

FOREIGN  
RELATIONS  
OF THE  
UNITED  
STATES

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1969–1976

VOLUME E-16

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DOCUMENTS  
ON  
CHILE,  
1969–1973



DEPARTMENT  
OF  
STATE

Washington



# Foreign Relations of the United States, 1969–1976

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Volume E–16

## Documents on Chile, 1969–1973

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# Preface

The *Foreign Relations of the United States* series presents the official documentary historical record of major foreign policy decisions and significant diplomatic activity of the United States Government. The Historian of the Department of State is charged with the responsibility for the preparation of the *Foreign Relations* series. The staff of the Office of the Historian, Bureau of Public Affairs, under the direction of the General Editor of the *Foreign Relations* series, plans, researches, compiles, and edits the volumes in the series. Secretary of State Frank B. Kellogg first promulgated official regulations codifying specific standards for the selection and editing of documents for the series on March 26, 1925. These regulations, with minor modifications, guided the series through 1991.

Public Law 102-138, the Foreign Relations Authorization Act, established a new statutory charter for the preparation of the series which was signed by President George H.W. Bush on October 28, 1991. Section 198 of P.L. 102-138 added a new Title IV to the Department of State's Basic Authorities Act of 1956 (22 USC 4351, et seq.).

The statute requires that the *Foreign Relations* series be a thorough, accurate, and reliable record of major United States foreign policy decisions and significant United States diplomatic activity. The volumes of the series should include all records needed to provide comprehensive documentation of major foreign policy decisions and actions of the United States Government. The statute also confirms the editing principles established by Secretary Kellogg: the *Foreign Relations* series is guided by the principles of historical objectivity and accuracy; records should not be altered or deletions made without indicating in the published text that a deletion has been made; the published record should omit no facts that were of major importance in reaching a decision; and nothing should be omitted for the purposes of concealing a defect in policy. The statute also requires that the *Foreign Relations* series be published not more than 30 years after the events recorded. The editors are convinced that this volume meets all regulatory, statutory, and scholarly standards of selection and editing.

## *Structure and Scope of the Foreign Relations Series*

This volume is part of a subseries of volumes of the *Foreign Relations* series that documents the most important issues in the foreign policy of Presidents Richard M. Nixon and Gerald R. Ford. The subseries presents in multiple volumes a comprehensive documentary

record of major foreign policy decisions and actions of both administrations. This volume documents U.S. policy toward Chile from January 20, 1969 to September 24, 1973, when the Nixon administration announced its extension of diplomatic recognition to the military junta under General Augusto Pinochet.

This volume is an online-only supplement to *Foreign Relations, 1969–1976, Volume XXI, Chile, 1969–1973*, and should be read in conjunction with that volume as well as others in the series. In addition to the printed volume, the reader should consult *Foreign Relations, 1969–1976, Volume E–10, Documents on American Republics, 1969–1972*, and *Foreign Relations, 1969–1976, Volume E–11, Part 2, Documents on South America, 1973–1976*, for further documentation on the role Chile played in the Nixon administration's overall policy in Latin America.

*Focus of Research and Principles of Selection for Foreign Relations, 1969–1976, Volume E–16*

The primary focus of this volume is on the attitudes adopted and actions taken by the U.S. Government toward the installation of two successive Chilean presidents: the election and inauguration of Salvador Allende in September 1970 and the military coup d'état of General Augusto Pinochet in September 1973. This volume differs from most volumes in the *Foreign Relations* series, however, in two important ways. First, many of the documents herein have been thoroughly examined, summarized, and declassified in several other public projects, in particular: the reports released in the mid-1970s by the Senate Select Committee to Study Governmental Operations with Respect to Intelligence Activities (the Church Committee); and the documents released in the late-1990s by the Chile Declassification Project (the Pinochet Project). The editors of this volume, while acknowledging what has been released before, have tried to meet the series' standard of thoroughness, accuracy, and reliability not only by adding to the historical record but also by presenting a complete documentary account, regardless of previous declassification. Second, recognizing both the importance of the subject and the nature of the documentation, the editors also compiled this extensive electronic supplement to go along with the printed volume (*Foreign Relations, 1969–1976, Volume XXI, Chile, 1969–1973*). This supplement includes a selection of Presidential tape recordings, as transcribed by the editors, which adds context and detail to formal records on President Nixon's posture toward President Allende; and several documents on human rights in the aftermath of the Pinochet coup d'état, in particular, the disappearance and death of two U.S. citizens, Charles Horman and Frank Teruggi. In the latter instance, although Horman and Teruggi both died before September 24, the investigation into the circumstances surrounding these two tragic

cases—and the resulting public controversy—continued long afterwards. Additional documentation, therefore, is scheduled for publication in the subsequent compilation on Chile in *Foreign Relations*, 1969–1976, Volume E–11, Part 2, Documents on South America, 1973–1976.

Although organized into five chapters, this volume is perhaps best surveyed in terms of three periods in Allende's political career: before his election on September 4, 1970; between his election and inauguration on November 4, 1970; and after his inauguration until his overthrow and death on September 11, 1973. The first period also corresponds to the final two years of the administration of President Eduardo Frei, which, in terms of U.S. policy, continued largely along lines established during his first four years in office. Frei, for instance, received substantial political and economic support, including covert assistance during the 1964 election from the Kennedy and Johnson administrations. Since the deliberations on whether to provide similar assistance to any of the major candidates in the 1970 election were heavily influenced by the decision-making process six years earlier, as well as by political developments in the intervening years, readers should consult the compilation on Chile in *Foreign Relations*, 1964–1968, Volume XXXI, South and Central America; Mexico. Allende's narrow victory in the 1970 election represented a decisive break in this continuity, a break that is clearly represented in the pace of documentation, as the Nixon administration sought to block Allende's confirmation and inauguration. The second period, covering these intervening two months, documents day-to-day decisions in a series of meetings, memoranda, and backchannel messages on attempting to block Allende's confirmation, either by constitutional means or by military coup d'état, respectively. The third period, which picks up the story after Allende's inauguration, demonstrates how the Nixon administration adopted and implemented its "cool and correct" policy to destabilize the Chilean Government while simultaneously strengthening ties with the Chilean military. This policy was largely determined less through covert operations and more through the formal interagency process on economic affairs, including discouraging favorable terms in international lending and foreign assistance to Chile, while encouraging a favorable settlement in the nationalization of copper and other Chilean industries, previously dominated by U.S. multinational corporations. The volume concludes with the events of September 1973: the coup d'état under General Pinochet, Allende's suicide, and U.S. diplomatic recognition of the military junta.

#### *Editorial Methodology*

The documents are presented chronologically according to Washington time. Memoranda of conversation are placed according to the

time and date of the conversation, rather than the date the memorandum was drafted.

Editorial treatment of the documents published in the *Foreign Relations* series follows Office style guidelines, supplemented by guidance from the General Editor and the chief technical editor. The documents are reproduced as exactly as possible, including marginalia or other notations, which are described in the footnotes. Texts are transcribed and printed according to accepted conventions for the publication of historical documents within the limitations of modern typography. A heading has been supplied by the editors for each document included in the volume. Spelling, capitalization, and punctuation are retained as found in the original text, except that obvious typographical errors are silently corrected. Other mistakes and omissions in the documents are corrected by bracketed insertions: a correction is set in italic type; an addition in roman type. Words repeated in telegrams to avoid garbling or provide emphasis are silently corrected. Words or phrases underlined in the source text are printed in italics. Abbreviations and contractions are preserved as found in the original text, and a list of abbreviations is included in the front matter of each volume. In telegrams, the telegram number (including special designators such as Secto) is printed at the start of the text of the telegram.

Bracketed insertions are also used to indicate omitted text that deals with an unrelated subject (in roman type) or that remains classified after declassification review (in italic type). The amount and, where possible, the nature of the material not declassified has been noted by indicating the number of lines or pages of text that were omitted. Entire documents withheld for declassification purposes have been accounted for and are listed with headings, source notes, and number of pages not declassified in their chronological place. All brackets that appear in the original text are so identified in footnotes.

The first footnote to each document indicates the source of the document, original classification, distribution, and drafting information. This note also provides the background of important documents and policies and indicates whether the President or his major policy advisers read the document.

Editorial notes and additional annotation summarize pertinent material not printed in the volume, indicate the location of additional documentary sources, provide references to important related documents printed in other volumes, describe key events, and provide summaries of and citations to public statements that supplement and elucidate the printed documents. Information derived from memoirs and other first-hand accounts has been used when appropriate to supplement or explicate the official record.

The numbers in the index refer to document numbers rather than to page numbers.

*Advisory Committee on Historical Diplomatic Documentation*

The Advisory Committee on Historical Diplomatic Documentation, established under the Foreign Relations statute, reviews records, advises, and makes recommendations concerning the *Foreign Relations* series. The Advisory Committee monitors the overall compilation and editorial process of the series and advises on all aspects of the preparation and declassification of the series. The Advisory Committee does not necessarily review the contents of individual volumes in the series, but it makes recommendations on issues that come to its attention and reviews volumes, as it deems necessary to fulfill its advisory and statutory obligations.

*Presidential Recordings and Materials Preservation Act Review*

Under the terms of the Presidential Recordings and Materials Preservation Act (PRMPA) of 1974 (44 USC 2111 note), the National Archives and Records Administration (NARA) has custody of the Nixon Presidential historical materials. The requirements of the PRMPA and implementing regulations govern access to the Nixon Presidential historical materials. The PRMPA and implementing public access regulations require NARA to review for additional restrictions in order to ensure the protection of the privacy rights of former Nixon White House officials, since these officials were not given the opportunity to separate their personal materials from public papers. Thus, the PRMPA and implementing public access regulations require NARA formally to notify the Nixon estate and former Nixon White House staff members that the agency is scheduling for public release Nixon White House historical materials. The Nixon estate and former White House staff members have 30 days to contest the release of Nixon historical materials in which they were a participant or are mentioned. Further, the PRMPA and implementing regulations require NARA to segregate and return to the creator of files private and personal materials. All *Foreign Relations* volumes that include materials from NARA's Nixon Presidential Materials Staff are processed and released in accordance with the PRMPA.

