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Nota de Archivo: *Summary: This paper reviewed U.S. objectives in Chile as the protection of U.S. interests, collection of compensation, and improvement of Chilean opposition forces, while avoiding providing the Allende government with reason for rallying domestic and international support. It then outlined and analyzed the various economic policy options the United States could employ in its attempts to attain those objectives. Source: National Archives, RG 59, Lot 73D115, ARA/LA-Meyer, Subj. 70–71, Kissinger Memoranda. Drafted by Fisher, Karkashian, and Girdler. Secret; Nodis. Meyer sent this paper to the Senior Review Group. Annexes A and B are attached but not published.*

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I. U.S. Objectives in Chile

Our current principal objectives in Chile, listed in order of priority, are:

1. To avoid giving the Allende government a basis on which to rally domestic and international support for consolidation of the regime (NSDM 93, Nov. 9, 1970).

2. To maximize pressures on the Allende government to prevent its consolidation and limit its ability to implement policies contrary to U.S. and hemisphere interests (NSDM 93).

3. To strengthen elements in the Chilean political spectrum, including the military, which will resist extreme policies and to give these elements to understand that our differences are not with the Chilean nation but with policies of the present Government of Chile.

4. To minimize the acceptance and emulation of the Chilean example in Latin America and elsewhere.

5. To maintain the principle of just compensation for expropriated investment under international law.

6. To obtain the eventual payment of the Chilean debt of nearly $1 billion to the United States.

7. To protect the U.S. Government interest represented by the over $300 million exposure of the Overseas Private Investment Corporation in investment insurance, and to protect remaining uninsured U.S. private investment in Chile (estimated at about $115 million) from expropriation without just compensation.

II. Considerations

The Chilean government’s decisions to provide little or no compensation for the major expropriated copper investments have been appealed by all three of the affected investors to the Special Tribunal provided for under the copper amendment to the Constitution, but there is little expectation of significant relief. Now that the companies have taken this action to

formalize the exhaustion of their local remedies, there are constraints against open and formal U.S. action against Chile until the appeals process is completed or until the Tribunal by its own actions has confirmed the inadequacy of this recourse. As for remaining un-expropriated American investment in Chile, there is still some possibility that reasonably acceptable settlements might be reached between some, but not all, of the investors and the Allende government.

The relative weight to be assigned to each of the U.S. objectives set forth in Part I will influence the choice of option. Actions taken in pursuit of some objectives could affect the accomplishment of others. For example, our success in not giving the Allende government a basis on which to rally domestic and international support for consolidating the regime would be affected by the nature and intensity of the pressures which we apply to the regime to prevent its consolidation and to limit its ability to implement policies contrary to U.S. and hemisphere interests.

The principal objectives of the Allende regime appear to be (a) to consolidate its position internally and (b) to accomplish a socialist revolution in Chile. Allende may also seek to play a leading role among third-world countries and to provide a socialist example for other countries, but these are secondary considerations to survival.

We have up to now followed a policy of correct but cool relations with Chile. The coming to a head of the copper compensation issue has meant that Allende can no longer claim credit, as he did on occasion, for successfully managing relations with the United States. He had no domestic opposition to his copper policies, and has probably wrung from them the political benefit obtainable from them as such. His next logical step would be to seek to unify his people behind him in defense against a foreign threat—alleged U.S. economic coercion—and he has lost no opportunity to lay the groundwork for this effort. It is apparent that he needs a scapegoat for his coming economic difficulties, and a strong nationalist issue with which to justify imposition of more stringent economic and political controls.

Continuing economic deterioration in Chile is not in question. Even the provision of major foreign credits could only affect the pace and degree of this process. Thus the primary significance of the provision or non-provision of most credits would be political rather than economic.

Barring an unforeseen substantial increase in the price of copper, Chilean debt payments to the United States will inevitably be either stretched out or repudiated. Allende on November 9 formally declared his intention to seek renegotiation of Chile’s foreign public debt, and we expect to receive on November 29 a direct official invitation to participate. Consultations between the interested Washington agencies already have been initiated to gather the essential facts relating to the Chilean debt and to prepare for the USG decision on a response. Our posture with respect to renegotiation, in conjunction with other major elements in our policy toward Chile, will bear directly on the question of whether the Allende regime will continue to recognize its debt obligation to the United States or will repudiate it.

The Chilean experiment, combining independence from U.S. influence with sweeping social change carried out with a show of legalistic deference to pluralism, has inherent appeal in Latin America. The extent to which this appeal is manifested in political developments in other countries would depend on (a) the evident success or failure of the Allende regime; and (b) whether Allende can persuasively attribute his difficulties to external factors.

