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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 reported on a meeting Korry had with Chilean Ambassador Orlando Letelier at which the two men discussed Chile's emerging nationalization policy and the power Allende would have over the process. At the close of the telegram, Korry made an assessment of the impact nationalization would have on U.S. companies. Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. Confidential; Immediate; Exdis. Nachmanoff sent this cable to Kissinger in preparation for the February 17 SRG meeting. In the attached February 17 covering note, he advised that Kissinger take particular note of paragraphs 1 and 3. (Ibid., Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–52, SRG Meeting, Chile, 2/17/71)*

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876. Pass Salzman/OPIC. Subj: GOC Views on Copper (and Iron) Nationalization.

1. Amb Letelier in farewell call night of Feb 12th gave first authoritative outline of GOC intentions on copper nationalization. In effect he confirmed conclusions contained Santiago 875 and working assumptions on which we have been proceeding:

A. There will be no copper negotiations before Congress passes constitutional amendment. Congress will not finish with the law until mid-April at earliest.

B. Allende will have "total flexibility" in negotiations once he has will of all Chileans expressed in form of new copper bill. He has now "willingly" assumed this responsibility that is, according to his Ambassador, a further sign of his great courage.

C. Allende and the GOC wish to arrive at a final accord with the companies that will reflect compromises between the traditional positions of the US and the initial position of the Unidad Popular. "Traditional" emerged from the conversation as signifying "effective, adequate and prompt" within the specifics that I enumerated in Santiago 875 para 1E (and in para below) while the UP original thesis had had an automaticity for evaluation, a 30 year term, 3 percent interest, a cancellation of the instruments paid Anaconda for its 51 percent and a good many other rigid norms.

2. The foregoing was elicited by questioning during a cordial (I stand by my original assessment of Letelier whom I genuinely like) two-hour conversation in which I offered a number of observations that I qualified as personal interpretations. For example, I challenged his assertion that Senate passage of the bill had provided the flexibility I had told the GOC was a minimal prerequisite; I said that insofar as the three essential requirements for us—nationalization of equity including debts, honoring the notes issued for the 51 percent and the final package of price, term and interest—the first two were, according to legal opinion provided us by Chilean and US lawyers, not assured in the Senate-approved legislation. Letelier sought at first to argue that the first point was clear in the bill but then admitted it could be further clarified in its passage thru the House; as for the second point, he said that Allende now had the power to recognize all or part of the promissory notes for the 51 percent and that this would depend on the final negotiation in which the USG would

of course be very involved.

3. To this last remark I reasserted our desire to remain out of the negotiations, observing that my arguments in favor of "flexibility" had been designed to permit peaceful direct settlements between companies and GOC. I did not pursue his assertion that my involvement would be indispensable; it has been increasingly obvious that Allende wishes to utilize the copper and iron negotiations in order to bargain with the USG and that he hopes to lever promises, if not earlier commitments, of credits from the US as part of the overall package of a settlement. Put another way, he is, I am confident, more persuaded today that a dry-up of credits that would include the IBRD, BID and perhaps European financiers in addition to the Ex-Im and American private capital would have political and economic implications of such gravity that he would not lightly risk treading that dollar desert.

4. Letelier and I shadow-boxed around this question. He echoed at every available opportunity Allende's public assertions that the copper measures were not directed against the US. My reply was that there were several elements of seeming discrimination, starting with the inclusion of Andina and Exotica. I reviewed the Andina case and heard an admission by Letelier that he had not been aware of the facts. His argument was that Andina was "almost" Gran Mineria and therefore had to be included as could be seen from the will of the Chilean people expressed in the Senate vote. Aside from giving tonnages, projections, profitability and comparisons with the French and German owned mines, I said it was self-evident that no Chilean legislator in the extant political environment was willing to protest an action against a US company that Allende proposed. The issue was why the GOC had included companies that had not yet had profits and that would have production in 1971 well below non-US mines with high profitability, a long history of exploitation and a low risk investment in technology. When I said that the treatment given to Cerro (Andina) was so punitive that it might have an adverse impact on US sources of capital, Letelier argued that the Ex-Im Bank could if it wished take a different tack and that a high degree of prudence would be interpreted as reflecting a political rather than a banking outlook. I took issue with these insinuations. If he wished to introduce political factors, I asked what were Cerro and Anaconda to conclude from the GOC's refusal to cooperate in any manner to resolve the immediate short-term financing problems of Andina and Exotica. In answer to his questions I provided the details of these two pressing situations and of the inflexible attitudes of Codelco and the Central Bank; did the GOC wish to force the closing of these mines and thereby have a justification for interventors assuming the management, I asked; if they did, the companies could then default on their Ex-Im loans and provoke a call for full payment by that institution. Letelier argued that the companies should continue to handle their financing as in the past. However he agreed finally that it was unrealistic to expect the companies to put fresh non-guaranteed capital into Chile with the uncertainty surrounding past invested capital and that a refusal to take realistic account of short-term cash flow problems of the kind encountered by Andina and Exotica could be interpreted in the US in, as he put it, the "wrong way." He confessed too that the treatment given Cerro when their reps came here to "negotiate" was a poor show, particularly in view of his earlier statement that no negotiations were possible until the Congress had acted. He concluded that Andina would have a chance to make its case with Allende and that the President was very anxious to have good rels with the US which was one of the reasons that Letelier was being "rushed" to Washington. (Incidentally he has received invitations from 26 US universities to speak about the Allende revolution and the GOC obviously anticipates an opportunity to make its case to US opinion in a way that we do not have here; indeed if we sought to make any public case in Chile, we would be battered by a barrage of invective and invention).