*Nixon White House Tapes*

Access to the Nixon White House tape recordings is governed by the terms of the PRMPA and an access agreement with the Office of Presidential Libraries of the National Archives and Records Administration and the Nixon Estate. In February 1971, President Nixon initiated a voice activated taping system in the Oval Office of the White House and, subsequently, in the President's Office in the Executive Of-



fice Building, Camp David, the Cabinet Room, and White House and Camp David telephones. The audiotapes include conversations of President Nixon with his Assistant for National Security Affairs, Henry Kissinger, other White House aides, Secretary of State Rogers, other Cabinet officers, members of Congress, and key foreign officials. The clarity of the voices on the tape recordings is often very poor, but the editor has made every effort to verify the accuracy of the transcripts produced here. Readers are advised that the tape recording is the official document; the transcript represents an interpretation of that document. Through the use of digital audio and other advances in technology, the Office of the Historian has been able to enhance the tape recordings and over time produce more accurate transcripts. The result is that some transcripts printed here may differ from transcripts of the same conversations printed in previous *Foreign Relations* volumes. The most accurate transcripts possible, however, cannot substitute for listening to the recordings. Readers are urged to consult the recordings themselves for a full appreciation of those aspects of the conversations that cannot be captured in a transcript, such as the speakers' inflections and emphases that may convey nuances of meaning, as well as the larger context of the discussion.

#### *Declassification Review*

The Office of Information Programs and Services, Bureau of Administration, conducted the declassification review for the Department of State of the documents published in this volume. The review was conducted in accordance with the standards set forth in Executive Order 13526, as amended, on Classified National Security Information and applicable laws.

The principle guiding declassification review is to release all information, subject only to the current requirements of national security as embodied in law and regulation. Declassification decisions entailed concurrence of the appropriate geographic and functional bureaus in the Department of State, other concerned agencies of the U.S. Government, and the appropriate foreign governments regarding specific documents of those governments. The declassification review of this volume, which began in 2000 and was completed in 2013 resulted in the decision to withhold 0 documents in full, excisions of a paragraph or more in 35 documents, and minor excisions of less than a paragraph in 15 documents.

The Office of the Historian is confident, on the basis of the research conducted in preparing this volume and as a result of the declassification review process described above, that the record presented in this volume presented here provides an accurate and comprehensive account of U.S. foreign policy on Chile.

*Acknowledgments*

The editors wish to acknowledge the assistance of officials at the Nixon Presidential Materials Project of the National Archives and Records Administration (Archives) in College Park, Maryland, and at the Ford Presidential Library in Ann Arbor, Michigan. In addition, they are grateful to the Richard Nixon Estate for allowing access to the Nixon Presidential recordings and the Richard Nixon Library and Birthplace for facilitating that access. Research in the Kissinger Papers, including transcripts of telephone conversations, could not have occurred without the kind permission of Henry A. Kissinger. The editors would also like to thank Peter Kornbluh, Senior Analyst and Director of the Chile Declassification Project at the National Security Archive, for his expertise and encouragement.

James McElveen and James Siekmeier collected the documents, made the selections, and annotated them under the direct supervision of successive chiefs of the Asia and Americas Division, Edward C. Keefer and Erin R. Mahan, and under the general direction of two successive General Editors, David S. Patterson and Edward C. Keefer. Susan Weetman, Carl Ashley, and Dean Weatherhead coordinated the declassification review. David Geyer assumed responsibility for resolving substantive issues of compilation and review during the final stages of production. Kristen Ahlberg, Mandy A. Chalou, Keri Lewis, Heather McDaniel, and Rita Baker performed the copy and technical editing.

**Stephen P. Randolph, Ph.D.**

*The Historian*

Bureau of Public Affairs

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# Sources

## *Sources for the Foreign Relations Series*

The 1991 *Foreign Relations* statute requires that the published record in the *Foreign Relations* series include all records needed to provide comprehensive documentation on major U.S. foreign policy decisions and significant U.S. diplomatic activity. It further requires that government agencies, departments, and other entities of the U.S. Government engaged in foreign policy formulation, execution, or support cooperate with the Department of State Historian by providing full and complete access to records pertinent to foreign policy decisions and actions and by providing copies of selected records. Most of the sources consulted in the preparation of this volume have been declassified and are available for review at the National Archives and Records Administration.

The editors of the *Foreign Relations* series have complete access to all the retired records and papers of the Department of State: the central files of the Department; the special decentralized files ("lot files") of the Department at the bureau, office, and division levels; the files of the Department's Executive Secretariat, which contain the records of international conferences and high-level official visits, correspondence with foreign leaders by the President and Secretary of State, and memoranda of conversations between the President and Secretary of State and foreign officials; and the files of overseas diplomatic posts. All the Department's indexed central files through July 1973 have been permanently transferred to the National Archives and Records Administration at College Park, Maryland (Archives II). Many of the Department's decentralized office files covering the 1969–1976 period, which the National Archives deems worthy of permanent retention, have been transferred or are in the process of being transferred from the Department's custody to Archives II.

The editors of the *Foreign Relations* series also have full access to the papers of Presidents Nixon and Ford as well as other White House foreign policy records. Presidential papers maintained and preserved at the Presidential libraries include some of the most significant foreign affairs-related documentation from the Department of State and other Federal agencies including the National Security Council, the Central Intelligence Agency, the Department of Defense, and the Joint Chiefs of Staff. Dr. Henry Kissinger has approved access to his papers at the Library of Congress. These papers are a key source for the Nixon-Ford subseries of the *Foreign Relations* series.

Research for this volume was completed through special access to restricted documents at the Nixon Presidential Materials Project, the Ford Presidential Library, the Library of Congress, and other agencies. While all the material printed in this volume has been declassified, some of it is extracted from still classified documents. In the time since the research for this volume was completed, the Nixon Presidential Materials have been transferred to the Nixon Presidential Library and Museum in Yorba Linda, California. The Nixon Presidential Library staff is processing and declassifying many of the documents used in this volume, but they may not be available in their entirety at the time of publication.

*Sources for Foreign Relations, 1969–1976, Volume E–16*

In preparing this volume, the editors thoroughly mined the Presidential Papers and other White House records from the Nixon Presidential Materials Project at the National Archives. This research was conducted when the project was still housed at the facility in College Park (Archives II); both the project and the collection were subsequently moved in 2010 to its permanent home at the Nixon Presidential Library in Yorba Linda. Whether in Maryland or California, these materials proved the most valuable source of documentation on the Nixon administration's conduct of relations with Chile. Some of the most important records for this volume were found in the National Security Council Files, in particular, the Country Files on Chile. These files document basic day-to-day decision making within the White House and National Security Council staff, including memoranda to Kissinger and Nixon, records of meetings, copies of telegrams, and backchannel messages. Two folders within the National Security Files are also worth mentioning here with similar, if more specialized, documentation: one, entitled Korry File, is part of the Country Files on Chile; and the other, entitled Chile Wrap and Post-Mortem, is part of the Country Files in the Kissinger Office Files. Ambassador Korry played a central role in U.S.-Chilean relations—particularly during the pivotal events of September and October 1970 (between Allende's election and subsequent inauguration as President)—until Korry's replacement in October 1971. His lengthy backchannel messages are not only concentrated in the sources cited above but also scattered throughout other repositories. In the midst of other, more bureaucratic, documents, these “Korrygrams,” as they were called at the time, are as entertaining to read as they are essential for following developments in Chile on a daily basis.

The formal policy-making process on Chile is documented in the National Security Files (H-Files) at the Nixon Library. These files contain minutes, memoranda, and related documentation on the deliberations of the National Security Council itself, the Senior Review Group, the Washington Special Actions Group, and other interagency com-

mittees; also included are records relating to National Security Council Study and Decision Memoranda (NSSMs and NSDMs), as well as similar decision-making documents. The H-Files are most useful in documenting interagency discussions on Chile, either before Allende's election in September 1970 or after his inauguration in November 1970. Rather than rely on formal decision papers, Nixon and Kissinger made many decisions on Chile outside normal bureaucratic channels, in particular, through a series of one-on-one meetings and telephone conversations. The editors, therefore, consulted two other crucial sources: the Kissinger Telephone Conversation Transcripts; and the Nixon White House Tape Recordings. The Kissinger transcripts provide a rare glimpse into the role played by the President's Assistant for National Security Affairs in regard to Chile, in particular, before Allende's inauguration but also at the time of his overthrow in September 1973. Installed in February 1971 and removed in July 1973, the White House taping system was unfortunately not in operation during either period. The Nixon tapes, nonetheless, include a number of important deliberations on Chile, notably on Nixon's policy to adopt a "cool and correct" posture in relations with Allende; transcripts of these conversations, as transcribed by the editors, are printed in this online supplement.

Given the level of U.S. involvement in Chilean political affairs during the Nixon administration, intelligence records were essential in compiling this volume. The editors had access to the records at the National Security Council, the Central Intelligence Agency, the Department of State, and the Department of Defense. The Nixon Intelligence Files at the National Security Council constitute the most authoritative record of the meetings of the 303 Committee and its successor, the 40 Committee, which were responsible for decisions on covert operations. The files of the Central Intelligence Agency, particularly the National Intelligence Council Registry of NIEs and SNIEs (Job 79R01012A), were essential for intelligence reports and assessments on which the Nixon administration based its policy decisions. Although many of its most important records on covert operations were also found in other repositories, several collections (or "Jobs") were invaluable at the Central Intelligence Agency, including the 1970 Chile Task Force files (Job 80-00012A) and the White House Correspondence Files on Chile (Job 80B01086A). The Bureau of Intelligence and Research in the Department of State was also an active participant on intelligence matters, whether in assessing developments in Chile or in developing options for U.S. policymakers. The "historical files" of the Bureau's Office of Intelligence Coordination (INR/IL) and the files of James Gardner, who served first as Deputy Director for Coordination and then as Chief of the Operations Policy Staff, were particularly useful in this regard, notably the memoranda of regular ARA/CIA meetings on intelligence.



