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Draft Memorandum of Conversation

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Nota de Archivo: *Summary: During this conversation, U.S. officials and businessmen from the Anaconda Company discussed different means of negotiating with the Chileans over the amount of compensation that they would receive for their nationalized properties. The representatives from Anaconda expressed concern over the potentially damaging effects nationalization could have on U.S. investments in Latin America and proposed that the U.S. Government require just compensation. Source: National Archives, Nixon Presidential Materials, NSC Files, Box 775, Country Files, Latin America, Chile, Vol. V. Confidential. Drafted on August 13 by Harkins. The meeting took place in the Under Secretary's office.*

State Dept Under Secretary Irwin Assistant Secretary Meyer Mark Feldman, L/ARA; Charles R. Harkins, ARA/BC; Mr. Coster

Under Secretary Irwin

Assistant Secretary Meyer

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Anaconda Company: John Place, Chief Executive Officer; and President; William E. Quigley, Vice Chairman of the Board Paul S. Bilgore, Assistant General Counsel

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The Anaconda representatives called upon the Under Secretary to review the current situation in Chile as it relates to expropriation under the copper bill and to express their concern about the recent developments. Mr. Place noted his view that the situation was extremely serious and was moving increasingly against Anaconda's interests, and that unless something was done to arrest this movement, a very negative Chilean position might become inextricably set in concrete. He noted that Anadonda had seen a number of other people today, including Mr. McNamara of the IBRD, to explore the possible need for other solutions to the Chilean problem. Among other dimensions of this problem he saw the possibility that Chile might move out of the sphere of influence of the United States and that given its role as a major metals producer for the world, this could imply difficulties for efforts of the U.S. to obtain vitally necessary metals resources. He also saw a

damaging effect on other Anaconda investments in the Latin American areas and throughout the world. He had brought Mr. Quigley, therefore, to describe briefly to Mr. Irwin the present situation in Chile as Anaconda judges it.

Mr. Quigley stated that in the last six weeks, and increasingly in the last three weeks, the situation in Chile was deteriorating significantly to the left, both in general terms and particularly in terms of the Chilean Government's attitude toward compensation for copper. He felt Allende had underestimated the power of the more radical elements of his Marxist coalition and was experiencing serious difficulties in carrying forward his own intentions. An example of these difficulties was the delay in signing the Cerro agreement, where the government had been persuaded to delay finalization until the copper bill was passed and had not yet found a way of signing the agreement. He also reported that this radical left had overpowered the Communist bloc of the coalition (which he described as relatively more tractable and a strong supporter of Allende's strategy), and had precluded the possibility of a veto of the bill which Quigley had foreseen as an opportunity to delay final passage of the bill and provide additional time for a more reasonable arrangement between the U.S. copper companies and the GOC regarding compensation. In recent weeks, under pressure from this radical left the tone of the political environment in Chile had changed considerably, evidenced both by the tone of press coverage and Allende's own statements, with growing focus on claims of unsatisfactory conditions of equipment and processes at the mine sites and the high cost of necessary repairs to maintain current or achieve expanded production. This he felt was based on misinformation being fed to the press and to the political structure by the radical left. He then described in some detail the compensation process provided for under the copper bill and concluded that under present circumstances Allende has no alternative but to apply some factor of excess profit deduction to the valuation established by the controller. The Anaconda representatives noted their interpretation of the bill that such excess profits could be determined only by one of three formulae: (a) the amount by which earnings from their Chilean investments exceed earnings from other international operations; (b) the 14% return provided for under the Andean Code, or (c) the over price formula established in the 1969 agreement under which Anaconda sold out 51% of its Chilean holdings to the Government of Chile. Any one of these formulations will result, according to the Anaconda representatives, in a deduction of $150 to $200 million from the depreciated book value being determined by the controller. Other deductions could come from judgments of unsatisfactory conditions of equipment or processes at the mine. Examples of such deductions being stressed in the publicity campaigns of the press include: (a) high grading in the stripping, particularly at Chuquicamata, which might lead to a claim of $30 million; (b) non-accountability for precious metal content of the ore during past years, claimed to have cost the Chilean Government $40 million and which if applied would be subject to a factor of 5 as a fine ($200 million); (c) claims related to alleged windfalls from past exchange rate benefits, said to amount to $6 million, and others. These were set forth merely as examples of the kinds of tactics being generated by the radical left of the Unidad Popular to justify a negative compensation, including honoring of the $150 million in Codelco notes provided to Anaconda under the 1969 buy-out. (Mr. Quigley noted that 3 payments had been made on those notes, the last one having been made on June 30 and the next one being due on December 31.)

