DECLASSIFIED // SECRET; NODIS

Paper Prepared by the Ad Hoc Interagency Working Group on Chile

Identificador Archival:	frus:frus1969-76ve16/d70
Agencia Emisora:	NSC / Casa Blanca
Fecha del Documento:	1971-05-29
Colección / Serie:	FRUS 1969–1976, vol. E-16: Documentos sobre Chile, 1969–1973

Nota de Archivo: *Summary: This paper outlined the advantages and disadvantages of the Export-Import Bank providing funding for the Chilean national airline to purchase Boeing aircraft and presented options for the SRG's consideration. Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–56, SRG Meeting, Chile 6/3/71. Secret; Nodis. Drafted by Fisher and Girdler.*

OPTIONS PAPER ON PROPOSED EXIMBANK FINANCING OF BOEING AIRCRAFT FOR LAN-CHILE

I. THE ISSUE

What should be the USG response to a Chilean request for Eximbank participation in financing the sale of Boeing aircraft to the Chilean government airline?

II. BACKGROUND

LAN-Chile, the Chilean government airline, has agreed in principle to purchase from the Boeing Aircraft Company one 727–100C, one 707–320C, and one 707–320B for delivery in July 1971, March 1972 and May 1972, respectively. Purchase price including spare parts, support equipment and transitional training, would be approximately $26 million. The transaction would be contingent on an Eximbank seven-year export supplier credit for 40 percent of the purchase price (or about $10.4 million), plus an Eximbank guaranty for an additional 40 percent to be financed by a group of private U.S. banks. The GOC would guarantee the 80 percent credit portion of the purchase, and LAN-Chile would pay 20 percent down.

The GOC has stated formally to us that it intends to use the 707's on the proposed LAN-Chile services between Santiago and Frankfurt via Havana and other stops. On the other hand, there is a recent intelligence report which suggests the possibility that the GOC might consider using other than Eximbank-financed aircraft on its Cuba service.

Chilean Ambassador Letelier on May 7 asserted to Assistant Secretary Meyer that, according to Boeing representatives, Eximbank would find it difficult to proceed with the loan project for reasons "not pertaining to the operation in itself—presumably political considerations." He further stated (as recorded in the Aide Memoire which he left behind on that occasion) that "in accordance with the purposes many times expressed by the heads of state of the United States as well as Chile in the sense that both governments wish to maintain the most profitable and friendly relations, the GOC does not want to have to face a negative answer or an excessive delay on the part of the Eximbank in a regular operation which has an adequate economic and financial basis advantageous for an important American industry... The operation could strengthen the Chilean purpose to continue using U.S. material and technology in aviation. Thus, the GOC would rather have this matter submitted to the highest authorities of the U.S. and have their pronouncement before starting any formal negotiations with the Eximbank." He went on to request an answer by the end of May.

At that time Letelier stated that should the proposed deal with Boeing fall through, Chile would turn to Britain for VC–10's (but not to the Soviet Union) as alternatives to the Boeing. For their part Boeing representatives, perhaps reflecting the severity of conditions in the U.S. aerospace industry, have been unusually aggressive in pursuing this potential sale.

On May 17 Letelier told Ambassador Korry in Santiago that Eximbank's action in this case would be critical to the evolution of U.S.-Chilean relations, and that Allende adhered to this view in the strongest fashion, asserting, according to Letelier, that "If they refuse normal trade with us, then how can we interpret their desire as other than hostility?"

Ambassador Korry at the same time cabled that "independent of and prior to Letelier's raising of the Boeing problem with the Department and with me, we had concluded here that if an acceptable Cerro deal was reached and if we wished to contain the Kennecott and Anaconda problems we would recommend that the Eximbank go forward with LAN. We believe the measure stands on its own commercially; we believe that the GOC will not renege on its Ex-Im commitments; we believe that it will have positive, although not necessarily optimal, impact on the remaining copper negotiations; we believe that in the light of acceptable Cerro, Bethlehem and other similar accords, a negative position would belie our President's declaration that we are willing to have the kind of relations Chile wishes to have with us; we believe such negative impact would serve to make anti-Communist Chileans more receptive to the populist nationalism which fuels Allende's road-to-Socialism strategy; in this latter group we include military as well as civilian elements."