U.S. involvement in Chile was the subject of several congressional investigations in the 1970s, most notably two chaired by Senator Frank Church (D-Idaho), the Senate Select Committee to Study Governmental Operations with Respect to Intelligence Activities, which investigated U.S. covert operations in Chile, and the Subcommittee on Multinational Corporations, which investigated allegations against the involvement of the International Telegraph and Telephone Company (ITT) in Chile; and the House Select Committee on Intelligence, chaired by Congressman Otis Pike (D-New York). Materials related to these investigations, including copies of the original documents collected, were found in at least two archival sources. The most valuable of these was a retired Department of State office or "lot" file, 81D121, held for reference purposes in the Foreign Affairs Information Management Center (as it was called at the time) until its transferal to the National Archives in 2004 as part of Record Group 59 (RG 59). Since the investigations largely took place during the Ford administration, the records held at the Ford Presidential Library in Ann Arbor, Michigan, are also useful, in particular, the Intelligence Subject File in the collection of Philip Buchen, who served as Counsel to the President.

As important as covert operations in Chile may have been, however, the United States still conducted most of its Chilean policy through normal channels of diplomacy, in particular, through the Department of State. This role is well reflected in the Department's records, including the central and retired lot files (both RG 59) accessioned and maintained at the National Archives. A number of records in the central files' subject numeric system were useful, including those filed under POL 7 CHILE (visits and meetings concerning Chile), POL 14 CHILE (elections in Chile), POL 15 CHILE (Chilean government), POL CHILE-US (relations between Chile and the United States), and POL 1 CHILE-US (general policy and background on relations between Chile and the United States); INCO COPPER CHILE (copper in Chile), and INCO 15-2 CHILE (nationalization/expropriation in Chile). Starting in January 1973, the Department of State switched its central files to an electronic system; the telegrams for 1973 are available online in the Access to Archival Databases on the National Archives website.

The Kissinger Papers at the Library of Congress largely replicate documentation found in other collections. Since this volume was compiled, copies of the most important original source—the Kissinger Telephone Conversation Transcripts (see above)—were initially deposited at the Nixon Presidential Materials Project; they were then relocated to the Nixon Presidential Library in 2010. Although the citations in this volume refer to the Kissinger Papers, copies of the transcripts as organized in the original collection are available to the public at the Nixon Presidential Library.

The following list identifies the particular files and collections used in the preparation of the volume. The declassification and transfer to the National Archives of the Department of State records is in process, and many of these records are already available for public review at the National Archives.

## Unpublished Sources

### Department of State

**Central Files.** *See* Record Group 59 under National Archives and Records Administration below

**Lot Files.** *See* Record Group 59 under National Archives and Records Administration below

Bureau of Intelligence and Research, INR/IL Historical Files

Chile Chronology 1970

Chile, 40 Committee Action after September 1970

Chile, Jan–June 1972

Chile, July–December 1972

Chile 1973–1975

### National Archives and Records Administration, College Park, Maryland

#### Record Group 59, General Records of the Department of State

##### *Central Files*

1967–69, POL 1 CHILE-US

1967–1969 POL 15 CHILE

1970–1973, POL 1 CHILE

1970–1973, POL CHILE-US

1970–1973, POL 2 CHILE

1970–1973, POL 2–2 CHILE

1970–1973, POL 7 CHILE

1970–1973, POL 14 CHILE

1970–1973, POL 15 CHILE

1970–1973, POL 15–1 CHILE

1970–1973, INCO COPPER CHILE

1970–1973, INCO 15–2 CHILE

##### *Central Foreign Policy File, 1973–1976*

Part of the online Access to Archival Databases; Electronic Telegrams, P-Reel Index, P-Reel microfilm

##### *Lot Files*

Lot 73D115, ARA/LA-Meyer

Lot 80D43, Senate Subcommittee on Western Hemisphere Affairs

Lot 81D121, Chile-ITT-CIA 1963–1977

Chile Papers-Church Committee-August 12, 1975

Lot 94D565, INR/IL, James Gardner Chronological File

**Nixon Presidential Materials Project, National Archives and Records Administration, College Park, Maryland (now at the Nixon Presidential Library and Museum, Yorba Linda, California)**

- National Security Council (NSC) Files
  - Country Files, Latin America
  - Nixon Intelligence Files
- Henry A. Kissinger Office Files
  - Country Files
- National Security Council, Institutional Files (H-Files)
  - Meeting Files
  - Senior Review Group Meetings
  - Washington Special Action Group Meetings
  - National Security Council Meetings
  - Minutes Of Meetings
  - NSC Meeting Minutes
  - Senior Review Group
  - Policy Papers
  - NSDM 93
  - Study Memorandums
  - National Security Study Memorandums

**Gerald R. Ford Presidential Library**

- National Security Adviser
  - NSC Staff Secretary Files

**Central Intelligence Agency**

- Deputy Director for Operations Registry Files
  - Job 80-00012A
  - Job 79R01121A
- Executive Registry Subject Files
  - Job 80M01066A
- National Intelligence Council
  - Job 79R01012A
  - Job 80B01046A
- White House Correspondence Files
  - Job 80B01086A

**National Security Council**

- Nixon Intelligence Files

**Published Sources**

Kissinger, Henry. *The White House Years*. Boston: Little, Brown, 1979.

# Abbreviations and Terms

**AA/PRR**, Office of Private Resources, Agency for International Development  
**acft**, aircraft  
**ACQ**, acquired  
**AD**, *Acción Democrática* (Democratic Action Party), Venezuela  
**ADDO**, Assistant Deputy Director for Operations, Central Intelligence Agency  
**ADDP**, Assistant Deputy Director for Plans, Central Intelligence Agency  
**AEC**, Atomic Energy Commission  
**AFL-CIO**, American Federation of Labor-Congress of Industrial Organizations  
**AFTAC**, Air Force Technical Applications Command  
**AID**, Agency for International Development  
**AIFLD**, American Institute for Free Labor Development  
**ALN**, *Ação Libertadora Nacional* (Brazilian National Liberating Action)  
**AMA**, American Medical Association  
**AP**, Associated Press  
**API**, Independent Popular Action, Chilean political party  
**APRA**, *Alianza Popular Revolucionario Americana* (Popular Revolutionary Alliance), Peru  
**ARA**, Bureau of Inter-American Affairs, Department of State  
**ARA/BC**, Office of Bolivia-Chile Affairs, Bureau of Inter-American Affairs, Department of State  
**ARMA**, Army Attaché  
**ASW**, anti-submarine warfare

**Backchannel**, a method of communication outside normal bureaucratic channels; the White House, for instance, used backchannel messages to bypass the Department of State

**BID**, *Banco Interamericano de Desarrollo* (Inter-American Development Bank)

**C-130**, high-wing, 4-turboprop-engine aircraft used for rapid transportation of troops and/or equipment

**CAP**, *Compañía de Acero del Pacífico* (Chilean National Steel Company)  
**CAS**, controlled American source  
**CASP**, Country Analysis and Strategy Plan  
**CCC**, Commodity Credit Corporation  
**CECLA**, *Comisión Especial de Coordinación Latinoamericana* (Special Latin American Coordinating Commission)  
**CEN**, National Executive Committee of the Partido Radical (Radical Party)  
**CESEC**, *Centro de Estudios Socio-Economicos*, polling agency  
**CG**, Commanding General  
**CG**, Consul General  
**Chitelco**, Chilean Telephone Company  
**CIA**, Central Intelligence Agency  
**CIAP**, *Comité Inter-Americano de la Alianza para Progreso* (Inter-American Committee of the Alliance for Progress) to the Inter-American Economic and Social Council  
**CIEP**, *Corporación Instituto de Educación Popular* (Institute for Popular Education)  
**CIEP**, Council for International Economic Policy  
**CINC**, Commander in Chief  
**CINCSO**, **CINCSOUTH**, Commander in Chief, U.S. Navy, Southern Command

## XX Abbreviations and Terms

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**CLA**, Council for Latin America  
**CNO**, Chief of Naval Operations  
**CODE**, *Confederación de la Democracia* (Confederation of Democracy), Chilean electoral alliance  
**CODELCO**, *Corporación del Cobre* (Copper Corporation of Chile)  
**COIN**, counterinsurgency  
**COMUSMILGRP**, Commander, U.S. Military Group  
**COMUSNAVSO**, Commander, U.S. Navy, Southern Command  
**COPEC**, *Compañía de Petróleos de Chile* (Chilean Petroleum Company)  
**COPEI**, *Comité Organizado por Elecciones Independientes* (Social Christian Party), Venezuela  
**CORA**, *Corporación de la Reforma Agraria* (Corporation for Agrarian Reform)  
**CORFO**, *Corporación de Fomento* (National Development Bank)  
**COS**, Chief of Station  
**CPD**, Congressional Presentation Document  
**CPUSTAL**, Permanent Congress for Latin American Labor Unity  
**CS**, Clandestine Services  
**CUT**, *Central Unitaria Trabajadores de Chile* (Confederation of Trade Unions)

**D**, Office of the Deputy Under Secretary of State for Economic Affairs  
**DAO**, Defense Attaché Office  
**DATT**, Defense Attaché  
**DCI**, Director of Central Intelligence  
**DCM**, Deputy Chief of Mission  
**DDCI**, Deputy Director of Central Intelligence  
**DDO**, Deputy Director for Operations, Central Intelligence Agency  
**DDP**, Deputy Director for Plans, Central Intelligence Agency  
**DefAtt**, Defense Attaché  
**DI**, *Departamento de Investigaciones* (Department of Investigations), Chile; also Directorate for Intelligence, Central Intelligence Agency  
**DIA**, Defense Intelligence Agency  
**Dirinco**, *Dirección de Industria y Comercio*, Chilean price-setting agency  
**Dissem**, Dissemination  
**DO**, Directorate of Operations, Central Intelligence Agency  
**DOI**, Date of Information  
**DOD**, Department of Defense  
**DP**, Directorate of Plans, Central Intelligence Agency

**E**, Bureau of Economic Affairs, Department of State; also escudo  
**E&E**, Emergency and Evacuation  
**ELN**, *Ejército de Liberación Nacional* (Chilean National Liberation Army)  
**Embtel**, Embassy telegram  
**ENAMI**, *Empresa Nacional de Minería* (Chilean National Mining Company)  
**ENAP**, *Empresa Nacional de Petróleo* (Chilean National Petroleum Company)  
**E/ORF**, Office of International Resources and Food Policy, Bureau of Economic Affairs, Department of State  
**ETA**, estimated time of arrival  
**ETD**, estimated time of departure  
**Exdis**, Exclusive Distribution  
**EX-IM**, **EXIM**, Export-Import Bank

