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Nota de Archivo: *Summary: This paper detailed the advantages and disadvantages of U.S. assistance to Chile to purchase military equipment and presented options for the SRG's consideration. The paper included a section on how such assistance would affect U.S. relations with other South American nations. Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–56, SRG Meeting, Chile 6/3/71. Secret.*

CHILEAN MINISTRY OF DEFENSE REQUEST FOR FMS CREDIT ASSISTANCE IN PROCURING ARMY AND AIR FORCE EQUIPMENT

Situation:

Within the past two years, the Chilean Air Force has expressed an interest in purchasing the C–130H transport aircraft and a modern replacement fighter aircraft. More recently and following a period of negotiations with the aircraft manufacturers, the Chilean Air Force decided to procure, if credit could be obtained, three Lockheed C–130H transport and 12 Northrop F–5 fighter aircraft. The aircraft manufacturers were unable to arrange commercial credit on terms acceptable to the Chileans to finance the aircraft.

During the February visit to Chile by Admiral Zumwalt and party, the CINC Chilean Air Force, General Ruiz, requested FMS credit assistance in financing procurement of the aircraft. He emphasized that the Chilean Minister of Defense had approved the purchase proposal and that he would like to move quickly to consummate the purchase.

Subsequently, messages from the Embassy, DAO and MILGP, Santiago reported General Ruiz's continuing queries regarding a USG response on credit assistance and his increasing anxiety to move quickly with the aircraft purchase now that the Minister of Defense has approved. They also underscored General Ruiz's stated position that he would have to go to third sources for assistance if he were unable to obtain FMS credit assistance to procure the aircraft in the U.S.

The Embassy/MILGP was instructed in mid-March to inform General Ruiz that his request was receiving attention and a response will be forthcoming as soon as possible.

An options paper on the Chilean Air Force request was prepared by the Ad Hoc Interagency Group on Chile and submitted on 8 May 1971 for SRG consideration.

On 14 May 1971, however, a message from COMUSMILGP Santiago forwarded a new priority list of equipment received in writing from the Chilean Ministry of Defense. The F–5 aircraft was not included on the list, two instead of three C–130 aircraft were indicated and additional Army and Air Force equipment was listed in order of priority. The list is as follows:

600 Parachutes T–10A

200 Parachutes G–13

200 A–7A Equipment

100 A–21 Equipment

100 Armament Bags

600 Parachute Carrying Bags

40 Parachutes C–12D

30 Parachutes G–11A

200 Controllable Parachutes

40 A–22 Equipment

Ambassador Korry has reported that the Chilean Ambassador to the United States, while on his recent visit to Santiago, informed him that the GOC had made a deliberate decision to omit the F–5 from the list because of a decision to give top priority to the C–130s and because soundings in Washington had led to the conclusion that now was not the time to push further for the F–5s. At the same time, General Ruiz requested that the USAF provide a total of six flying hours to two Chilean pilots for flight performance evaluation of the F–5 aircraft at Williams AFB, Nevada. The USAF has agreed to provide the flight time for an FMS cash cost of approximately $5,000 with the clear understanding that the provision of this service in no way commits the USG to a subsequent approval of a request for aircraft procurement. General Ruiz has accepted the offer to provide the requested evaluation flights on an FMS cash basis. He also advised that following the flight evaluation of the F–5, the two pilots would proceed to Israel and then to France where arrangements have been made for them to make a flight evaluation of the Mirage aircraft. Following these flight evaluations, the Chileans are to make a decision as to which fighter aircraft will be selected for procurement.

With the receipt of the new priority list indicated above removing the F–5 from FY 1971 consideration, the aforementioned options paper on credit assistance for the C–130 and F–5, previously submitted for SRG consideration was withdrawn.

Background:

On December 19, 1970, the SRG decided to defer action as long as possible, while avoiding a negative reply, on any Chilean request for C–130 or F–5's. On February 17, 1971, the SRG approved a FY 1971 FMS credit level for Chile of $5 million. In its discussions, the SRG recognized the possibility of using this credit to finance a Chilean Air Force purchase of C–130 aircraft. The C–130 is a four-engine turboprop transport configured for cargo and troop lift. With a payload capacity of 45,000 lbs, the aircraft is highly versatile in mission performance ranging from military airlift to civic action.