III. DISCUSSION

General Considerations.

Effects on Basic Relations with Chile.

The immediate question is the relationship between the decision on the Eximbank credit for aircraft and the imminent negotiations between the GOC and the major American copper companies. The GOC, while mindful of the larger policy problems facing the USG on the Eximbank application, probably calculates with respect to the copper negotiations that the $20.8 million in credit and guarantees it is seeking from the Eximbank in this transaction is convincingly modest in comparison with the several hundred million dollars at stake in the copper negotiations.

A negative decision on the Eximbank credit for aircraft would adversely affect the copper negotiations, where U.S. interests of such absolute and symbolic importance are at stake as to make copper the core element in our relations. Such a sequence of developments would acquire a downward momentum with serious and lasting consequences. A favorable disposition toward Eximbank financing for aircraft would by no means assure success in the copper talks, but it would improve the atmosphere both for copper and for other issues ahead in our relations with Chile. (The copper aspect is further discussed later in this paper.)

Beyond copper, another aspect touching on the fundamentals of our relations with Chile is the fact that the GOC quite evidently looks on the Eximbank–Boeing case as a test of the USG's readiness to allow Chile access to capital resources under U.S. influence under any circumstances.

Existing policy guidance provides that "the Export-Import Bank should issue no new credits to Chile and should reduce its export guaranties and insurance for Chile gradually and selectively."

There are implications both with respect to the copper negotiations in the shorter run and in the matter of access to U.S. financing in the longer run, which give to the decision on the Eximbank loan for aircraft certain watershed characteristics.

The GOC has chosen circumstances and timing favorable to itself to try to force a quick definition by the USG of its fundamental intentions toward Chile. In the political sense, Allende is in effect challenging President Nixon's declaration

that we are prepared to have the kind of relations with Chile that it is prepared to have with us.

A negative decision on the requested Eximbank financing, by adversely affecting the copper negotiations and by persuading Chileans that they have no hope of any USG financing, would have the effect of showing us in an openly negative posture. This would come at a time when it is important that Chile, and not the U.S., bear the onus for changes for the worse in Chile and in our relations.

The Allende government since taking power has acknowledged the correctness of our relations with it and publicly reiterated from time to time its own desire to maintain good relations with the United States.

More recently there has been an accumulation of signs that Allende is feeling the pinch of reduced commercial bank lines of credit in the U.S. and that this together with evidences of Eximbank unwillingness to consider credits for Chile is raising the likelihood of open accusations that the USG is beginning to pursue a deliberately hostile economic policy toward Chile.

Specific cases which seem to bother the GOC include lack of interest by Chase Manhattan Bank in guaranteeing part of a purchase from Japan of a tanker vessel; negative responses from most of the members of a ten-bank consortium to GOC invitations to re-schedule over a long term at low interest and without GOC guarantees defaulted loans which had been guaranteed by the now-intervened A. Edwards Bank in Chile; Eximbank's unresponsiveness to soundings on new credits for expansion of the Chilean government steel company, for the state railways, and other applications totaling over $16 million; and decreasing availability of Eximbank commercial guarantees and insurance for U.S. exports to Chile.

Sensitivity to these strictures is undoubtedly heightened by the GOC's intensifying economic problems, most of which are of its own making and which result from its studied alienation of the entrepreneurial sector, its disincentives to private investment, its discouragement of efficient management, and its resort to inflationary measures to provide immediate, politically advantageous increases in consumption by the working class.

We can expect the GOC to overlook, consciously or unconsciously, its own culpability for the drying up of foreign capital sources and to use every available means to lever out of the western financial community the capital it needs to help accomplish the transformation of Chile into a socialist society.

We can also expect that at least some elements within the government coalition will be prepared to press for a confrontation with us in the belief that they can attribute it to the U.S. and that the benefits they can derive from it would outweigh the gains available from continuing correct relations.