**F-5**, twin engine, supersonic light tactical fighter with one or two crew members  
**FAA**, Foreign Assistance Act; Federal Aviation Administration  
**FACH**, *Fuerza Aérea de Chile* (Chilean Air Force)

**FBI**, Federal Bureau of Investigation  
**FECh**, *Federación de la Universidad de Chile* (Chilean Student Federation)  
**FF**, *see* SOFOFA  
**FMS**, Foreign Military Sales  
**FOBS**, Fractional Orbital Bombardment System  
**FonMin**, Foreign Minister  
**ForMin**, Foreign Minister  
**FRAP**, *Frente de Acción Popular* (Popular Action Front)  
**FRC**, Federal Records Center  
**FSO**, Fund for Special Operations (Inter-American Development Bank)  
**FY**, Fiscal Year

**G-10**, Group of Ten (Belgium, Canada, Federal Republic of Germany, France, Italy, Japan, Netherlands, Sweden, United Kingdom, United States)  
**GA**, United Nations General Assembly  
**GM**, General Motors  
**GOB**, Government of Brazil  
**GOC**, Government of Chile  
**golpe**, *golpe de estado* (coup d'état)  
**GOP**, Government of Paraguay; Government of Peru  
**Gosplan**, *Gosudarstvoenniy Komitet po Planirovaniyu* (State Planning Committee of the Soviet Union)

**HA**, higher authority  
**HAK**, Henry A. Kissinger  
**HQS**, Headquarters

**IADB**, Inter-American Defense Board  
**IBRD**, International Bank for Reconstruction and Development (World Bank)  
**IC**, Christian Left  
**IDB**, Inter-American Development Bank  
**IFI**, International Financial Institutions  
**IMF**, International Monetary Fund  
**IMPC**, International Metals Processing Company  
**INR**, Bureau of Intelligence and Research, Department of State  
**INR/DDC**, Deputy Director of Coordination, Bureau of Intelligence and Research, Department of State  
**INR/IL**, Research Historical Files, Bureau of Intelligence and Research, Department of State  
**IPC**, Iraq Petroleum Corporation  
**ISA**, Office of the Assistant Secretary of Defense for International Security Affairs  
**ITT**, International Telephone and Telegraph

**JCS**, Joint Chiefs of Staff

**K**, Kissinger

**LA**, Latin America  
**LAFTA**, Latin American Free Trade Area  
**LAN**, *Línea Aérea Nacional* (National Airline of Chile)  
**L/ARA**, Office of the Legal Adviser for Inter-American Affairs, Department of State  
**LATAM**, Latin America  
**Limdis**, limited distribution  
**L/T**, Office of the Legal Adviser for Treaty Affairs, Department of State

## XXII Abbreviations and Terms

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**MAAG**, Military Assistance Advisory Group  
**MAP**, Military Assistance Program  
**MAPU**, *Movimiento de Acción Popular Unitario* (United Popular Action Movement)  
**MFA**, Ministry of Foreign Affairs  
**MilAid**, military aid  
**MilGroup**, **MilGrp**, Military Group  
**MIMEX**, Major Item Material Excess  
**MinAgric**, Minister of Agriculture  
**MinDefense**, Minister of Defense  
**MinEcon**, Minister of Economy  
**MinInt**, Minister of Interior  
**MinJust**, Minister of Justice  
**MIR**, *Movimiento de Izquierda Revolucionaria* (Revolutionary Left Movement)  
**MRIL**, *Movimiento Radical Izquierda Independiente* (Independent Radical Movement of the Left)  
  
**NAC**, National Advisory Council on International Monetary and Financial Policies  
**NAM**, National Association of Manufacturers  
**NARA**, National Archives and Records Administration  
**NASA**, National Aeronautics and Space Administration  
**NATO**, North Atlantic Treaty Organization  
**NCB**, National City Bank  
**NCNA**, New China News Agency  
**NCO**, non-commissioned officer  
**NIE**, National Intelligence Estimate  
**Nodis**, No Distribution  
**non-com**, non-commissioned officer  
**NSA**, National Security Agency  
**NSC**, National Security Council  
**NSDM**, National Security Decision Memorandum  
**NSF**, National Science Foundation  
**NSSM**, National Security Study Memorandum  
**NYT**, *New York Times*  
  
**OAS**, Organization of American States  
**OBE**, overtaken by events  
**OIC**, Organization of the Christian Left  
**OMB**, Office of Management and Budget  
**ONE**, Office of National Estimates, Central Intelligence Agency  
**OPIC**, Overseas Private Investment Corporation  
  
**PCA**, Permanent Court of Arbitration  
**PCCh**, *Partido Comunista de Chile* (Chilean Communist Party)  
**PDC**, *Partido Demócrata Christiana* (Christian Democratic Party)  
**PDR**, *Partido Demócrata Radical* (Radical Democratic Party)  
**PEC**, *Política, Economía y Cultura* (Chilean journal)  
**PIR**, *Partido Izquierda Radical* (Radical Party of the Left) (formerly **MRIL**, *Movimiento Radical Izquierda Independiente*)  
**PL**, Public Law  
**PL-480**, Public Law 480, Agricultural Trade Development and Assistance Act (Food for Peace)  
**PN**, *Partido Nacional* (National Party)  
**PR**, *Partido Radical* (Radical Party)  
**PRC**, People's Republic of China

**PS**, *Partido Socialista* (Socialist Party)

**PSD**, *Partido Socialista Democratica* (Socialist Democrat Party)

**RCA**, Radio Corporation of America

**reftel**, reference telegram

**RG**, Record Group

**RIS**, Russian Intelligence Service

**RTAC**, Regional Technical Assistance Center

**septel**, separate telegram

**SFRC**, Senate Foreign Relations Committee

**sitrep**, Situation Report

**SLC**, Special Letter of Credit

**SNIE**, Special National Intelligence Estimate

**SOFOFA**, Chilean National Manufacturers' Association

**SOUTHCOM**, U.S. Army, Southern Command

**SRG**, Senior Review Group

**SST**, supersonic transport

**TDD**, terminal disbursement date

**Todep**, indicator for telegrams to the Deputy Secretary of State

**UN**, United Nations

**UNCTAD**, United Nations Conference on Trade and Development

**UNDP**, United Nations Development Program

**UNGA**, United Nations General Assembly

**UNICOOP**, Chilean supermarkets funded by the Cooperative Development Bank of Chile

**UNITAS**, annual U.S.-South American naval exercise

**UNSC**, United Nations Security Council

**UP**, *Unidad Popular* (Popular Unity Party), Chilean coalition of Communists, socialists, and leftists

**USAF**, U.S. Air Force

**USCINCSO**, U.S. Commander in Chief, Southern Command

**USG**, U.S. Government

**USIA**, U.S. Information Agency

**USIS**, U.S. Information Service

**USN**, U.S. Navy

**USP**, *Union Socialista Popular* (Popular Socialist Union)

**USSR**, Union of Soviet Socialist Republics

**VOA**, Voice of America

**VOP**, *Vanguardia Organizada del Pueblo* (Organized Vanguard of the People)

**WH**, Western Hemisphere

**WHD**, Western Hemisphere Division, Directorate of Operations, Central Intelligence Agency

**WSAG**, Washington Special Actions Group

**Z**, Zulu (Greenwich Mean) Time





# Persons

- Alessandri Palma, Arturo**, Chilean President from 1920 until 1924 and again from 1932 until 1938; father of Jorge Alessandri Rodriguez
- Alessandri Rodriguez, Jorge**, Chilean President from 1958 until 1964; *Partido Nacional* (National Party) Presidential candidate in 1970
- Alessandri, Silvia**, niece of former President Alessandri; *Partido Nacional* (National Party) candidate in Santiago elections
- Alessandri Valdez, Gustavo**, Deputy, Third District in Santiago
- Allende Gossens, Salvador**, leader of the *Unidad Popular* (Popular Unity Party); Chilean President from 1970 until deposed in a coup on September 11, 1973
- Almeyda Medina, Clodomiro**, Chilean Foreign Minister from 1970 until May 3, 1973; Defense Minister from May 3 until August 9, 1973; Foreign Minister from August 9 until September 11, 1973
- Altamirano Orrego, Carlos**, Senator and Secretary General, Chilean *Partido Socialista* (Socialist Party) until 1973
- Arzac, Daniel N.**, Political Counselor, U.S. Embassy in Santiago from September 1971
- Aylwin Azocar, Patricio**, Senator, Chilean *Partido Demócrata Christiana* (Christian Democratic Party) until 1973; President of the Senate from January 1971 until May 1972
- Baltra Cortes, Alberto**, Senator, Chilean Radical Party, and later *Unidad Popular* (Popular Unity Party), until 1973
- Benedick, Richard E.**, Director, Office of Development Finance, International Finance and Development, Bureau of Economic Affairs, Department of State, from 1972 until 1973
- Bennett, Donald V.**, Lieutenant General, USA; Director of the Defense Intelligence Agency from September 1969 until August 1972
- Bennett, Jack F.**, Deputy Under Secretary of the Treasury for International Monetary Affairs
- Bennett, John C.**, Lieutenant General, USA; Deputy Assistant to the President, White House Chief of Staff's Office, from 1973
- Boeninger, Edgardo**, Rector, University of Chile from 1970 until 1973
- Bossay, Luis**, President, Chilean *Partido Izquierda Radical* (Radical Party of the Left)
- Broe, William V.**, Western Hemisphere Division Director, Central Intelligence Agency until 1973
- Buckley, William F.**, journalist and television host, Public Broadcasting Service's (PBS) *Firing Line*
- Bulnes Sanfuentes, Francisco**, Senator, Chilean *Partido Nacional* (National Party) from 1961 until 1968
- Canales Marquez, Alfredo**, General, Chilean Director of Military Instruction from 1970 until 1973
- Castillo Velasco, Jaime**, Vice President, Chilean *Partido Demócrata Christiana* (Christian Democratic Party) from 1969 until 1973
- Castro, Fidel**, Cuban Prime Minister
- Chapin, Frank M.**, member and senior CIA Officer, National Security Council Staff from 1969 until 1971
- Chonchol, Jacques**, Director, *Instituto de Desarrollo Agropecuario* (Agrarian Development Institute) until 1973