III. Policy Options

Option A. Maximum Economic Denial

Characteristics of the option. Under this option we would go beyond the measures required under the Hickenlooper Amendment to apply additional economic pressures on Chile, along the lines of economic measures we apply to Cuba. (In most cases, such sanctions as freezing foreign assets and imposing financial controls have been reserved to cases that could be adequately linked to the threat of world communism referred to in President Truman’s 1950 Korean War proclamation of national emergency.) We would:

—Formally invoke the Hickenlooper Amendment, suspending economic and military assistance.

—Suspend disbursement of remaining balances of previously committed Eximbank credits.

—Make strong public statements condemning the Chilean position.

—Openly seek to restrict or eliminate capital flows to Chile from other sources.

—Openly oppose Chile on matters at issue with it in international organizations and other forums.

—In addition to withdrawing our AID mission from Chile, terminate our military missions, Peace Corps, NASA and other non-diplomatic activities in Chile.

—Prepare for rupture of diplomatic relations with Chile.

—Freeze Chilean dollar balances in the United States.

—Carry out customs harassment against Chilean exports to the United States, and encourage placement of liens against Chilean goods in transit elsewhere.

—Prohibit the export from the U.S. to Chile of any commodity deemed to make a significant contribution to the military or economic potential of the country; i.e., apply the Export Control Act of 1949 and the Trading with the Enemy Act of 1917 to Chile as in the case of Cuba.

—Openly take the lead in seeking maximum stringency in the terms of any debt re-negotiation.

Advantages and Disadvantages of Option A. The advantages of Option A are that it:

—Might encourage some hemisphere countries unsympathetic to Chile’s goals to take a stronger stand against the Allende regime.

—Would eliminate the $20 million in the AID pipeline.

—Would constitute maximum U.S. pressure to reduce the flow of external credits from the west to Chile.

—Could heighten tensions between Allende and the Chilean military over the prospect of being cut off from its traditional source of equipment.

—Would be the strongest and clearest statement to the world of our position and our intentions and might thereby help to dissuade some other countries from following the Chilean example.

The disadvantages of Option A are that it:

—Would enable the Allende regime to rally wide international and domestic support to its cause and to hamstring its political opposition on the issue of patriotism.

—Would enable the Allende regime to impose “emergency” economic and political controls ostensibly to meet the “external threat” but actually to consolidate its power and stifle opposition.

—Would relieve the Allende regime of any restraints on overt efforts to implement policies contrary to U.S. and hemisphere interests.

—Would be seriously challenged as violating Article 19 of the OAS Charter which prohibits “coercive measures of an economic or political character . . .”.

—Would invite large-scale economic and military involvement by socialist countries in Chile.

—Would push the military closer to the Allende regime so as not to appear “less patriotic” in the face of overt external pressures, while eliminating our ability to retain our traditionally good relations with the Chilean military.

—If applied before the Special Tribunal makes its decisions on the appeals, it would weaken our political and legal justification for applying counter measures, by depriving the U.S. of the argument that all specific modes of settling the dispute had been exhausted before recourse was had to these measures.

—Would give the Allende regime the pretext for repudiating its debt of nearly $1 billion to the U.S. Government and thereby obtain immediate debt burden relief at our expense.

—Would eliminate any compensation prospects for U.S. firms in Chile whose properties have been or would be nationalized. This would involve $313 million of OPIC coverage and still pending U.S. investor interests in copper and could affect GOC payment of buy-out obligations to various U.S. firms.

Option B—Formal, Comprehensive Application of the Hickenlooper Amendment

Characteristics of the option. Under this option we would not go beyond Hickenlooper Amendment measures which are explicitly called for under the law or implicitly associated with its application. We would:

—Formally invoke the Hickenlooper Amendment, suspending economic and military assistance (but take no other initiative to withdraw our Milgrp, as an evidence of a disposition to maintain friendly contact with the Chilean military).

—Suspend disbursement of remaining balances of previously committed ExImbank credits.

—Publicly condemn the Chilean position.

—Seek to restrict or eliminate capital flows to Chile from other sources.

—Oppose Chile on matters at issue with it in international organizations and other forums.

—Openly take the lead in seeking maximum stringency in the terms of any debt renegotiation.

Advantages and Disadvantages of Option B. The advantages of Option B are that it:

—Might encourage some hemisphere countries unsympathetic to Chile’s goals to take a stronger stand against the Allende regime.

—Would eliminate the $20 million in the AID pipeline.