An appearance of unrelieved refusal by U.S. sources to consider any further Chilean capital needs would give some encouragement to those who want to convince the world that Chile is a victim of USG policy. Even those Chileans who have no enthusiasm for a confrontation with the U.S. would probably regard refusal of the Boeing aircraft financing as a significant negative signal from the USG. Some could be persuaded that it was a conclusive sign of the unwillingness of the USG to respond to Allende's invitations to have "normal relations."

On the other hand, anything more than the bare minimum required to maintain the correctness of our treatment of Chile and serve our own immediate purposes would give unnecessary aid and comfort to forces embarked on a course inconsonant with our own.

In a very real sense, then, we are again faced with the problem of maintaining a public posture which is "correct but cool, to avoid giving the Allende government a basis on which to rally domestic and international support for consolidation of the regime."

Position of Eximbank.

Eximbank's exposure in Chile is shown in the following table:

Eximbank loans to Kennecott and Anaconda in Chile outstanding as of 7-1-70 were $72,205,000 and $57,121,000, respectively.

Eximbank in recent weeks has discouraged Boeing from pursuing the aircraft financing project for Chile, in accordance with guidance and with its own banking considerations. Consulted specifically on how it might view the LAN-Chile project entirely apart from political considerations, Eximbank took the following position:

Provided the GOC acknowledged and assumed all debts to Eximbank of U.S. companies expropriated in Chile, Eximbank would be prepared to consider the LAN-Boeing application on economic-banking merits.

While Eximbank obviously cannot prejudge the economic-banking merits, there is no conclusive prima facie case against the loan.

Eximbank is of course prepared on this basis to cooperate in execution of USG policy with respect to Chile. It should be remembered that granting of this credit would require Eximbank to consider a number of other important loan projects in Chile.

Other General Considerations.

Sale of the aircraft would benefit not only Boeing and the depressed U.S. aerospace industry, but the U.S. balance of payments.

In addition, we have learned that McDonnell-Douglas and Boeing are pressing for Eximbank agreement to finance a prospective sale to an internal Peruvian airline operated by the Air Force (SATCO) of either two DC–9's or two 727's, worth between $12 and $13 million. Inasmuch as we have followed a restrictive policy on Eximbank lending to the Government of Peru somewhat similar to that with respect to Chile, the decision in the Peru case will obviously have some bearing on the Chilean one in that the Chileans will be alert to any difference in our treatment of the potential Peruvian case.

Apart from these general considerations, there are two special aspects to this problem, copper and Cuba, which are discussed below.

Copper

The GOC clearly will relate the LAN Chile application to Eximbank directly to the copper negotiations, and Letelier gave Ambassador Korry the personal comment that the Boeing matter would have either a very negative or some positive effect on the Big Two.

Existing USG guidance on prospective copper investment expropriation provides that as the situation begins to develop "we would continue to apply present economic restrictions, but would be prepared to relax or intensify them depending on Chilean responses and the outlook for obtaining favorable results."

The GOC has led up to the crucial matter of disposing of the major U.S. copper investments in Chile by (a) adopting a harsh constitutional amendment which could easily be interpreted in punitive ways so as to produce little or no compensation to the investors; and (b) negotiating, under the shadow of expropriation, agreements to buy out several other smaller American investors outside the copper mining industry, on terms which have seemed either satisfactory or not excessively unsatisfactory to the owners. These include Bethlehem, Armco, Northern Indiana Brass, Ralston Purina (yet to reach final terms), and RCA. Most of the investors named had investment insurance with the USG Overseas Private

Investment Corporation (OPIC), which in several cases assisted actively from behind the scenes in the negotiations, and is transferring its insurance coverage to the resulting buy-out agreements. Talks have begun with ITT (the largest single U.S. investor in Chile with about $150 million in the Chilean Telephone Co.), IBM, First National City Bank, and Bank of America. Ford is discussing with the GOC its withdrawal from Chile, with the GOC resentful of Ford's actions thus far.