**Church, Frank**, Senator (D-Idaho), member, Senate Foreign Relations Committee until 1973; Chairman, Subcommittee on Multinational Corporations, 1973; Chairman, U.S. Senate Select Committee to Study Governmental Operations with Respect to Intelligence Activities (Church Committee), 1975

**Cline, Ray S.**, Director, Bureau of Intelligence and Research, Department of State

**Coerr, Wymberley deR.**, Director, Office of Research and Analysis for American Republics, Bureau of Intelligence and Research, Department of State from 1969 until 1971; Deputy Director for Coordination, Bureau of Intelligence and Research from 1971 until 1972; Special Adviser, Office of Environmental Affairs, Bureau of International Scientific and Technological Affairs from 1972 until 1973

**Colby, William E.**, Executive Director-Comptroller, Central Intelligence Agency, from January 1972 until September 1973; thereafter, Director of Central Intelligence

**Connally, John B.**, Secretary of the Treasury from February 1971 until May 16, 1972

**Cooper, Charles**, member, National Security Council Staff

**Corvalan Lepe, Luis**, Secretary General of the Chilean Communist Party from 1969 until 1973

**Crimmins, John H.**, Deputy Assistant Secretary of State for Inter-American Affairs from April 1969 until March 1970; Acting Assistant Secretary from March until June 11, 1973; thereafter, U.S. Ambassador to Brazil

**Cushman, Robert E., Jr.**, Lieutenant General, USMC; Deputy Director of Central Intelligence from May 7, 1969, until December 31, 1971; thereafter, Commandant of the Marine Corps

**Davis, Jeanne W.**, Director, National Security Council Secretariat from 1970 until 1971; thereafter, National Security Council Staff Secretary

**Davis, Nathaniel**, U.S. Ambassador to Chile from October 20, 1971

**Del Canto, Hernan**, Minister of the Secretary General of the Government of Chile, 1972; Acting Minister of the Secretary General of the Government of Chile, 1973

**Dungan, Ralph A.**, U.S. Ambassador to Chile until August 2, 1967

**Durán Neumann, Julio**, Senator, Chilean *Partido Radical* (Radical Party) until 1969; thereafter, Senator, *Partido Demócrata Radical* (Democratic Radical Party)

**Eagleburger, Lawrence S.**, Executive Assistant to the Assistant to the President for National Security Affairs, 1969; Political Adviser, Counselor for Political Affairs, U.S. Mission to NATO from 1969 until 1971; Deputy Assistant Secretary of Defense from 1971 until 1973; Executive Assistant to the Secretary of State from 1973

**Eaton, Samuel D.**, Special Assistant to the Assistant Secretary of State for Inter-American Affairs, Department of State from July 1966 until August 1967; thereafter, member, Policy Planning and Coordination Staff, Department of State

**Echeverria, Luis**, Mexican President from 1970

**Edwards Eastman, Agustín**, Chairman of the Board of *El Mercurio* publishing firm until 1973

**Edwards Valdes, Jorge**, Chilean Minister in Charge of Relations with Cuba, 1970; Consul Minister to France from 1971 until 1973

**Eliot, Theodore L., Jr.**, Executive Secretary for the Department of State from August 1969

**Feldman, Mark B.**, Assistant Legal Adviser for Inter-American Affairs, Office of the Legal Adviser, Department of State from 1969 until 1972; Acting Deputy Legal Adviser from 1973

**Figueroa Serrano, Carlos**, Chilean Minister of Economy until 1970

**Fisher, John W.**, Country Director, Office of Andean and Pacific Affairs, Bureau of Inter-American Affairs, Department of State from 1970 until 1973

**Flanigan, Peter M.**, Consultant to the President on Administration and Staffing from January to April 1969; thereafter, Assistant to the President; Executive Director of the Council for International Economic Policy

**Frei Montalva, Arturo**, member, Chilean Chamber of Deputies until 1973; younger brother of President Frei Montalva

**Frei Montalva, Eduardo**, Chilean President until 1970

**Fuentealba Moena, Renan**, President of Chilean *Partido Demócrata Christiana* (Christian Democratic Party)

**Gantz, David A.**, member, Office of the Assistant Legal Adviser staff for Inter-American Affairs, Department of State from 1970

**Gardner, James R.**, Director of Operations Policy Staff and Assistant Deputy for Coordination, Bureau of Intelligence and Research, Department of State from April 1970; Chief, Operations Policy Staff, Department of State from 1973

**Geneen, Harold S.**, Chief Operating Officer and Chairman of the Board, International Telephone and Telegraph (ITT) until 1973

**Girdler, L.**, member, Office of Research and Analysis for American Republics, Bureau of Intelligence and Research, Department of State from 1969 until 1970; member, Office of Bolivian and Chilean Affairs, Bureau of Inter-American Affairs, Department of State from 1971

**Gonzalez, Raymond E.**, Political Officer, U.S. Embassy in Peru from June 1970

**Guerraty Villalobos, Carlos**, General, Chilean Air Force Commander in Chief until 1970

**Guevara, Ernesto (Che)**, Argentine revolutionary killed in Bolivia in 1967

**Guthrie, D. Keith**, National Security Council Staff Secretariat from 1970 until 1972

**Haig, Alexander M., Jr.**, Brigadier General, USA, Military Assistant to the President for National Security Affairs from January 1969 until June 1970; thereafter, Deputy Assistant to the President for National Security Affairs

**Haldeman, H.R.**, Assistant to the President and White House Chief of Staff from 1969 until April 30, 1973

**Haldeman, Robert**, head of Kennecott Copper Corporation's Chilean operations

**Hales Jamarne, Alejandro**, Chilean Minister of Mines until 1970

**Hartman, Richard J.**, Brigadier General, USAF, Deputy Director, Joint Continental Defense Systems Integration Planning Staff, Organization of the Joint Chiefs of Staff from February 1970

**Helms, Richard**, Director of Central Intelligence until January 23, 1973

**Herrera Lane, Felipe**, President of the Inter-American Bank until 1971; member, United Nations Educational, Scientific and Cultural Organization (UNESCO) Commission for the Study of International Education, 1971; Professor of Political Economy, University of Chile and Catholic University from 1971

**Hewitt, Ashley C.**, member, National Security Council Operations Staff for Latin America from 1971

**Hickenlooper, Bourke B.**, Senator (R-Iowa)

**Horman, Charles**, U.S. documentary filmmaker, killed in the aftermath of the Pinochet coup

**Huerta Celis, Vincente**, General, Commander in Chief of *Carabineros* (Chile's uniformed police) from 1969

**Hughes, Thomas L.**, Director, Bureau of Intelligence and Research, Department of State until August 1969

**Hunt, Cecil M.**, Deputy General Counsel of the Overseas Private Investment Corporation from March 1971

**Ibañez Ojeda, Pedro**, Senator, *Partido Nacional*, (National Party) until 1973

**Inostroza Cuevas, Alfonso**, head of Central Bank of Chile, 1970–1973

**Irwin, John N., II**, Under Secretary of State from September 1970 until July 1972; thereafter, Deputy Secretary of State

**Jarpa Reyes, Sergio Onofre**, President of Chilean *Partido Nacional* (National Party) from 1968; Senator from 1973

**Johnson, U. Alexis**, Under Secretary of State for Political Affairs from February 1969 until February 2, 1973

**Jorden, William J.**, Deputy Special Assistant to the Under Secretary of State from January 1969 until March 1969; detailed to the National Archives and Records Administration, March 1969; detailed to the General Services Administration, June 1970; Deputy Senior Staff Member, National Security Council Operations Staff, Latin America from May 1972

**Jorgenson, Raymond C.**, Office of Research and Analysis for Africa and American Republics, Bureau of Intelligence and Research, Department of State

**Karamessines, Thomas H.**, Deputy Director for Plans, Central Intelligence Agency, until 1973

**Karkashian, John E.**, Deputy Director, Office of Bolivia-Chile Affairs, Bureau of Inter-American Affairs, Department of State

**Kearns, Henry**, President of the Export-Import Bank, until 1973

**Kendall, Maurice W.**, Brigadier General, USA; Director, Inter-American Region, Office of International Security Affairs, Department of Defense from 1971 until 1973; Chief, U.S. Delegation, Joint Brazilian-U.S. Command from 1973

**Kennedy, Richard T.**, Colonel, USA, member, National Security Council Staff from 1969 until 1970; Director of the Planning Group, National Security Council Staff until 1973

**Kissinger, Henry A.**, Assistant to the President for National Security Affairs from January 1969; also Secretary of State from September 22, 1973

**Korry, Edward M.**, U.S. Ambassador to Chile until October 20, 1971; President, Association of American Publishers until 1973

**Kubisch, John B.**, Deputy Chief of Mission, U.S. Embassy in Mexico from May 1969 until December 1971; Deputy Chief of Mission, U.S. Embassy in France from December 1971 until June 1973; Assistant Secretary of State for Inter-American Affairs and U.S. Coordinator, Alliance for Progress from June 11, 1973

**Laird, Melvin, R.**, Secretary of Defense from January 22, 1969

**Lagos Matus, Gustavo**, Chilean Minister of Justice until 1970

**Lanusse, Alejandro Agustín**, General, Commander in Chief of the Argentine Army until 1971; President of Argentina from March 1971 until March 1973

**Latimer, Thomas**, Office of the Assistant to the President, National Security Council Staff from 1971 until 1972

**Leddy, Raymond G.**, Acting Deputy Assistant Secretary of Defense for Inter-American Affairs from 1969 until 1971; Deputy Assistant Secretary of Defense for Inter-American Affairs, Foreign Trade, Disclosure and Military Rights Affairs from 1971

**Leighton Guzman, Bernardo**, Chilean Deputy from Santiago

**Letelier del Solar, Orlando**, Chilean Ambassador to the United States from 1970 until May 5, 1973; Chilean Foreign Minister from May 5 to August 9, 1973; Minister of Interior from August 9 to August 27, 1973; Minister of Defense from August 27 to September 11, 1973

