, including timing, I see no choice but to buy more time. A hard line by Bethlehem in which it refused to continue talks would tend to favor the hard-liners in the Unidad Popular without a countervailing impact of a hard USG line. It is not the opportune moment for the US to wave a big stick, be it because of its effect on congressional opinion here or in the US, or before world opinion. Moreover whatever I may say to the GOC will be used against us, as we have just seen in the leaks over our official démarche and the fantastic interpretations that have followed in the Chilean media. Thus far such leaks have not been harmful; on the contrary. But we need better preparation of public opinion at home and in LatAm, Europe and Japan before we can officially spell out what "serious consequences" signify. Since we may be one or two months from the season of negotiation with that everyman, Allende, we should regard the interim as an educative opportunity, with the political parties here, with the GOC thru its new Amb Letelier (who will be in Washington Sunday) and thru Washington's contacts with reps of international institutions (if Galo Plaza is going to act as Allende's messenger boy in the world then he should be used to greater advantage than mere exercises that inflate Allende's ego prestige and power) and friendly capital-exporting countries.

5. A separate process of education is underway in Chile. The Soviets, we are told, are not being very flexible or generous. The Cubans are not very interested in much trade and are getting hard currency for their sugar. The British are not proving to be soft touches. The economy is stagnant; unemployment at a high and administrative efficiency at a low. Fear dominates everyone including workers—fear of losing a job, fear of not getting a job, fear of what a state editorial house and single line of text-books implies, fear of the MIR and their impact on agricultural production, fear of the Communists

and their domination of all other political parties, and the list could go on. Allende, a man of uncommon political sensitivities, has sensed this change of mood but is finding it difficult to deal effectively with it. He has continued to be as reassuring to everyone as he can, but words are not jobs and one man in a govt committed to traditional forms cannot yet control all the disparate forces at work despite the formidable laws that are available to him and that he uses. While the longer term implications of the internal contradiction between a democratic structure and the disciplines that socialism demands are of significance, the short-term effect is to make Allende prudent with us.