For comparison of FMS treatment being given Latin American countries, the most accurate figures are the present allocations of FMS direct credit, excluding guaranteed commercial loan potential. These are (in millions of dollars): Brazil 15, Argentina 13 (includes guaranteed private credit), Venezuela 10, Chile 5, Uruguay 4, Guatemala 4 and Colombia 3.

Discussion:

Through our Embassies in Buenos Aires and Rio we have consulted the Argentine and Brazilian governments on the Chilean request to us. We have also asked Embassies Lima, Caracas and Asunción for their views.

The Argentine government said that its military was concerned over possible offensive use of the troop-carrying equipment but understood that the USG had many other factors to consider and did not go beyond registering the worry in this regard. (Embassy Buenos Aires recommended against FMS credit sales to Chile.)

The Brazilian government only took note of the matter, asserting insufficient time for internal consultation. Our Embassy thought that we will probably receive informal comments during the next few days, but that it did not have the impression that further formal views were likely to be forthcoming. It suggested that the GOB apparently does not wish to share responsibility for an affirmative decision nor contribute to a negative one.

Embassy Lima thought that the GOP might consider Chilean acquisition of parachutes and C–130's potentially more menacing than F–5's since Peru has Mirages because of their suitability for desert operations near Peru's southern border. The Embassy emphasized its concern over our treating Chile better than Peru, mentioning the additional factor of legislative restrictions regarding military sales to Peru. Embassy Caracas saw no particular reaction resulting from sale of parachutes and C–130's to Chile. Embassy Asunción forecast highly critical reaction from the GOP. Our soundings of our five Embassies brought out the strong common theme that our favorable decision on any important FMS request would require us to move immediately to give significant additional amounts to the respective countries in order to avoid serious effects on our relations. There was agreement among the Embassies that there would be considerable public attention to the transaction with Chile and debate over our motives.

Another factor bearing on the total program level concerns the worldwide FMS credit program ceiling of $340 million imposed by Congress in approving the FY 1971 FMS legislation. While the FMS ceiling of $75 million for Latin America established by Congress has been waived by Presidential decision, FMS credit programs approved for the region must continue to be accommodated with other regional programs within the $340 million ceiling. Present estimates at this late point in the fiscal year indicated that an FMS program level for Chile exceeding $10 million could not be accommodated within this overall ceiling.

The Chileans' new priority list, without the fighter aircraft and with a variety of both Army and Air Force equipment, may reflect to a large extent a desire on their part to test U.S. intentions regarding future military relations by listing only those items which have been made available previously to other Latin American nations. This is particularly true with respect to the C–130 transport for which the Chileans have expressed a continuing interest over the past several years.

Chile's alternatives to the equipment contained in their priority listing are all available in Europe or the Soviet Union. While the equipment request probably reflects a desire by the Chilean military to preserve its U.S. orientation, a negative response on the part of the U.S. would certainly result in a turn to alternative sources.

A direct FMS credit of $5 million for Fiscal Year 1971 will obviously not be sufficient to purchase all the equipment requested (approximately $20 million), but if $5 million in funds were used to guarantee private credit, then a total credit of up to $20 million could be offered if the Chileans were able to obtain a commercial loan, guaranteed by DOD, with acceptable repayment and interest terms (DOD guarantees require a 25% credit reserve). Such an arrangement would result in Chile having one of the largest credit programs in Latin America.

Under present circumstances, however, the maximum feasible FY 1971 FMS credit program level for Chile is apparently $10 million. We would not be able to accommodate in FY 1971 the total equipment requirements indicated in the priority listing. Within a $10 million credit guarantee program level, however, all of the items in priority listings one and two—i.e., the paratroop equipment and the two C–130's—could be procured (assuming a DOD-guaranteed commercial loan could be obtained). Should a $10 million guaranteed commercial loan not be attainable at terms acceptable to the GOC and direct FMS credit be required, the total credit program value would be limited to the approved credit level of $5 million. This would cover all of the items in priority one and one of the two C–130 aircraft in priority two. In the latter case, an offer of credit for the purchase of one C–130 in FY 1971 would probably require approval in principle for the other in FY 1972, contingent upon the availability of funds, since a minimum of two aircraft would be required to maintain a meaningful lift capability.