**Levine, Flavian**, General Manager of *Compañía de Acero del Pacífico*

**Levingston, Roberto**, General, Argentine President from 1970 until 1971

**Lincoln, George A.**, Director of the Office of Emergency Preparedness from 1969

**Linowitz, Sol**, U.S. Representative to the Organization of American States until 1969

**Lynn, Laurence**, Assistant for Programs, National Security Council Staff from 1969 until 1970; Director, Program Analysis Staff from 1970 until 1971

- Mark, David E.**, Deputy Director for Regional Research, Bureau of Intelligence and Research, Department of State from 1969
- Martin, Graham A.**, U.S. Ambassador to Italy from October 30, 1969, until February 10, 1973; Ambassador to South Vietnam from June 21, 1973
- Massad Abud, Carlos**, Vice President of the Chilean Central Bank until 1970
- Matte Larrain, Arturo**, brother-in-law and chief adviser to Jorge Alessandri until 1970
- McAfee, William**, Assistant Deputy Director for Coordination, Bureau of Intelligence and Research, Department of State from 1969 until January 1, 1972; Deputy Director from January 1, 1972
- McCone, John**, Director of Central Intelligence from 1961 until 1965; Chair, Hendry International Company from 1968; member, Board of Directors of International Telephone and Telegraph (ITT) from 1969
- McGee, Gale W.**, Senator (R-Wyoming); Chairman, Latin American Subcommittee of the Senate Foreign Relations Committee from 1973
- McGinnis, John J.**, Special Assistant for National Security Affairs to the Secretary of the Treasury from 1972
- McNamara, Robert S.**, President of the World Bank from April 1968
- Merino Castro, Jose Toribio**, Admiral, Chilean Director of Naval Services, 1969; Naval Squadron Commander from 1970; Intendant at Valparaiso Naval Base from 1972; member of ruling military Junta from September 11, 1973
- Meyer, Charles A.**, Assistant Secretary of State for Inter-American Affairs and U.S. Coordinator, Alliance for Progress from April 1969 until March 5, 1973
- Michaelson, Charles D.**, President, Metals Mining Division, Kennecott Copper Corporation from 1969
- Miller, Robert H.**, Deputy Executive Secretary, Department of State from 1971
- Milliken, Frank R.**, President, Kennecott Copper Corporation from 1961
- Mills, Bradford**, President, Overseas Private Investment Corporation from 1971
- Mitchell, John N.**, U.S. Attorney General from January 1969 until February 1972
- Moorer, Thomas H.**, Admiral, USN, Chief of Naval Operations until July 1970; thereafter, Chairman of the Joint Chiefs of Staff
- Moreno, Rafael**, Chilean *Partido Demócrata Christiana* (Christian Democratic Party) candidate who defeated Socialist labor leader Hector Olivares in the 5th Senatorial District, January 1973 Congressional elections
- Nachmanoff, Arnold**, member, National Security Council Operations Staff, Latin America from February 1969 to November 1970; Senior Staff Member for Latin American Affairs from November 1970
- Neruda, Pablo**, Nobel Prize-winning poet and Chilean Ambassador to France from 1970
- Nixon, Richard M.**, President of the United States from January 1969
- Nolff, Max**, Vice President, Chilean Government Copper Corporation from 1970
- Nutter, G. Warren**, Assistant Secretary of Defense for International Security Affairs from March 4, 1969, until 1973
- Ossa Pretot, Sergio**, Chilean Minister of Defense until 1970
- Pablo, Tomas**, President of the Chilean Senate
- Pacheco, Jorge**, President of Uruguay until March 1, 1972
- Packard, David**, Deputy Secretary of Defense from January 24, 1969, until December 13, 1971; thereafter, Chief Executive Officer and Chairman of the Board, Hewlett-Packard Company
- Palma, José**, President, Chilean Senate from May 1972 until May 1973
- Perez Zujovic, Edmundo**, Chilean Minister of Interior until 1970; assassinated June 8, 1971, by the *Vanguardia Organizada Popular* (Organized Vanguard of the People)
- Perón, Juan**, Argentinean President from 1946 until 1955 and from 1973 until 1974

**Peterson, Peter G.**, Assistant to the President for International Economic Affairs and Executive Director of the Council for International Economic Policy from 1971 until January 1972; Secretary of Commerce from January 1972 until January 1973

**Petty, John R.**, Assistant Secretary of the Treasury for International Affairs until February 1972

**Pickering, Thomas R.**, Deputy Director of the Bureau of Politico-Military Affairs, Department of State from September 1969

**Pinochet Ugarte, Augusto**, General, Chairman of the Chilean Military Junta from September 11, 1973; Chilean President from 1974

**Place, John**, Chief Executive Officer, President, and Director, Anaconda Copper from 1969

**Plaza Lasso, Galo**, Secretary General of the Organization of American States until 1973

**Porta Angulo, Fernando**, Rear Admiral, Commander in Chief, Chilean Navy from 1968

**Porter, William**, Under Secretary of State for Political Affairs from February 2, 1973

**Prats Gonzáles, Carlos**, General, Commander in Chief of the Chilean Land Forces until August 23, 1973; also Minister of the Interior from November 2, 1972, through August 9, 1973, and Minister of Defense from August 9 through August 23, 1973

**Quigley, William E., Jr.**, Vice Chairman of the Board, Anaconda Copper from 1969

**Ratliff, Rob Roy**, member, National Security Council Staff; Executive Secretary of the 40 Committee from April 1972

**Rodriguez Grez, Pablo**, leader of *Patria y Libertad* (Fatherland and Liberty Party) until 1973

**Rogers, William P.**, Secretary of State from January 22, 1969, until September 22, 1973

**Ruiz, César**, General, Commander of the Chilean Air Force until August 9, 1973; Minister of Public Works and Transit from August 9 to September 13, 1973

**Salzman, Herbert**, Vice President, Overseas Private Investment Corporation

**Schneider Chereau, René**, General, Commander in Chief of the Chilean Army; assassinated by Chilean officers on October 22, 1970

**Scowcroft, Brent**, General, USA, Military Assistant to the President until April 1973; Deputy Assistant to the President for National Security Affairs from April 1973 until November 1975

**Selden, Armistead I., Jr.**, Deputy Secretary of Defense for International Security Affairs from 1970 until 1972; Consultant, Department of Defense from 1973

**Sepúlveda Galinda, José Maria**, Chilean Director-General of Carabineros until August 9, 1973; Minister of Lands and Settlement from August 9 until September 11, 1973

**Sepúlveda Acuña, Adonis Ramon**, Secretary General of the Chilean *Partido Socialista* (Socialist Party)

**Shackley, Theodore G.**, Chief, Western Hemisphere Division, Directorate of Operations (Directorate of Plans until March 1973), Central Intelligence Agency from April 1972 until November 1973

**Shlaudeman, Harry**, Deputy Chief of Mission, U.S. Embassy in Chile from June 1969 until August 1973; Deputy Assistant Secretary of State for Inter-American Affairs from June 11, 1973

**Shultz, George P.**, Director, Office of Management and Budget from June 1970 until May 1972

**Silva Espejo, René**, Director, *El Mercurio* (Chilean newspaper) until 1973

**Silva, Patricio**, Chilean Under Secretary of Foreign Affairs

**Summ, G.H.**, Director, Office of Research and Analysis for American Republics, Bureau of Intelligence and Research, Department of State

**Teitelboim, Volodia**, Senator, Chilean Communist Party until 1973

- Tohá Gonzáles, José**, Chilean Minister of Interior from 1970 until 1972; Minister of Defense from 1972 until 1973
- Tomic Romero, Radomiro**, Presidential candidate of Chilean *Partido Demócrata Christiana* (Christian Democratic Party) in the 1970 election; leader of PDC from September 1970
- Troncoso Castillo, Raul**, Chilean Minister of State at the Moneda until 1970
- Vaky, Viron P. (Pete)**, Acting Assistant Secretary of State for Inter-American Affairs from January until May 1969; member, National Security Council Operations Staff, Latin America from May 1969 until September 1972; thereafter, U.S. Ambassador to Costa Rica
- Valdés Subercaseaux, Gabriel**, Chilean Foreign Minister until 1970
- Valdes Phillips, Pablo**, Minister Counselor of the Chilean Embassy in the United States from 1970 until 1973
- Valenzuela Godoy, Camilo**, General, Santiago Garrison Commander, 1970
- Viaux Marambio, Roberto**, General, Commandant of the Chilean First Army Division from January 1969 until June 1972
- Velasco Alvarado, Juan**, General, Peruvian President
- Vuskovic Bravo, Pedro**, Chilean Minister of Economy from November 4, 1970, until June 12, 1972; Director of the Executive Economic Committee and Vice President of the State Development Corporation from June 12, 1972, until September 11, 1973
- Walsh, John P.**, Acting Executive Secretary of the Department of State from September until February 1969; Acting Special Assistant to the Secretary of State from February 1969 until October 1969
- Walters, Vernon A.**, Lieutenant General, USA, Defense Attaché in France from 1969 until May 1972; Deputy Director of Central Intelligence from May 1972
- Weintraub, Sidney**, Deputy Assistant Secretary for International Monetary Affairs, Bureau of Economic Affairs, Department of State from October 1969 until May 1970; Deputy Assistant Secretary for International Finance and Development, Bureau of Economic Affairs from May 1970
- Zaldivar Larrian, Andres**, Chilean Minister of Finance until November 4, 1970; *Partido Demócrata Christiana* (Christian Democratic Party) candidate in Senatorial race, April 1971
- Ziegler, Ronald**, White House Press Secretary from January 1969
- Zumwalt, Elmo R., Jr.**, Admiral, USN; Chief of Naval Operations from July 1970 until June 1974





# Note on U.S. Covert Actions

In compliance with the *Foreign Relations of the United States* statute that requires inclusion in the *Foreign Relations* series of comprehensive documentation on major foreign policy decisions and actions, the editors have identified key documents regarding major covert actions and intelligence activities. The following note will provide readers with some organizational context on how covert actions and special intelligence operations in support of U.S. foreign policy were planned and approved within the U.S. Government. It describes, on the basis of declassified documents, the changing and developing procedures during the Truman, Eisenhower, Kennedy, Johnson, Nixon, and Ford Presidencies.

