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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 recounted Korry's unsuccessful attempt to negotiate an informal agreement with Allende on compensation for the expropriation of copper mines owned by U.S. interests. Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. Confidential; Immediate; Exdis. Repeated to Bogotá, Buenos Aires, Lima, Caracas, Rome, Bonn, Paris, Brussels, London, Mexico, and Moscow. Reference telegrams 4975, September 27, and 5020, September 29, are ibid. Telegram 4987 from Santiago, September 27, is printed in Foreign Relations, 1969–1976, vol. XXI, Chile, 1969–1973, Document 260.*

5034. Pass OPIC. Subj: Talk With Allende Sept 27 (Part I of II). Ref: (A) Santiago 4975; (B) Santiago 5020.

1. My talk with Allende (summarized in Santiago 4987), the day before he surprised us only by assuming full personal responsibility for wiping out the big two copper companies' claims to any compensation, is sent today in part for the historian and in part for those who must still deal with this great dissembler. Part I is an account promptly recorded by an EmbOff upon my return from the one-hour session that was also attended by FonMin Almeyda; Part II is analytical comment, illuminated by subsequent as well as preceding events.

2. Ambassador began encounter by apologizing for the mixup that had led to the cancellation of Sept 23 "man-to-man" meeting Allende had requested. The President waved the matter aside, saying that it did not have any importance and that it had not changed anything.

3. The Ambassador stated he welcomed the opportunity because he wished to be certain that Allende had understood what Ambassador had, on his personal initiative (Ref B), been discussing with Almeyda, Arrate and others as a possible exit from what seemed to be an unfortunate impasse. Allende replied that he understood perfectly what the Amb had been proposing and that it had been good, "indeed, very good." He then reviewed the legislation and lamented that it left him no option, not even that of time. The law was passed unanimously by Congress (a point he repeated several times in the meeting) and it left him with very little leeway in its terms. The Comptroller had the task of fixing the basis of compensation and of making certain deductions therefrom. Allende could not interfere with that process. He mentioned the arrest 48 hours earlier of ITT Telco head Holmes (Chilean citizen) as a comparable case in which he as President could not interfere because of the separation of powers. He had to make his deductions for excess profits by Sept 29 and there was no other way.

4. Amb replied that it was his firm recollection that the majority of the Chilean Congress had expressly wanted to avoid conflicts with the USG and had therefore left the copper bill deliberately vague in key parts, so that the President would have the flexibility to pay "fair and just" compensation in keeping with Chilean tradition. Allende and Almeyda replied that, of course, the majority of Chileans wanted to avoid conflicts, just as they themselves did. Unfortunately, however, the law did restrict their freedom in trying to work something out. Allende then reviewed his supposed handling of the UPI

case the past weekend in which the expected compromise with the news agency was worked out as up-to-date proof of his desire to have good relations with the US.

5. Amb asked if the process for fixing compensation were, as they described it, with Allende and the Comptroller independently fixing separate deductions to be levied against the compensation, would there not be a likely result of negative compensation. He mentioned that the total deductions asserted before the Contraloria by Codelco, Allende's "own agency," exceeded one billion dollars, more than three times the share of the net worth corresponding to the US investors. Allende and Almeyda at first challenged that figure without at the same time assigning it much importance. In response to Amb's query as to whether they wanted to have an IPC case on their hands, Allende replied that "if I do my calculations correctly, that problem will not arise."

6. Amb noted that possibility of negative compensation raised problem of what would happen to GOC-guaranteed notes already given for 51 per cent interest in three of the Anaconda and Kennecott companies. Allende said that the law's elimination of Teniente's revaluation of assets made it impossible for the GOC to pay for the 51 per cent in the amount and on the terms previously contemplated. (He obviously regarded the notes held by Kennecott-Braden and insured by OPIC as having been given in payment for the initial 51 per cent.) The Kennecott problem was the most difficult, and of course the same criteria on excess profits applied against Kennecott would also have to be applied against Anaconda. If he chose 5 or 8 or 10 or 12 as a just norm for one, it would have to be applied against the other. Anaconda deserved better treatment than Kennecott, he said, since it had not juggled its asset value.