Although the GOC chose to include by name Cerro's copper investment in Chile, Andina, in the constitutional amendment mentioned above, it also chose to recognize that the Cerro case differs from the other two major investors, Kennecott and Anaconda, in that the Cerro investment is a new one, in a property which is only now going into production, and on which Cerro has thus far received virtually no return. On May 19 representatives of the GOC agreed to buy out Cerro's interests in Chile on terms close to the level at which Cerro was prepared to state it had been fairly treated. Allende has assured Ambassador Korry that the GOC will sign the agreement soon.

There remain Kennecott and Anaconda, against which Chilean emotions and the risk of punitive treatment run high. Allende has said that the GOC would be ready to start talks with Kennecot and Anaconda during the 60-day so-called "cooling-off period" between passage by Congress of the constitutional amendment on copper and its entry into effect. Congress passed the amendment on May 12, but as yet we have no information of a GOC invitation to either company to start talks.

We could seek to use Eximbank consideration of the loan as leverage on the GOC in the copper talks by making approval conditional on a satisfactory settlement or on satisfactory progress. However, because of the delay which this would entail, the GOC might well promptly conclude that our answer was negative, with consequent adverse effects on copper. Additionally, dilemmas could arise for us in trying to evaluate what was "satisfactory" and in avoiding direct USG–GOC bargaining.

Cuba.

LAN-Chile is committed to include Havana in its commercial air service to and from Europe. The Chilean Embassy has informed us officially in writing that LAN-Chile would use the two 707's in this service. LAN-Chile has said the same thing publicly. (A recent TDCS quoted the new Chilean Ambassador to Cuba as saying, "Boeing... has refused to sell unless it receives a guarantee that the planes will not be used on the Cuban run... (and) most likely the older planes will be used on the Cuban run...")

The deliberate official and public emphasis on LAN-Chile's intention to use the new aircraft for service to Cuba comes close, in our judgment, to saying that the basic decision on this is not negotiable, the above-cited intelligence report notwithstanding. Subordinate points with respect to service to Havana might be negotiable.

Legal Aspects.

The Export-Import Bank Act of 1945 bars credits in connection with the purchase of any product by a Communist country or any agency or national thereof, or principally for use in a Communist country. Chile is not a Communist country as defined under the law, and the Act would appear to post no bar to Eximbank financing of the proposed transaction. Eximbank would, however, require that Chile certify that the aircraft would not be principally for use within Cuba.

The Cuban Asset Control Regulations would impose no restrictions on the proposed transaction, since no transfer of a property interest to Cuba is involved in the sale of the aircraft to LAN-Chile. Treasury concurs in this view.

Existing foreign assistance legislation, including PL–480, provides that no assistance under the FAA shall be furnished, nor any PL–480 sale made, to any country that does not prevent ships or aircraft of its registry from transporting equipment, materials or commodities to or from Cuba so long as Cuba is governed by the Fidel Castro regime. (In the

Iberia case mentioned below, personal baggage, mail, and humanitarian parcel post packages were interpreted as not constituting "equipment, materials or commodities" within the meaning of the legislation.) This prohibition means that the USG could not obligate funds (e.g., make new project or loan agreements) made available under the FAA. The $20 million in the loan pipeline would not be legally affected, nor would the $6.8 million in Food for Peace contemplated for distribution in Chile by voluntary agencies. The AID grant program projected for 1972 of $1.25 million is primarily for USAID staff and would remain available to the extent needed for winding up programs. The $150,000 contemplated for special development activities is similarly obligated on a project-by-project basis so that new, separate projects would be barred. The President may waive the prohibition on furnishing of assistance if he determines that furnishing of assistance is important to the security of the United States.

OAS Resolutions (9th MFM–1964) require that "the governments of the American States suspend all their trade, whether direct or indirect, with Cuba, except in foodstuffs, medicines, and medical equipment that may be sent to Cuba for humanitarian reasons; and that the governments of the American States suspend all sea transportation between their countries and Cuba, except for such transportation as may be necessary for reasons of a humanitarian nature." There is no binding OAS resolution regarding suspension of air transportation to Cuba. However, there exist resolutions of the OAS (12th MFM–1967) requesting states that are not members of the OAS to restrict their "sea and air transport" to Cuba and recommending to member states that they strengthen their controls on travel to and from Cuba.