## *Management of Covert Actions in the Truman Presidency*

The Truman administration's concern over Soviet "psychological warfare" prompted the new National Security Council to authorize, in NSC 4-A of December 1947, the launching of peacetime covert action operations. NSC 4-A made the Director of Central Intelligence responsible for psychological warfare, establishing at the same time the principle that covert action was an exclusively Executive Branch function. The Central Intelligence Agency (CIA) certainly was a natural choice but it was assigned this function at least in part because the Agency controlled unvouchered funds, by which operations could be funded with minimal risk of exposure in Washington.<sup>1</sup>

The CIA's early use of its new covert action mandate dissatisfied officials at the Departments of State and Defense. The Department of State, believing this role too important to be left to the CIA alone and concerned that the military might create a new rival covert action office in the Pentagon, pressed to reopen the issue of where responsibility for covert action activities should reside. Consequently, on June 18, 1948, a new NSC directive, NSC 10/2, superseded NSC 4-A.

NSC 10/2 directed the CIA to conduct "covert" rather than merely "psychological" operations, defining them as all activities "which are conducted or sponsored by this Government against hostile foreign states or groups or in support of friendly foreign states or groups but which are so planned and executed that any US Government responsibility for them is not evident to unauthorized persons and that if un-

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<sup>1</sup> NSC 4-A, December 17, 1947, is printed in *Foreign Relations*, 1945-1950, Emergence of the Intelligence Establishment, Document 257.

covered the US Government can plausibly disclaim any responsibility for them.”

The type of clandestine activities enumerated under the new directive included: “propaganda; economic warfare; preventive direct action, including sabotage, demolition and evacuation measures; subversion against hostile states, including assistance to underground resistance movements, guerrillas and refugee liberations [*sic*] groups, and support of indigenous anti-Communist elements in threatened countries of the free world. Such operations should not include armed conflict by recognized military forces, espionage, counter-espionage, and cover and deception for military operations.”<sup>2</sup>

The Office of Policy Coordination (OPC), newly established in the CIA on September 1, 1948, in accordance with NSC 10/2, assumed responsibility for organizing and managing covert actions. The OPC, which was to take its guidance from the Department of State in peacetime and from the military in wartime, initially had direct access to the State Department and to the military without having to proceed through the CIA’s administrative hierarchy, provided the Director of Central Intelligence (DCI) was informed of all important projects and decisions.<sup>3</sup> In 1950 this arrangement was modified to ensure that policy guidance came to the OPC through the DCI.

During the Korean conflict the OPC grew quickly. Wartime commitments and other missions soon made covert action the most expensive and bureaucratically prominent of the CIA’s activities. Concerned about this situation, DCI Walter Bedell Smith in early 1951 asked the NSC for enhanced policy guidance and a ruling on the proper “scope and magnitude” of CIA operations. The White House responded with two initiatives. In April 1951 President Truman created the Psychological Strategy Board (PSB) under the NSC to coordinate government-wide psychological warfare strategy. NSC 10/5, issued in October 1951, reaffirmed the covert action mandate given in NSC 10/2 and expanded the CIA’s authority over guerrilla warfare.<sup>4</sup> The PSB was soon abolished by the incoming Eisenhower administration, but the expansion of the CIA’s covert action writ in NSC 10/5 helped ensure that covert action would remain a major function of the Agency.

As the Truman administration ended, the CIA was near the peak of its independence and authority in the field of covert action. Although the CIA continued to seek and receive advice on specific proj-

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<sup>2</sup> NSC 10/2, June 18, 1948, is printed *ibid.*, Document 292.

<sup>3</sup> Memorandum of conversation by Frank G. Wisner, “Implementation of NSC-10/2,” August 6, 1948, is printed *ibid.*, Document 298.

<sup>4</sup> NSC 10/5, “Scope and Pace of Covert Operations,” October 23, 1951, is printed in *Foreign Relations, 1950–1955, The Intelligence Community*, Document 90.

ects from the NSC, the PSB, and the departmental representatives originally delegated to advise the OPC, no group or officer outside of the DCI and the President himself had authority to order, approve, manage, or curtail operations.

*NSC 5412 Special Group; 5412/2 Special Group; 303 Committee*

The Eisenhower administration began narrowing the CIA's latitude in 1954. In accordance with a series of National Security Council directives, the responsibility of the Director of Central Intelligence for the conduct of covert operations was further clarified. President Eisenhower approved NSC 5412 on March 15, 1954, reaffirming the Central Intelligence Agency's responsibility for conducting covert actions abroad. A definition of covert actions was set forth; the DCI was made responsible for coordinating with designated representatives of the Secretary of State and the Secretary of Defense to ensure that covert operations were planned and conducted in a manner consistent with U.S. foreign and military policies; and the Operations Coordinating Board was designated the normal channel for coordinating support for covert operations among State, Defense, and the CIA. Representatives of the Secretary of State, the Secretary of Defense, and the President were to be advised in advance of major covert action programs initiated by the CIA under this policy and were to give policy approval for such programs and secure coordination of support among the Departments of State and Defense and the CIA.<sup>5</sup>

A year later, on March 12, 1955, NSC 5412/1 was issued, identical to NSC 5412 except for designating the Planning Coordination Group as the body responsible for coordinating covert operations. NSC 5412/2 of December 28, 1955, assigned to representatives (of the rank of assistant secretary) of the Secretary of State, the Secretary of Defense, and the President responsibility for coordinating covert actions. By the end of the Eisenhower administration, this group, which became known as the "NSC 5412/2 Special Group" or simply "Special Group," emerged as the executive body to review and approve covert action programs initiated by the CIA.<sup>6</sup> The membership of the Special Group varied depending upon the situation faced. Meetings were infrequent until 1959 when weekly meetings began to be held. Neither the CIA nor the Special Group adopted fixed criteria for bringing projects before the

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<sup>5</sup> William M. Leary, editor, *The Central Intelligence Agency: History and Documents* (University of Alabama Press, 1984), p. 63; for text of NSC 5412, see *Foreign Relations, 1950–1955*, The Intelligence Community, Document 171.

<sup>6</sup> Leary, *The Central Intelligence Agency: History and Documents*, pp. 63, 147–48; *Final Report of the Select Committee To Study Governmental Operations With Respect to Intelligence Activities*, United States Senate, Book I, *Foreign and Military Intelligence* (1976), pp. 50–51. For texts of NSC 5412/1 and NSC 5412/2, see *Foreign Relations, 1950–1955*, The Intelligence Community, Documents 212 and 250.

group; initiative remained with the CIA, as members representing other agencies frequently were unable to judge the feasibility of particular projects.<sup>7</sup>

After the Bay of Pigs failure in April 1961, General Maxwell Taylor reviewed U.S. paramilitary capabilities at President Kennedy's request and submitted a report in June that recommended strengthening high-level direction of covert operations. As a result of the Taylor Report, the Special Group, chaired by the President's Special Assistant for National Security Affairs McGeorge Bundy, and including Deputy Under Secretary of State U. Alexis Johnson, Deputy Secretary of Defense Roswell Gilpatric, Director of Central Intelligence Allen Dulles, and Chairman of the Joint Chiefs of Staff General Lyman Lemnitzer, assumed greater responsibility for planning and reviewing covert operations. Until 1963 the DCI determined whether a CIA-originated project was submitted to the Special Group. In 1963 the Special Group developed general but informal criteria, including risk, possibility of success, potential for exposure, political sensitivity, and cost (a threshold of \$25,000 was adopted by the CIA), for determining whether covert action projects were submitted to the Special Group.<sup>8</sup>

From November 1961 to October 1962 a Special Group (Augmented), whose membership was the same as the Special Group plus Attorney General Robert Kennedy and General Taylor (as Chairman), exercised responsibility for Operation Mongoose, a major covert action program aimed at overthrowing the Castro regime in Cuba. When President Kennedy authorized the program in November, he designated Brigadier General Edward G. Lansdale, Assistant for Special Operations to the Secretary of Defense, to act as chief of operations, and Lansdale coordinated the Mongoose activities among the CIA and the Departments of State and Defense. The CIA units in Washington and Miami had primary responsibility for implementing Mongoose operations, which included military, sabotage, and political propaganda programs.<sup>9</sup>

President Kennedy also established a Special Group (Counter-Insurgency) on January 18, 1962, when he signed NSAM No. 124. The Special Group (CI), set up to coordinate counter-insurgency activities separate from the mechanism for implementing NSC 5412/2, was to confine itself to establishing broad policies aimed at preventing and resisting subversive insurgency and other forms of indirect aggression in friendly countries. In early 1966, in NSAM No. 341, President Johnson

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<sup>7</sup> Leary, *The Central Intelligence Agency: History and Documents*, p. 63.

<sup>8</sup> *Ibid.*, p. 82.

<sup>9</sup> See *Foreign Relations, 1961–1963*, volume X, Cuba, 1961–1962, Documents 270 and 278.

assigned responsibility for the direction and coordination of counter-insurgency activities overseas to the Secretary of State, who established a Senior Interdepartmental Group to assist in discharging these responsibilities.<sup>10</sup>

NSAM No. 303, June 2, 1964, from Bundy to the Secretaries of State and Defense and the DCI, changed the name of "Special Group 5412" to "303 Committee" but did not alter its composition, functions, or responsibility. Bundy was the chairman of the 303 Committee.<sup>11</sup>

The Special Group and the 303 Committee approved 163 covert actions during the Kennedy administration and 142 during the Johnson administration through February 1967. The 1976 Final Report of the Church Committee, however, estimated that of the several thousand projects undertaken by the CIA since 1961, only 14 percent were considered on a case-by-case basis by the 303 Committee and its predecessors (and successors). Those not reviewed by the 303 Committee were low-risk and low-cost operations. The Final Report also cited a February 1967 CIA memorandum that included a description of the mode of policy arbitration of decisions on covert actions within the 303 Committee system. The CIA presentations were questioned, amended, and even on occasion denied, despite protests from the DCI. Department of State objections modified or nullified proposed operations, and the 303 Committee sometimes decided that some agency other than the CIA should undertake an operation or that CIA actions requested by Ambassadors on the scene should be rejected.<sup>12</sup>

The effectiveness of covert action has always been difficult for any administration to gauge, given concerns about security and the difficulty of judging the impact of U.S. initiatives on events. In October 1969 the new Nixon administration required annual 303 Committee reviews for all covert actions that the Committee had approved and automatic termination of any operation not reviewed after 12 months. On February 17, 1970, President Nixon signed National Security Decision Memorandum 40,<sup>13</sup> which superseded NSC 5412/2 and changed the name of the covert action approval group to the 40 Committee, in part because the 303 Committee had been named in the media. The Attorney General was also added to the membership of the Committee. NSDM 40

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<sup>10</sup> For text of NSAM No. 124, see *ibid.*, volume VIII, National Security Policy, Document 68. NSAM No. 341, March 2, 1966, is printed *ibid.*, 1964–1968, volume XXXIII, Organization and Management of U.S. Foreign Policy; United Nations, Document 56.

