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INFORMATION

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Saturday, March 29, 1969

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger

SUBJECT: Where We Stand on Peru and the IPC Case

At Tab A is a memorandum from the NSC Interdepartmental Group on Peru and the IPC case. The memorandum lays out the principal options you have for deferring application of the Hickenlooper Amendment on April 9.

There are essentially two processes which could permit us to say that Peru has taken "appropriate steps" to avoid application of the sanctions:

- traditional international procedures, i. e., mediation, arbitration, adjudication by the World Court;
- local judicial or administrative procedures, in which we cannot necessarily have confidence, but which would be preceded by a political understanding that the procedures should result in a "favorable" outcome.

The Peruvians have rejected the first alternative. Some form of local administrative procedure appears most likely to emerge from the Irwin negotiations by April 9. It is this kind of process which will call for your judgment as to adequacy -- a judgment made all the more difficult because as of now there do not exist any criteria for what we consider acceptable. In the absence of such a determination, the key criterion will be whether the procedures agreed to will ultimately result in net effective compensation to the Company.

Administration Procedures.

IPC has claimed its total assets (oilfields and refinery) are worth about \$200 million. The Peruvian Government has established

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Peru, 21 Jan - 31 MAR 69, V.I. IPC Hickenlooper, NSC CE Peru, Bx 794

~~SECRET~~

-2-

the value of the expropriated refinery alone at \$71 million. We do not know at this point what IPC would actually accept as adequate compensation, nor is the US Government bound by IPC's evaluation.

Irwin has told President Velasco that compensation is the important point for us. He has proposed to Velasco that -- within administrative procedures -- ways might be found to reduce the \$690 million debt claimed by Peru and/or raise the level of compensation established so that there would be net compensation to IPC over time. He was not prepared to specify what we would consider an acceptable amount, indicating that would have to be determined later. However, as long as the debt exceeds or approximates the compensation offered, it will be hard to claim progress even if the debt is reduced. Velasco has said he will consider Irwin's proposal.

Third Party Arrangement

Irwin is also exploring another possible approach -- a third party arrangement. Occidental Oil Company has proposed to Velasco that they be given a contract to operate some of the IPC properties. Occidental would reimburse IPC for its equity out of profits. Irwin believes this might be a solution. Here again, the judgment would be whether the procedure gives reasonable assurance of effective compensation to IPC.

My own feeling is that mere "negotiating progress" is not enough to avoid application of the Hickenlooper Amendment, i. e., if Peru reduces its debt by half this is not an appropriate step unless there is some prospect somewhere down the line that IPC will come out at the end with a net monetary advantage.

Recommendation

That you authorize me to tell State that "negotiating progress" sufficient to avoid application of the Hickenlooper Amendment must include substantial reason to believe that IPC will -- over time -- receive compensation in excess of the debt claimed against the company.

Approve _____ Disapprove _____ Other _____

Whether you decide to apply Hickenlooper on April 9, you will have to decide whether to take a soft or a hard line with Peru afterwards.

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-3-

These choices are:

1. If the sanctions are applied, the main problem is to isolate Peru. I would therefore recommend a soft line, in order to avoid a Peruvian claim of overwhelming U.S. pressure. This would involve:

- minimal application of the sanctions;
- no additional economic pressures;
- demonstration of our willingness to find a solution to lift the sanctions.

This approach would give us a reasonable posture in the hemisphere and help to prevent Peru from mobilizing the rest of the Latin Americans against us.

2. If you decide to defer application of the sanctions, the problem is to bring maximum pressure on Peru to yield in the subsequent negotiations. The failure to apply Hickenlooper would enable other Latin American countries to stay aloof. Hence, I would suggest a hard line. We would:

- maintain the threat of sanctions;
- continue to delay new aid;
- encourage delay of international agencies' loans, new private investment.

This approach would maintain pressure on the Peruvians for further progress towards a settlement.

A paper which discusses the options for our post-April 9 policy toward Peru is attached at Tab B. Additional background information is contained in the Special National Intelligence Estimate at Tab C.

Attachments

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Peru, 21 JAN - 31 MAR 69, V.I. JPC
Hickenlooper, NSC CF Peru, Bx 794