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PERU AND THE US: THE IMPLICATIONS OF THE IPC CONTROVERSY

ADVANCE DISSEMINATION

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CENTRAL INTELLIGENCE AGENCY

6 March 1969

SUBJECT: SNIE 97-69: PERU AND THE US: THE IMPLICATIONS OF THE
IPC CONTROVERSY

THE PROBLEM

To assess the consequences of the controversy over the property of the International Petroleum Company (IPC) with respect to the prospects for Peru under the military regime, its relations with the US, and the implications of developments in Peru for US relations in Latin America generally.

CONCLUSIONS

A. Because the issue is now caught up in highly emotional nationalism, the military regime in Peru will almost certainly not meet the requirements of US law for compensation of the IPC for its expropriated assets. Thus, if all the forces now in train

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continue, the crisis with Peru over the IFC will be a major one -- perhaps disastrous for Peru and for US-Peruvian relations.

B. Although the initial economic impact of the Hickenlooper and Sugar Act amendments by themselves would not be severe, a sharp reduction of international lending and private investment -- either directly or indirectly because of US action -- would have profound consequences for Peru. Over the long run Peru would at best face severe economic strains. At worst, the hardships occasioned by US sanctions could lead the military government into drastic improvisations.

C. The application of US legislation even in the minimum way required would provoke sharply anti-US sentiments throughout the Peruvian Government and society. This would be especially true if President Velasco remains in office (as we believe likely). If sanctions went beyond what the amendments require, US-Peruvian relations would deteriorate drastically. Under Velasco, Peruvian reactions might come to include expropriation of other US businesses and even a break in diplomatic relations.

D. President Velasco's personal entourage, apart from those in the cabinet who support him, is composed of men whose political

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views cover the spectrum from extreme right to extreme left. All appear to be ultranationalistic and anti-American. We have no evidence to indicate that the advisers on the political left have influence on Velasco which is different from or greater than that of the other ultranationalists.

E. If President Velasco should be removed from office by a group of relatively moderate generals, either before or after US sanctions were invoked, actions against the US would probably be less extreme; they might be confined to such comparatively short-term reprisals as preventing the remittance of profits by US companies. But no one could hold office in Peru's present and prospective climate who appeared to give way on the IPC issue or failed to assert strong independence of US influence.

F. Peru's recent moves to establish diplomatic and economic relations with the USSR and other European Communist countries, which were begun last year under President Belaúnde, probably are more a show of independence from the US (and an effort to expand markets) than a serious intention to develop a firm and close relationship. We doubt that either side will be anxious to move rapidly in that direction, though Peru may entertain hopes (in our view unrealistic) of important economic benefits.

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G. In Latin America the public reaction to US actions will be generally acrimonious, and will tend to harden Peru's conviction that its cause is just. The danger is not so much that other governments will officially join with Peru in condemning US policy, by such means as votes in the Organization of American States, as that they will be stimulated to a general sharpening of resentments they already feel, especially in the sphere of economic relationships. Over time, a number of countries will probably try harder to broaden their foreign economic and cultural relations as a protection against dependence upon the US -- and they may care much less about how the US views the propriety of these new relationships.

[Omitted here is the Discussion.]

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