—Would constitute strong U.S. pressure to reduce the flow of external credits from the west to Chile.

—Could heighten tensions between Allende and the Chilean military over the prospect of being cut off from its traditional source of equipment.

—Would be a clear statement to the world of our position and our intentions and would thereby help to dissuade some other countries from following the Chilean example.

The disadvantages of Option B are that it:

—Would help the Allende regime rally international and domestic support to its cause and enable it to hamstring its political opposition on the issue of patriotism.

—Would provide some basis to the Allende regime for imposing “emergency” economic and political controls ostensibly to meet the “external threat” but actually to consolidate its power and stifle opposition.

—Would give the Allende regime a basis for engaging in overt efforts to implement policies contrary to U.S. and hemisphere interests.

—Would open the door to Chilean charges in the OAS and probably in the UN that the U.S. is engaging in “economic aggression”.

—Would risk increased economic and probably some military involvement by socialist countries in Chile.

—Could push the military closer to the Allende regime so as not to appear “less patriotic” in the face of overt external pressures, while reducing our ability to retain our traditionally good relations with the Chilean military.

—If applied before the Special Tribunal makes its decisions on the appeals, it would weaken our political and legal justification for applying counter measures, by depriving the U.S. of the argument that all specific modes of settling the dispute had been exhausted before recourse was had to these measures.

—Would give the Allende regime the pretext for repudiating its debt of nearly $1 billion to the U.S. Government and thereby obtain immediate debt burden relief at our expense.

—Would prejudice the compensation prospects of other U.S. firms still in Chile whose properties have been or would be nationalized, some insured by OPIC.

C. Option C—Non-formal, Selective Suspension of Assistance to Chile

Characteristics of the option. Under this option we would seek to confine our confrontation with Chile to the economic areas expressly dealt with under the Hickenlooper Amendment, without formally invoking the Amendment. This would require us to find plausible grounds to avoid the formal application of Hickenlooper and quietly to explain these as necessary. We would:

—After consultation with key members of Congress, take steps to suspend assistance to Chile to the extent possible without formal invocation of the Hickenlooper Amendment. We would not suspend military assistance or humanitarian and people-to-people activities.

—Continue to withhold new AID or Eximbank loans, and steadily to reduce Eximbank’s export guarantee and insurance operations for Chile.

—Slow down AID loan pipeline disbursements, and deobligate funds wherever plausible technical grounds can be used.

—Delay and discourage consideration of loans to Chile in the IDB and IBRD; as necessary vote against them in both institutions.

—Covertly seek to restrict or eliminate capital flows to Chile from other sources.

—Without openly taking the lead, seek maximum stringency in the terms of any debt renegotiation.

Advantages and Disadvantages of Option C. The advantages of Option C are that it:

—Would deprive the Allende regime of the early propaganda and political advantages it would reap from the prompt, formal invocation of Hickenlooper.

—Would enhance acceptance of the view that the Allende regime's policies and failures were the result of its own actions and not of victimization by the U.S.

—Could increase Allende's difficulties within Chile by demonstrating his inability to manage the nation's affairs effectively.

—Would reduce the $20 million in the AID pipeline, but more slowly than under Options A and B.

—Would restrict the flow of external credits from the west to Chile.

—Would help maintain effective relations with the Chilean military and demonstrate our desire to cooperate with them.

—Would still serve to convey our position and intentions and would thereby help to dissuade some other countries from following the Chilean example.

—Could make it more difficult for the Allende government to repudiate its debt to the U.S. with corresponding economic benefit to Chile at our expense.

—Could reduce the risk of further confiscation of OPIC-insured and uninsured U.S. private investment.

The disadvantages of Option C are that it:

—Would appear to some sectors of U.S. opinion as a weak response to Chilean provocation.

—Could still provide some bases for political and propaganda attacks and policy counter-measures by Chile substantially similar to those anticipated under Options A and B.

—Would enhance the Allende regime's efforts to portray its nationalization policies as having recovered the nation's mineral wealth at acceptable economic and political cost.

—Could be construed as acquiescence to Chile's confiscatory example, and thereby fail to deter some emulation of the Chilean example elsewhere.

D. Option D—Non-application of the Hickenlooper Amendment

Characteristics of the option. Under this option we would allow the bilateral assistance pipeline to run out, while continuing to withhold new loan assistance. This would require us to find plausible grounds to avoid the formal application of Hickenlooper and quietly to explain these as necessary. We would:

—Allow the existing pipeline of AID assistance and Eximbank credits to flow until completion of disbursements.

—Provide no new AID assistance or Eximbank loans.