Policy Aspects.

While as set forth above there is no explicit legal barrier to Eximbank financing of aircraft to Chile even when intended for service to Cuba, there is no question but that such a transaction would be in conflict with our general stance on Cuba. A particularly sensitive problem is the potential use of the LAN-Chile service by Latin American revolutionaries traveling into Cuba for training and out of Cuba to practice violent subversion elsewhere in the hemisphere. Significant segments of Congress and the public would find this highly objectionable. On the other hand, segments of Congress and the public which have been quick to attack what they see as evidence of a too-hostile USG attitude toward Chile would criticize our refusal of the loan on such grounds as basically ill-intentioned toward Chile.

There would be a clear anomaly in our financing aircraft which has an intended purpose—i.e. service involving Cuba—at odds with the U.S.-backed OAS position on Cuba. This could be dealt with by requiring as a condition of the loan that LAN-Chile not use the Boeing aircraft in any kind of service to Cuba. In view of Chile's unequivocal commitment to the installation of Cuba service with new aircraft, however, as mentioned above we believe the GOC would reject such a condition as discriminatory, arbitrary, politically motivated against Chile and an infringement on its sovereignty.

There would also be an obvious incongruity in our financing aircraft which might be put into a kind of service—i.e. the carriage of cargo to or from Cuba—which would legally require us to withhold new aid to the purchasing country. One way of dealing with this would be to make it an absolute condition of the loan, invoking general Cuba policy grounds, that LAN-Chile give assurance that it would not carry cargo to or from Cuba. The GOC could either accept the condition, or reject it as discriminatory and an infringement on its sovereignty and abandon the loan application. Another way to deal with it would be simply to remind the GOC that unless it is prepared to forego additional further aid from the U.S. it could not carry cargo to or from Cuba. In this case it is our judgment that the GOC would receive this as a positive, forthcoming response, and would either give assurance against carrying cargo (and thereby acquire a certain expectation of further additional aid from the U.S.), or decline to give the assurance, asserting its freedom to carry cargo and its readiness to forego further additional aid from the U.S.

The Spanish government airline Iberia's DC–8 flights to Cuba constitute a precedent (of which the GOC is doubtless aware) for Eximbank financing of aircraft serving Cuba while the purchasing country receives U.S. aid. We have an

unwritten undertaking from Iberia that it will not carry cargo to or from Cuba.

IV. OPTIONS

Summary

The following seven options encompass three gross categories of choice:

—a prompt, unequivocal “no” (option A).

—conditional responses, related to both Cuba and copper (options B, C and D).

—conditional responses, related to Cuba only (options E, F and G).

With respect to making responses conditional on copper, it is understood that, while ideally we would await final copper settlements before agreeing to the aircraft loan, favorable developments in the talks could persuade us to respond with the loan approval at some earlier point, this to be decided by the SRG.

The three graded conditions on Cuba offered for choice in both sets of responsive options are:

—that Chile not fly Eximbank-financed aircraft to Cuba.

—that Chile not carry cargo on any flights to or from Cuba.

—that Chile accept a ban on further US aid if it carries cargo on any flights to or from Cuba.

It is understood that a favorable decision under any of the options would be subject to reversal by a serious adverse development in US-Chilean relations.

Option A. Decide now against Eximbank participation. (This would be the option most consistent with present policy.) In order to head off possible Chilean argument or willingness to negotiate, explain the decision on the grounds of both general OAS Cuba policy and general economic/banking criteria.

Advantages

—It would avoid an increase in the already large USG financial exposure in Chile.

—It would avoid USG involvement in the establishment of a new air service to Cuba.

—It would reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

Disadvantages

—It would have a strongly adverse effect on the copper negotiations, and give impetus to deterioration of our relations over the long term.

—It would tend to confirm growing GOC suspicions and lead toward open accusations against the USG of a deliberately hostile policy of economic pressure, contrary to positions taken publicly by President Nixon.

—It would deny the US economy the benefit of the sale.

Option B. Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that the aircraft will not make stops in Cuba, there is no non-banking impediment to the loan project; authorize Eximbank to begin processing the loan, but defer a final decision on it until there is clarification of the outlook for the copper expropriation problem.