Due to FY 1971 FMS credit limitations, the remaining priority listings would be deferred for consideration, if the Chileans request, as a part of the FY 1972 program when funded.

Options:

1a. Offer DOD-guaranteed commercial loan assistance for the purchase in FY 1971 of priority listings one and two with the total credit program not to exceed $10 million (this would be sufficient to cover the total cost of the two priorities). The offer would include the provision that should the GOC not be able to arrange a DOD-guaranteed commercial loan, a direct FMS credit of $5 million would be made available for purchase of items in priority listing one and one of the C–130 aircraft in priority listing two in FY 1971. Credit assistance for the remaining C–130 aircraft in priority listing two would be approved in principle for FY 1972, contingent upon the availability of funds.

Advantages:

—Would help maintain useful relations with the Chilean military.

—Would partially meet legitimate Chilean military requirements.

—Would favorably influence climate of bilateral relations.

—Would help maintain credibility of our correct posture.

—Would provide for continuing dependence of Chilean military on U.S. spares and advisory assistance.

Disadvantages:

—Would undercut our efforts to convey to other governments our concern about developments in Chile.

—Would cause some problems in our relations with Argentina, Brazil, Paraguay, Peru and Venezuela, especially their military forces.

—Would arouse criticism in Congress and other domestic sectors.

—Would contribute to the military capability of a country with a Marxist, anti-US government.

1b. Offer direct FMS and/or DOD guaranteed commercial credit for a total program of no more than $5 million for purchase of items in priority listing one and one of the C–130 aircraft in priority listing two in FY 71. Credit assistance for the remaining C–130 aircraft in priority listing two would be approved in principle for FY 72 contingent upon the availability of funds.

Advantages:

—Would indicate, although to a lesser degree, U.S. desire to maintain cooperative relations with Chilean military.

—Would be less likely, with a smaller program level, to:

—Cause concern among Chile’s neighbors.

—Arouse criticism in Congress and other domestic sectors.

—Undercut our efforts to convey to other governments our concern about developments in Chile.

Disadvantages:

—Would still arouse some criticism in Congress and other domestic sectors.

—Might adversely affect our relations with Argentina, Brazil, Paraguay, Peru and Venezuela, especially their respective military forces.

—Would, because of the low program level, probably result in Chile's turning elsewhere for military equipment.

—Might, even with a smaller program, undercut our efforts to convey to other governments our concern about developments in Chile.

1c. If either a. or b. above is approved, advise the GOC that the remaining items on the priority list will be considered for FY 1972, if desired, when the FY 1972 program is funded.

Advantages:

—Would clearly indicate to the Chileans that US desires to maintain cooperative relations with them.

—May preempt an early turn to third country sources for the equipment.

Disadvantage:

—Could be interpreted by Chileans as U.S. commitment to provide assistance in procurement of remaining items (although this could be minimized by clear statement that decision not possible until funding approved).

2. Respond negatively to the Chilean equipment request.

Advantages:

—Would clearly demonstrate to other countries our concern over developments in Chile.

—Would avoid criticism which would attend our adding to military strength of country with a Marxist, anti-U.S. government.

Disadvantages:

—Would seriously harm bilateral political relations.

—Would weaken relations with the Chilean military.

—Would severely reduce the Chilean military dependence on U.S. spares.

—Would come close to eliminating Chilean military dependence on U.S. advisory assistance.

—Would arouse criticism on part of those—including members of Congress—who since Allende's election have sought to discover USG treating Chile in manner inconsistent with U.S. policy pronouncements.

—Would provide other nations, possibly including Eastern Europe, opportunity to become military suppliers to Chile.

—Would be perceived in Chile and elsewhere as an undeservedly hostile U.S. act, winning sympathy for Allende and undercutting credibility of U.S. representations to other governments on Chilean matters.