Mr. Quigley and Mr. Place both noted their serious concern with the break in continuity of U.S. ambassadorial support to the company's efforts that will be occasioned by the impending change in Ambassadors. They noted that they had worked extremely closely with Ambassador Korry and were most appreciative of his efforts, but they also noted that he had been absent for some time due to the tragic illness of his father and that even when he returns it will be as a lame duck, since his departure has already been announced. This they feel vitiates much of his potential influence in the government. They also noted that at this critical stage the DCM is on vacation and the Embassy has thus been left in the charge of the third man down, who himself has only been in Chile for about 3½ months. They stressed their serious concern for the lack of adequate presence at this crucial time, and a fear that the GOC might interpret the change of Ambassadors and the absence of key U.S. representatives from Santiago as an indication of relative disinterest. Mr. Place suggested that this potential conclusion by the GOC might be offset, the hardening of the Chilean negotiating position softened, and a fresh impetus

toward satisfactory agreement provided, by the naming of a special and very high level envoy to Chile. The timing of such a visit, he felt, was of critical importance since the clock put in motion by the promulgation of the copper bill was running and critical Chilean determinations as to compensation and terms were in process of development. There is thus great danger that basic decisions are already in process, to which Allende will find himself hostage. Mr. Place noted that Mr. McNamara in their discussion had shared this concern. The Anaconda representatives recognized, of course, the inherent limitations in the big club approach, but if the Chilean approach was steadfastly unreasonable, then a very hard position on international credit availabilities by the USG would become inevitable. The Anaconda representatives preferred, however, that an approach might be possible that would permit a quid pro quo calculation on both sides. They noted that Chilean financial needs for completed expansion and operational improvements of their copper mines totaled perhaps $300 million alone, and they reported that Mr. McNamara had indicated that if there were adequate agreement on both sides on the copper compensation issue, the IBRD would be sympathetic to taking part in a financing arrangement that promised productive results.

Mr. Irwin asked the Anaconda representatives what they saw as alternative possibilities in dealing with this problem. Mr. Quigley indicated that some formulation could be a restatement of U.S. policy toward just compensation and a request for useful assurances from Allende that such policy would be honored, in return for which there would be the possibility of financing through the IDB, IBRD, Eximbank, etc. of justifiable Chilean projects, and if such assurances were not obtainable and reasonable compensation not forthcoming, the U.S. would take all appropriate steps to deny new credits to Chile. This sort of approach, he felt, and a slow down in the Chilean process of calculating compensation, might provide additional time necessary to work out an arrangement which, though far from optimum, would at least avoid completely confiscatory actions.

Mr. Quigley then explored some of the parameters of Anaconda's view of compensation, most of which is included in the paper left behind, a copy of which is attached. Inter alia this paper notes Anaconda's view that the 1969 agreement, had it been carried out, would have produced something between $550 and $750 million for the 100% purchase of Anaconda's holdings, compared to Anaconda's own calculation of a total value, including ore reserves, of about $1.3 billion. This, they felt, would be a reasonable price of a willing seller to a willing buyer in the United States. Inter alia the Anaconda representatives indicated that while return on investment might be calculated differently by the Chileans and by the company, their figures would show a return on equity investment for the total 1916 to 1969 period of 9.7% at Chuqui (with an equity investment of $162 million), and 4.42% at Salvador (with an equity investment of $80 million). This return, they noted, had been noticeably better since 1955 and had reached $100 million in 1968. Over that full period of time, however, the Anaconda holdings had produced $6.3 billion, of which $5.5 billion, or more than 88%, had been returned to Chile in the form of taxes, earnings, etc.

Mr. Irwin asked what a high level mediator might do that had not already been done, and Mr. Cutler said that perhaps he could press home with finality the message that we had been signalling, that is, convince the Chileans that we mean what we say about the implications of non-compensation. Mr. Meyer asked if this would be useful, in view of Anaconda's feeling that Allende was now captive to his radical left. Mr. Irwin asked if the Anaconda representatives felt that Allende was basically disposed toward a reasonable solution. Mr. Quigley said yes, that he thought Allende was on the right side of his admittedly leftist coalition, and Mr. Place said that the situation really called for a dramatic gesture if confiscation were to be avoided. The latter, he noted, would in any case hit the U.S. tax payer because there would be large tax carry-forwards by Anaconda and large OPIC costs for Anaconda and other U.S.-insured investors, and both these would directly or indirectly have to be footed by the USG. Mr. Irwin asked what time period Mr. Place saw for his proposal, and he replied that the need was indeed critical, that had such a man been named he should be leaving immediately, although he recognized that some spadework would have to be done to make full use of his trip, and that in any case, it now being confirmed that Ambassador Korry would be leaving, then the sooner the new Ambassador got there the better. Mr.

Feldman noted that the Anaconda proposal called for an approach to Allende, but that the immediate process of valuation was being carried out by the controller, who is a quasi-independent official of Chile, and that there would be some delicacy in maintaining this distinction. Mr. Quigley agreed that this was a complication, but did not feel it overrode the importance of getting some message through to Allende which would slow down the Chilean decision-making process and give Allende some basis for holding off such radical leftists as Faivovich and Altamirano. Mr. Place noted that in order to do this Allende would have to be armed with some quid pro quo, and that the quid would be access to credit since Chilean officials are becoming increasingly seized with the seriousness of their credit standing. Mr. Irwin asked if the Anaconda officials were aware of the attitude of the other copper companies toward the present situation, and Mr. Quigley noted that unfortunately each case was quite different, Cerro being a new investment with essentially no returns at all to date, and Kennecott in a position of having none of their own money invested and their loan fully insured (but he believed that Kennecott might in a final analysis be happy with payment on their notes).

Mr. Place then thanked Mr. Irwin for the time that had been given to the Anaconda officials, and Mr. Irwin expressed his gratitude for the opportunity to discuss these problems with the Anaconda officials. He indicated it was a problem to which the USG had given a great deal of time and would continue to do so, examining very carefully where Allende and Unidad Popular might be going, what the USG might do to achieve its interests and those of its citizens, and that there would undoubtedly be further opportunity for contact on this important subject.