Advantages

—It would offer the possibility of some leverage in the copper talks.

—If (as if likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and thus

—avoid an increase in the already large USG financial exposure in Chile.

—avoid USG involvement in the establishment of a new air service to Cuba.

—reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

—relate the Eximbank decision to Cuba policy and help counteract criticism of the decision in Chile and elsewhere

—If (as is unlikely) the GOC accepted the ban on flights to Cuba, it would avoid direct USG involvement in a new air service to Cuba.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

Disadvantages

—The GOC might well promptly conclude from the delay while the copper situation developed that our answer was negative, with adverse effects on the copper negotiations and our future relations.

—The copper situation may fail to clarify in ways justifying any decision.

—Tying the Eximbank loan for aircraft to the copper negotiations could push us toward direct USG–GOC bargaining.

—If (as is likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and

—arouse strong criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

—deny the US economy the benefit of the sale.

—adversely affect the copper negotiations and our future relations.

—If (as is unlikely) the GOC accepted the ban on flights to Cuba, it could (depending on copper)

—increase the already large USG financial exposure in Chile.

—relax pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

—in any event make it more difficult to explain a denial of the loan.

Option C. Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that its aircraft will not carry cargo to or from Cuba, there is no non-banking impediment to the loan project; authorize Eximbank to begin processing the loan, but defer a final decision until there is clarification of the outlook for the copper expropriation problem.

Advantages

—It would offer the possibility of some leverage in the copper negotiations.

—If (as is possible) the GOC rejected the ban on cargo to and from Cuba, it would cause the loan to fail and thus

—avoid an increase in the already large USG financial exposure in Chile.

—avoid USG involvement in the establishment of a new air service to Cuba.

—reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

—relate the Eximbank decision to Cuba policy, and because of the reasonableness of our position, help in counteracting criticism of the decision in Chile and elsewhere.

—If (as is possible) the GOC accepted the ban, it would limit to a visible and at least symbolic degree Chile's breach of OAS policy on Cuba.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

Disadvantages

—The GOC might well promptly conclude from the delay while the copper situation developed that our answer was negative, with adverse effects on the copper negotiations and our future relations.

—The copper situation may fail to clarify in ways justifying any decision.

—Tying the Eximbank loan for aircraft to the copper negotiations could push us toward direct USG–GOC bargaining.

—If (as is possible) the GOC rejected the ban on cargo to or from Cuba, causing the loan to fail, it would

—arouse some criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

—deny the US economy the benefit of the sale.

—adversely affect the copper negotiations and our future relations.

—If (as is possible) the GOC accepted the ban on cargo to Cuba, it could (depending on copper)

—increase the already large USG financial exposure in Chile.

—relax pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

—involve the USG in the establishment of a new air service to Cuba.

—in any event make it more difficult to explain a denial of the loan.

Option D. Inform the GOC that, if its aircraft carry cargo to or from Cuba, it must be prepared to forego further US aid, but that there is no other non-banking consideration bearing on the loan project; authorize Eximbank to begin processing the loan, but defer a final decision until there is clarification of the outlook for the copper expropriation problem.

Advantages

—It would offer the maximum possibility of some leverage in the copper negotiations.

—Of the three copper-conditioned options, this would strike the most positive, auspicious note for the copper negotiations and our future relations.

—If (as is possible) the GOC excluded cargo from its flights to and from Cuba in order to remain legally eligible for further US aid, it could, depending on copper, limit at least to a small symbolic degree Chile's breach of OAS policy on Cuba.

—By omitting a prior condition on Cuba, and depending on copper, it could deprive the GOC of grounds to claim our treatment was discriminatory, arbitrary, politically motivated or an infringement on its sovereignty.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

Disadvantages

—The GOC might well promptly conclude from the delay while the copper situation developed that our answer was negative, with adverse effects on the copper negotiations and our future relations.

—The copper situation may fail to clarify in ways justifying any decision.

—Tying the Eximbank loan for aircraft to the copper negotiations could push us toward direct USG–GOC bargaining.