—Generally oppose IBRD and IDB loans, but be prepared to permit selected IDB ordinary capital loans.

—Without openly taking the lead, seek maximum stringency in the terms of any debt renegotiation.

Advantages and Disadvantages of Option D. The advantages of Option D are that it:

—Would deprive the Allende regime of any significant propaganda and political advantages relating to U.S. reaction.

—Would strengthen the view that the Allende regime's policies and failures were the result of its own actions and not of victimization by the U.S.

—Could increase Allende's difficulties within Chile by demonstrating his inability to manage the nation's affairs effectively.

—Would restrict somewhat the flow of external credits from the west to Chile.

—Would help maintain effective relations with the Chilean military and demonstrate our desire to cooperate with them.

—Would make it difficult for the Allende government to repudiate its debt to the U.S. with corresponding economic benefit to Chile at our expense.

—Would reduce the risk of further confiscation of OPIC-insured and uninsured U.S. private investment.

The disadvantages of Option D are that it:

—Would appear to some sectors of U.S. opinion as a weak response to Chilean provocation.

—Would enable the Allende regime to portray its nationalization policies as having recovered the nation's mineral wealth at nominal economic and political cost.

—Would appear to be acquiescence to Chile's confiscatory example, and thereby fail to deter some emulation of the Chilean example elsewhere.

IV. Options on the Timing of our Policies

The question of when to implement any one of the foregoing options involves judgments on the continuing development of the political and economic process in Chile, and the extent to which future developments, particularly economic, will or will not be considered a result of U.S. measures rather than the Allende regime's mismanagement. This last aspect will be especially important to the extent that the regime's economic difficulties intensify and it faces increasing political challenge (such as the plebiscite which now figures to result from Allende's recently proposed constitutional amendment to alter the structure and powers of the Congress).

Option X—Act Without Delay

Characteristics of the option. With respect to the USG initiatives to apply pressure to Chile envisaged under Options A, B, and C, we would take action as soon as there was plausible basis for it. This would be as soon as the Chilean compensation decision could generally be regarded as irrevocable. With the copper appeals process now underway, we could assert that plausible grounds existed upon the occurrence of any one of the following events, listed in chronological order and with accumulating degrees of plausibility:

—The Tribunal's response to appellants' petitions on jurisdiction over excess profits and on the application of stamp taxes and allocation of costs. We presume that one or more of the companies will seek early favorable rulings on these points. An adverse ruling on jurisdiction over excess profits (thus guaranteeing no compensation for major investments) and/or punitively adverse rulings on the payment of stamp taxes or court costs could be grounds for a decision.

—The nationalization without adequate compensation or other punitive treatment of other U.S.-owned properties in Chile before the Tribunal decided the copper compensation issue.

—A final determination by the Tribunal which did not provide adequate compensation.

Upon finding grounds to assert that Chile had made an irrevocable decision to pay less than just compensation, we could precede formal action against Chile by preparatory steps intended to improve our legal and political position, along the following lines:

—Offer to send a special emissary to Chile to work out an eleventh hour solution.

—Offer to accept third-country mediation (President Lanusse of Argentina made a vague offer of good offices during a recent official visit to Chile).

—Request international adjudication of the dispute.

—Consider filing a complaint against the Chilean action in the OAS and possibly the UN.

—Carry out diplomatic preparations in other capitals through briefings and consultations.

Advantages and Disadvantages of Option X. The advantages of Option X are that it:

—Would give us more of the initiative in determining when our relations with Chile enter a new phase.

The disadvantage of this option is that it:

—Would increase Allende's chances of putting the onus on the U.S. for deterioration in our relations and for internal Chilean problems.

Option Y—Delay Action as Long as Feasible

Characteristic of the option. This timing option is not necessarily related to the nature of the option but could apply to any of the four choices set out in Part III. Its purpose would be to give the maximum time to establish plausible grounds for our action and to obtain the maximum degree of plausibility. Under this option we would:

—Look for grounds not to invoke Hickenlooper and quietly assert these as necessary.

—Delay implementing our chosen policy option until such time as the appeals tribunal's final decision is known and we have run through whatever preparatory steps we may choose to take.

Advantages and Disadvantages of Option Y. The advantages of Option Y are that it:

—Would heighten our chances of putting the onus on the Allende regime for deterioration in our relations and for internal Chilean problems.

—Could intensify those internal problems by allowing the negative effects of economic and political dynamics which have been set in motion during the past year greater freedom to develop.

The disadvantage of Option Y is that it:

—Would leave much of the initiative to the Allende regime in determining when our relations with Chile enter a new phase.