7. Amb said that failure of the GOC to honor the notes for the 51 per cent interests bought in 1967 and 1969 according to their original tenor could have a most serious effect on US–Chile relations as well as on Chile's standing in the international financial community. He recalled that notes given Anaconda had been discounted and were now held by private banks throughout the world. The GOC had best make no mistake about the consequences of such action or of triggering OPIC payments. Allende noted that Kennecott did not have such transferable notes.

8. Allende asked if there was some way in which Chile could avoid the risks that the Amb had said were inherent in the GOC's policy towards the US investors. Amb replied that as a pragmatic country the US always sought, as the Secretary's letter to Almeyda in mid-August had made clear, pragmatic solutions to such problems. The Amb had, in the last weeks, been trying his best to search for such a pragmatic solution. He was ready to listen attentively to any counter-suggestion. He summarized once more the approach which he had, on his personal initiative, been proposing. Allende replied again that in the case of Kennecott, such a solution would be especially difficult. Although at first it appeared Allende was referring to compensation for the 49 percent, an exchange of questions and answers clarified that he was speaking of the possibility of only some Braden notes being honored when due and that he was already assuming that nothing would be paid for the 49 percent.

9. Although earlier in the discussion Allende had said that he had no idea how the Comptroller would decide with respect to the various Codelco objections, Allende now volunteered that Exotica and Andina would get special treatment and that he had spoken to the Comptroller at some length to impress on him the importance of preserving the substance of the Cerro accord, "even though Codelco's figures are different from the company's." He qualified his statement on Exotica by stating, "merely as a hypothetical example" that if the Exotica operation really was a misadventure, as it appeared, then he might be required not to assume payment of the Banco Commercial Italiano loan on the grounds that the proceeds had not been usefully invested. He said that the same course of action might be indicated—again as a hypothetical example—in the case of El Teniente debts, as a result of difficulties with tunnel 8. In each case he said, the banks had not specified nor confirmed the use of the loan monies as had the Exim.

10. The Amb said he recognized that the law provided the President with varied weapons to knock down the value due the departing companies. The critical question was one of will—did the President and did the GOC wish to impose unilaterally a judgement that would make it very difficult if not impossible for the US to accept? Did Allende prefer to seek to humiliate the Nixon administration or not? From the Amb's inexpert view, it seemed that as a head of a respected country and as a successful statesman Allende could offer an entirely unique contribution to history, the revolutionary socialist who not only was committed publicly to preserving democratic forms but one who could arrive at a pragmatic arrangement with the US on difficult issues without sacrificing principles. Indeed it would be more painful in some ways to convince some US quarters to accept the Amb's proposition than it would be for Allende to convince his constituents. The crucial question was, the Amb stressed, one of will. It would be an absurdity for a few million dollars a year, as would be the case under the formula the Amb was suggesting, to be the cause of a far greater gap and one that would feed destructively on itself. If Allende would not permit the USG to preserve either dignity or pride in the protection of its citizenry or entities, if he were to insist on unilateral imposition of a totally unacceptable retroactive judgment, he would be betting on a revolution in US norms that was not going to occur next year. Allende said he was not counting on such a revolution.

11. Allende then asked the Ambassador to say "how much would it cost to settle" and referred to his "man-to-man" invitation. The Amb said he had outlined in as specific a manner as he could in his talks with Allende's confidants the dimensions of a settlement he thought could be accepted by all sides. Did the President have any alternative in mind? Was there something he required from the US? Or from the companies? The Amb wished the President to understand that an amicable arrangement would doubtless ease Chile's credit problems in ways that the GOC could calculate for itself. It was important to settle all the problems now including ITT which might provide a model.

12. Allende said ITT was a separate matter and briefly repeated the GOC's rationale for management and physical appraisal by an independent group. In the same calm, cordial fashion he had maintained throughout the interview, he concluded it by stating that the Amb's earlier observation had been correct: that there were political restraints on both sides that made the problem very difficult. He would have Arrate inform the Amb of his decision the next day in advance of his announcement because he felt this was the "correct way" to behave, the "fair way to do business." As he walked to the portal, he volunteered that he had felt that relations on the personal level with him and with the Foreign Minister had been very good. He appreciated it. In other words, nothing personal, old boy, in this declaration of war.