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Nota de Archivo: *Summary: This memorandum outlined the state of the compensation controversy for expropriated U.S. businesses, the current political situation in Chile, and the ways in which other Latin American nations viewed the U.S.-Chilean relations. It argued that U.S. attempts to ensure adequate compensation for nationalized properties would strengthen Allende's position in Chile and throughout the rest of Latin America and concluded that no military coup appeared imminent. Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VI. Secret; No Foreign Dissem. The memorandum was prepared in the Office of National Estimates. Nachmanoff sent it to Kissinger under cover of a November 16 memorandum, which is printed in Foreign Relations, 1969–1976, vol. XXI, Chile, 1969–1973, Document 273.*

Chile vs. the US: Reverberations of an Escalating Dispute

"More than in Mexico in 1938 or in Cuba in 1959, Chile's decision to expropriate the large copper companies reflects the will of the Chilean people as expressed in an unobjectionable and democratic way through constitutional channels . . . Roosevelt's foresight in Mexico and Eisenhower's lack of foresight in Cuba were the determining factors which caused diametrically opposed political developments in the two countries . . . Once one has taken the position that one is attacked, nothing is easier than to justify reprisal as indispensable means of defense. With reprisals, one can say when and how they shall begin, one cannot say what they might lead to and how they might end." (From summary of article by Radomiro Tomic, Christian Democratic Presidential candidate in 1970.)

The Compensation Issue to Date

1. US-Chilean relations continue strained. The immediate issue is President Allende's decision, in effect, to provide no compensation for the bulk of the US copper holdings expropriated by Chile. Despite the desire of most Chileans to avoid a major clash with the US, there appears to be a broad consensus favoring strong measures against the copper companies. In fact, it may well be the only issue where Allende can count on solid opposition backing. This high degree of consensus among Chileans was underscored last July when the opposition-dominated Chilean Congress unanimously approved the constitutional amendment authorizing copper nationalization. It allowed Allende discretionary authority to deduct past "excess profits" in calculating compensation.

2. Allende's decision came after his own Socialist Party stridently demanded that no compensation be paid. In contrast to certain hardline party colleagues who hoped that US-Chilean relations thereby would be irreversibly damaged and the revolution radicalized, Allende probably desires to maintain normal relations with Washington in spite of the copper dispute. He has a strong interest in preventing a severance of US-Chilean ties, if only to maintain access to traditional sources of international credit and to US spare parts and technology. Allende appears to calculate that if Chile drags out the appeals proceedings and holds open the possibility that it will honor much of the debts of the copper companies to foreign (mostly US) creditors, current US-Chilean tensions can be reduced.

Allende's Political Situation

3. Economic and political developments in Chile in the next six months could alter Allende's present computation of the benefits and costs of a confrontation with the United States, perhaps to the point where he would perceive a net advantage in provoking US reprisals. He will be faced with a number of delicate problems that could seriously affect his overall political position. Low foreign currency reserves, lagging agricultural production, relatively low world prices and uncertain production prospects for copper point to a bleak economic picture for 1972. The Chilean Government has already instituted some restrictions on imports, and Allende has now announced his intention of renegotiating payment provisions on Chile's foreign debts—debts that amount to some 2.3 billion and have been requiring annual service costs equivalent to about one-third of Chile's export earnings.

4. Some everyday consumer goods are in short supply, and if these shortages spread, as seems likely, Allende's political base may erode. He already has grounds for some concern over diminishing support for his regime. The ruling coalition's defeat in a congressional by-election last summer and its disappointing showing in recent student and trade union elections may be symptomatic of declining regime popularity. Allende, apparently in hopes of strengthening his political hand, has just presented legislation to create a unicameral legislature and to effect far-reaching domestic reforms. If the congress rejects the proposal, Allende may choose to call a plebiscite next year to decide the issue. Should Allende then—or at any other time—sense that he is in danger of losing political control, pressures for focusing attention on a foreign scapegoat by provoking a crisis with the US would mount.

5. Allende clearly is sensitive to the desire of the Chilean military to maintain ties with the US military. But, once again, if he perceived that military opposition to his regime were on the rise, he might view a confrontation with the US over the copper issue as a method of undercutting uniformed dissidents. There is now evidence that high-ranking Chilean military officers are taking soundings among their comrades in order to ascertain the degree of support a future move against the regime could obtain. At least for some time to come, however, any prospects for military intervention will be limited by a number of important factors. The Chilean military have a tradition of non-intervention in political matters, and there is doubt about the ability of the carabineros and the military to unite in anti-regime efforts. Furthermore, Allende has been skillful in his efforts to curry favor among the security forces. Military men, like other Chileans, take pride in Chile's constitutional system. They are aware that unless Allende flouts the constitution or economic problems produce large-scale unrest, most civilian opposition elements would oppose a coup. And without broad public support, military leaders would probably remain reluctant to move against Allende.