5. Letelier insisted too that the GOC would honor all its debts to the Ex-Im and therefore we had no cause for concern. There were two causes for disquiet, I observed. First, other US institutions were involved in the loans to the copper companies and it would be an error to do arithmetical sums that had loans outstanding to Ex-Im equal an acceptable settlement to the companies or to the US; similarly a totalling of OPIC obligations to the copper companies was not equal to an acceptable settlement. Secondly, the law in Congress said that loans to third parties would only be honored insofar as compensation was equal or higher; hence until the final settlement was reached between companies and GOC, if there were

one, no banker, including the Ex-Im, had any certainty of receiving payment. Since he had said that Allende had total control of the eventual negotiations and that he could choose from zero to 100 on each of the many variables involved, the Ex-Im for bankers' reasons would probably be prudent until it knew just which number the Chilean President would choose.

6. Letelier would not specify whether the GOC would prefer to compensate the companies in copper. He asserted Chile did not have to worry too much about selling its copper despite a temporary softening of the market. He allowed that copper could offer more flexibility in negotiation than money. He agreed that we should not allow ideology to overshadow the fundamental reality that the sums involved in a copper negotiation if put on an annual basis were comparatively small. However he insisted that Allende had to take political factors into account in an unstated reference to the pressures within the UP from the purists. I had noted that if Chile honored all its obligations and paid compensation on equity from remaining 49 percent, within acceptable periods of time, the differences would probably be no more than $40 million a year than if it paid nothing to anyone except the outstanding 12 year notes given to Anaconda.

7. When he said that Matus had been impressed by my constructive spirit re Bethlehem and that Almeyda and Toha had also expressed to him their desire to continue talking regularly to me, I ran through the Bethlehem facts and said that I could not fathom what appeared to be different approaches between CAP, MinMines, ENAMI and others. He said cryptically that Matus would get his way and that he wanted to deal with Bethlehem, but he would not go beyond. (On Feb 15, I was called by Matus who invited me to lunch again at CAP, Feb 17, with the Minister of Mines. I accepted and expect Bethlehem, Marconi-Flo and copper to be on the docket. Interestingly too, the Chilean media here Feb 17 played Letelier's gratuitous rebuttal, on his arrival in Washington, of the allegations in the American press about the lack of normal rels between the GOC and me).

8. When I said there would shortly be problems with ITT, he brought up the bad phone service of the company. I noted that it appeared to be a pattern for the GOC to find mismanagement in companies that it coveted and that I hoped the GOC could work out its problems amicably with that influential enterprise.

9. Letelier raised with me the William Buckley visit, repeating the protest registered with us by the Foreign Ministry earlier in the week and asserting that the President was "furious" with this misuse of a diplomatic passport. Letelier noted too that the GOC was aware that I had seen Buckley. To this he linked the AP's reporting in Chile of what Asahi Shimbun had written about the CAP negotiations with Nippon Steel in Tokyo, the GOC's conclusion being that a US news agency "had deliberately ignored what seven other Tokyo newspapers had reported" while selecting the one totally inventive report. Some in the GOC felt, he said, that a deliberate effort to indulge in an anti-Chilean campaign had once again been exposed.

10. In reply I repeated what we had told the FonMin re Buckley and asked Letelier if we had engaged in any duplicity since I had made certain that the President's office and all other persons in the GOC and the UP sought by Buckley had known prior to Buckley's arrival that he was coming as a journalist. Moreover Buckley's activities and views well known to Chilean Emb in Wash. Letelier agreed that mine was a fair position, then he said we had to take into account the sensibilities here. I said that there were Americans who believed that Chileans expected the entire US to cater to their sensibilities while remaining immune to anyone else's. What were we to make of the Hernandez Parker inventions about the Allende-Meyer talk; that commentator had excellent rels with the GOC; was I and my govt to conclude that these fabrications were deliberately planted to create a misrepresentation of the US? Letelier said the story was a complete invention; it was his job to try to explain the diversity of a free US press but yet he wondered why the AP had selected the one harmful-to-Chile report from among so many. I suggested he ask the AP but that my guess would be that no one in the AP office had thought of anything more than the man-bites-dog measurement of news. If he wished, I would take to the Foreign Ministry every false story that impugned the US and its reps that appeared here daily in media controlled by the parties that comprised the govt; I had not done so because we certainly would not get as fair a hearing in the media of his

country as he certainly would in ours and because there were too many more important issues on which to concentrate our respective efforts. It was for the GOC to affirm or deny reports of what its President had said to a US official representative; if it chose to say nothing, we could be forced to draw our own conclusions.

11. If OPIC or Dept have any special instructions or guidelines for Matus lunch, please transmit for opening of business Feb 17.