—Depending on copper, the loan could be approved and

—increase the already large USG financial exposure in Chile.

—involve the USG in the establishment of a new air service to Cuba, with no apparent limitation on it.

—relax the pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

Option E. Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that the aircraft will not make stops in Cuba, there is no non-banking impediment to the loan; request Eximbank to begin processing the loan with a view to providing a preliminary commitment as soon as normal banking procedures would permit.

Advantages

—If (as is unlikely) the GOC accepted the ban on flights to Cuba, it would avoid direct USG involvement in a new air service to Cuba. In addition,

—Prompt processing of the loan request without awaiting copper developments would strike a positive, auspicious note for the copper negotiations and our future relations.

—Prompt processing of the loan request would deprive the GOC of grounds for accusing the USG of a deliberately hostile policy of economic pressure, contrary to positions taken publicly by President Nixon.

—Keeping the Eximbank loan for aircraft separate from the copper negotiations would reduce the risk of our being drawn into direct bargaining with the GOC on copper.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

—If (as is likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and thus

—avoid an increase in the already large USG financial exposure in Chile.

—avoid USG involvement in the establishment of a new air service to Cuba.

—reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

—relate the Eximbank decision to Cuba policy and help counteract the criticism of the decision in Chile and elsewhere.

Disadvantages

—It would deny to us the possibility of using the Eximbank loan request to obtain some leverage in the copper negotiations.

—If (as is unlikely) the GOC accepted the ban on flights to Cuba, it could

—increase the already large USG financial exposure in Chile.

—relax pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

—in any event make it more difficult to explain a denial of the loan.

—If (as is likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and

—arouse strong criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

—deny the US economy the benefit of the sale.

—adversely affect the copper negotiations and our future relations.

Option F. Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that its aircraft will not carry cargo to or from Cuba, there is no non-banking impediment to the loan project; request Eximbank to begin processing the loan with a view to providing a preliminary commitment as soon as normal banking procedures would permit.

Advantages

—If (as is possible) the GOC accepted the ban, it would limit to a visible and at least symbolic degree Chile’s breach of OAS policy on Cuba. In addition

—Prompt processing of the loan request without awaiting copper developments would strike a positive, auspicious note for the copper negotiations and our future relations.

—Prompt processing of the loan request would deprive the GOC of grounds for accusing the USG of a deliberately hostile policy of economic pressure, contrary to positions taken publicly by President Nixon.

—Keeping the Eximbank loan for aircraft separate from the copper negotiations would reduce the risk of our being drawn into direct bargaining with the GOC on copper.

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—It would make available to the US economy the benefit of the aircraft sale.

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—avoid an increase in the already large USG financial exposure in Chile.

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—If (as is possible) the GOC rejected the ban on cargo to or from Cuba, causing the loan to fail, it would

—arouse some criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

—deny the US economy the benefit of the sale.

—adversely affect the copper negotiations and our future relations.

Option G. Inform the GOC that, if its aircraft carry cargo to or from Cuba, it must be prepared to forego further US aid, but that there is no other non-banking consideration bearing on the loan project; request Eximbank to begin processing the loan with a view to providing a preliminary commitment as soon as normal banking procedures would permit.

Advantages

—Among all options, this would strike the most positive, auspicious note for the copper negotiations and our future relations.

—If (as is possible) the GOC excluded cargo from its flights to and from Cuba in order to remain legally eligible for further US aid, it could limit at least to a small symbolic degree Chile’s breach of OAS policy on Cuba.

—By omitting a prior condition on Cuba, it could deprive the GOC of grounds to claim our treatment was discriminatory, arbitrary, politically motivated or an infringement on its sovereignty.

—Keeping the Eximbank loan for aircraft separate from the copper negotiations would reduce the risk of our being drawn into direct bargaining with the GOC on copper.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

Disadvantages

—It would deny to us the possibility of using the Eximbank loan request to obtain some leverage in the copper negotiations.

—Approval of the loan would

—increase the already large USG financial exposure in Chile.

—involve the USG in the establishment of a new air service to Cuba, with no apparent limitation on it.

—relax the pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.