6. Whether Allende intentionally provokes a confrontation with the US or whether one comes about as a consequence of US retaliation he hopes to avert, certain immediate political benefits would accrue to the regime. Allende would be almost certain to use charges of US "economic aggression" to justify his own economic reverses and to promote revolutionary elan among the workers, just as Fidel Castro has done with respect to the US blockade for more than a decade. Furthermore, he would probably utilize any reprisals to bolster his own political support and to intimidate the opposition. By posing as a Chilean David manfully facing an avaricious Yankee Goliath, Allende effectively could equate his own interests with that of the nation as a whole. Since Chileans set great store in legality and are proud of their long record of constitutional self-government, Allende's hand will be strengthened considerably, in any showdown with the United States, by the constitutional basis for his actions on copper issues.

7. In these circumstances, Christian Democrats and other political opponents of the regime might feel constrained to proffer at least nominal support to government initiatives they would otherwise oppose, rather than court charges of aiding and abetting the enemy during a national emergency. For example, if Allende were to institute belt-tightening measures that were necessitated by his own blunders, the opposition normally would react by charging him with compelling the

Chilean masses to pay for his ineptitude. But if he could credibly argue that stringent steps were necessary to cope with an international credit squeeze engineered by the US, his adversaries might perceive no alternative to “rallying round the flag.”

Latin American Views of US-Chilean Relations

8. Considering the current high pitch of nationalistic feeling in much of the region, Allende would have at least the sympathy of a number of Latin American states. This would be the case not only because of the cool US-Latin American relations currently prevailing, but also because of the skill with which he has neutralized apprehensions that his electoral victory had initially engendered among other Latin American states. Allende frequently has drawn sharp contrasts between the Cuban and Chilean revolutions. From the first, he stressed that he did not share Fidel Castro’s messianism, and that his government would scrupulously adhere to non-interventionist principles. He was of course mindful that Latin American support for US efforts to isolate Cuba was related in part to a perceived threat of Cuban subversive intervention, and he no doubt wanted to avoid a similar vulnerability. Out of deference to the sensitivities of neighboring states, he chose to postpone Fidel Castro’s visit, first meeting with Argentine, Peruvian, Ecuadorian, and Colombian leaders. To further mollify Chile’s neighbors, regime spokesmen have argued that expanded ties with Communist states would not in any way compromise Chilean independence. And Allende has countered fears of a Soviet military presence in Chile by saying that his regime would not permit any foreign bases on its soil and by categorically denying that a Soviet credit for purchasing military equipment has been extended.

9. The Chilean contention that problems with US copper companies should not be converted into problems with the US Government, probably strikes a sympathetic chord in many Latin American states. If the US Government invokes economic reprisals, Allende might argue that these measures are actually prompted by his avowed Marxism, and not the requirements of US legislation. Since the United States did not apply the Hickenlooper Amendment to Peru after the military regime expropriated the US-owned International Petroleum Company without subsequent compensation, Allende could charge that Chile was the victim of discriminatory treatment. This would augment the broad-gauged nationalist support the regime would enjoy at home and also serve to promote sympathy for Chile among its Latin American neighbors.

10. In such international forums as the Organization of American States, most members would be likely to condemn rather than support any US sanctions against Chile on the copper issue. Increasingly, the US has found itself standing accused and almost alone at meetings of inter-American organizations. On a broad gamut of issues, ranging from the application of the 10 percent surcharge to Latin America to the violation of Ecuador’s claims of a 200 mile limit, the US has been virtually isolated. Even regimes like that in Brazil which tend to take a dim view of the Allende regime, are likely to be hostile to any effort that could be construed as a US ploy to multilateralize an essentially bilateral problem. In this context, suggestions that the level of new US investment in Latin America as a whole might be adversely affected by Chilean actions toward the US copper companies would be likely to add to Latin American resentment. To some extent the general climate of Latin American opinion may have been revealed by a motion passed at a meeting of the Latin American Parliament in Caracas in August. It saluted Chile’s copper nationalization and reproved the United States for pressuring Chile by withholding Export-Import Bank loans.

11. While the OAS would be unlikely to censure Chile or back US counteractions for the confiscation of copper holdings, it is also improbable that it would pass a resolution upholding Chile’s actions. The US could no doubt muster enough votes to block such an initiative. What is more likely, however, is that Allende would seek to muster broad international support elsewhere. The UN Conference on Trade and Development (UNCTAD) meeting slated for Santiago in April could provide him with an ideal forum for marshalling such backing. At the recent Lima meeting of the Special Latin American Coordinating Commission, convened to formulate a Latin American position for the UNCTAD conclave, Chile

successfully pushed through a resolution condemning any political or economic measures restricting a country's right to dispose of its economic resources as it sees fit. There may be considerable bombast in the assertion of some Allende partisans that his declaration of retroactive excess profits constitutes a new "Allende Doctrine" applicable to much of the underdeveloped world. Nevertheless, the notion is widely accepted among less-developed countries that the major industrial countries have reaped huge profits while robbing them of their natural resources. Consequently, Allende's thesis could win broad sympathy from participants in the UNCTAD meeting, enhancing Chile's status as a "Third World" luminary.

12. In sum, given the climate of opinion prevailing in Chile and in Latin America as a whole, US acts of retaliation for Chile's refusal to provide "prompt, adequate, and effective compensation" to the mining companies would probably fortify Allende's political position at home and engender considerable sympathy abroad. Regardless of the merits of the case under international law, there would be a widespread tendency to view US counteractions as an exercise in dollar diplomacy. Allende would be apt to emerge as victim, not villain.