<sup>11</sup> For text of NSAM No. 303, see *ibid.*, Document 204.

<sup>12</sup> *Final Report of the Select Committee To Study Governmental Operations With Respect to Intelligence Activities*, United States Senate, Book I, Foreign and Military Intelligence, pp. 56–57.

<sup>13</sup> For text of NSDM 40, see *Foreign Relations, 1969–1976*, volume II, Organization and Management of U.S. Foreign Policy, 1969–1972, Document 203.

reaffirmed the DCI's responsibility for the coordination, control, and conduct of covert operations and directed him to obtain policy approval from the 40 Committee for all major and "politically sensitive" covert operations. He was also made responsible for ensuring an annual review by the 40 Committee of all approved covert operations.

The 40 Committee met regularly early in the Nixon administration, but over time the number of formal meetings declined and business came to be conducted via couriers and telephone votes. The Committee actually met only for major new proposals. As required, the DCI submitted annual status reports to the 40 Committee for each approved operation. According to the 1976 Church Committee Final Report, the 40 Committee considered only about 25 percent of the CIA's individual covert action projects, concentrating on major projects that provided broad policy guidelines for all covert actions. Congress received briefings on only a few proposed projects. Not all major operations, moreover, were brought before the 40 Committee: President Nixon in 1970 instructed the DCI to promote a coup d'état against Chilean President Salvador Allende without Committee coordination or approval.<sup>14</sup>

*Presidential Findings Since 1974 and the Operations Advisory Group*

The Hughes-Ryan amendment to the Foreign Assistance Act of 1974 brought about a major change in the way the U.S. Government approved covert actions, requiring explicit approval by the President for each action and expanding Congressional oversight and control of the CIA. The CIA was authorized to spend appropriated funds on covert actions only after the President had signed a "finding" and informed Congress that the proposed operation was important to national security.<sup>15</sup>

Executive Order 11905, issued by President Ford on February 18, 1976, in the wake of major Congressional investigations of CIA activities by the Church and Pike Committees, replaced the 40 Committee with the Operations Advisory Group, composed of the President's Assistant for National Security Affairs, the Secretaries of State and Defense, the Chairman of the Joint Chiefs of Staff, and the DCI, who retained responsibility for the planning and implementation of covert operations. The OAG was required to hold formal meetings to develop recommendations for the President regarding a covert action and to conduct periodic reviews of previously-approved operations. EO 11905 also banned all U.S. Government employees from involvement in polit-

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<sup>14</sup> *Final Report of the Select Committee To Study Governmental Operations With Respect to Intelligence Activities*, United States Senate, Book I, Foreign and Military Intelligence, pp. 54–55, 57.

<sup>15</sup> Public Law 93–559.

ical assassinations, a prohibition that was retained in succeeding executive orders, and prohibited involvement in domestic intelligence activities.<sup>16</sup>

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<sup>16</sup> Executive Order 11905, "United States Foreign Intelligence Activities," *Weekly Compilation of Presidential Documents*, Vol. 12, No. 8, February 23, 1976.



# Foreign Relations, 1969–1976, Volume E–16, Documents on Chile, 1969–1973

## A “Noisy Democracy”: The Decline of Eduardo Frei, January–December 1969

### 1. National Intelligence Estimate<sup>1</sup>

NIE 94–69

Washington, January 28, 1969.

[Omitted here are the Table of Contents and a map of Chile.]

#### CHILE

#### THE PROBLEM

To examine the likely political and economic developments in Chile over the next year or so, with particular reference to the congressional election of March 1969, and to the general outlook for the presidential election in September 1970.

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<sup>1</sup> Summary: This estimate provided a comprehensive assessment of Chilean President Eduardo Frei's administration and a prediction for the future economic and political scene in Chile in light of the 1969 and 1970 elections. It also included a discussion of the ramifications of a possible victory by the leftist coalition in the 1970 election.

Source: Central Intelligence Agency, National Intelligence Council, Job 79R01012A: Intelligence Publications Files (1950–1975), Box 374, Folder 2: (NIE 94–69) Prospects for Chile. Secret; Controlled Dissem. According to a note on the cover sheet, this estimate was prepared in the Central Intelligence Agency with the participation of the intelligence organizations of the Departments of State and Defense, and the National Security Agency. The United States Intelligence Board concurred in this estimate on January 28, with the exception of the Atomic Energy Commission and the Federal Bureau of Investigation, both of which abstained on the grounds that the subject was outside their jurisdiction.

CONCLUSIONS<sup>2</sup>

A. Over the past four years the administration of Eduardo Frei has been endeavoring to carry out a social, economic, and political revolution by peaceful, constitutional means. He has made considerable progress in some important fields, but in others has fallen far short of his goals. An important faction of his Christian Democratic Party (PDC) is insisting that the scope of reform be widened and its tempo quickened.

B. Economic prospects for the short run are bleak, and we see little chance for much further progress on basic problems over the next year or so. There are a few favorable aspects, notably the new US investments under the copper expansion agreement and the likely continuation of substantial foreign assistance over the next year. But the Frei administration is already caught in a quandary of economic stagnation with rapid inflation. As the elections approach, pressures for government spending on wages and welfare will almost certainly intensify, and business confidence will probably reach a new low.

C. The outcome of the congressional elections of March 1969 will have an important bearing on the selection of candidates and the formation of political coalitions for the presidential election in 1970. The PDC has some chance of winning a majority in the Senate and is likely to retain a sizable plurality in the lower house. Nonetheless, factionalism within the PDC, the maneuvering of other parties for political advantage in the 1970 election, and Frei's lameduck status will weaken his influence over the new Congress.

D. Until the final choice of candidates and of political party alignments is made, it is not feasible to attempt to estimate the outcome of the presidential election in more than the most general terms. Among many possible outcomes, the current odds are that there will be three major candidates for the presidency in 1970, that no one of them will secure a majority, and that the Congress will select as president the candidate with the largest vote. If the Communist, Socialist, and Radical parties could set aside their differences to agree on a candidate, he would be a strong contender, especially in a three-man race.

E. Even if a Communist-supported candidate won in 1970 we do not believe that the Chilean Armed Forces would intervene to prevent his inauguration. They would maintain a constant surveillance over the new administration, but would plan to move against it only if Chilean institutions, particularly their own, were threatened.

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<sup>2</sup> See footnote of dissent on page 3 following these Conclusions. [Footnote is in the original.]

F. The relations of any new Chilean administration with the US are likely to be under repeated strains. Whoever succeeds Frei in the presidency is likely to continue to stress Chilean independence; to be less cooperative with the US on many issues than Frei has been; and to explore somewhat broader relationships with Communist countries. An administration elected with Communist support almost certainly would take steps aimed at moving Chile away from the US and closer to the Communist countries. We believe, however, that for a variety of reasons, including fear of a reaction from the military, such an administration would be deterred from precipitate or drastic action.

G. Because Frei himself has gone on record as opposing outright expropriation of the US copper companies, we see it as unlikely while he is still in power. In our judgment, however, further steps toward greater government participation in or even outright nationalization of these holdings are inevitable. The manner, the terms, and the timetable of such steps will depend heavily on the makeup of the next administration. Even under a rightist administration, or one of the center left such as Frei's has been, some additional "Chileanization," at least is likely. Chile might assume high economic costs in the process, especially in case of abrupt nationalization; but in the long run nationalistic, political grounds—rather than economic—will almost certainly be the crucial factors in deciding this question.<sup>3</sup>

## DISCUSSION

### I. INTRODUCTION

1. Chile is entering upon a period likely to be decisive both for the future of Eduardo Frei's reform programs and for the political direction which the nation itself will take. With two years remaining of his six-year presidential term, Frei is sore beset. While his administration can point to a record of considerable accomplishment in some important fields, it has had almost no success in others; steps taken in its social

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<sup>3</sup> Mr. Thomas L. Hughes, the Director of Intelligence and Research, Department of State, believes that the Estimate overstates the criticality of the Chilean economic situation and the Frei government's responsibility for it, as well as the Christian Democratic Party's predicament in the forthcoming elections. He believes:

a) That copper prices and production are likely to be better and pressures for wage increases less disruptive than indicated;

b) That the agricultural difficulties are of a longstanding nature and, therefore, less attributable to Preseident Frei and his policies than the Estimate leads one to believe;

c) That the Christian Democratic Party, especially its reformist but moderate elements, is stronger than the Estimate suggests; and

d) That whatever the short-run trends may be, the long-run direction is toward reform, even radicalism from the conventional point of view, and that the dissatisfaction of some important elements, which inevitably accompanies moves toward change, is counterbalanced, more than is shown, by favorable political reactions of elements that have benefited. [Footnote is in the original.]

programs have conflicted with the attainment of some economic goals and the government's inability to please everyone has entailed important political costs. Chile's chronic problem of inflation has again taken a turn for the worse, and its broader economic prospects—already troubled—have been adversely affected by this year's severe drought, the worst in 40 years.

2. Frei's Christian Democratic Party (PDC) cannot hope to match its previous sweeping victories as it looks ahead to a congressional election in March 1969 and a presidential election in September 1970. The party is suffering from factionalism. Since Frei cannot legally succeed himself as president, his own leverage is impaired, and no new leader of anything like his stature has emerged. At the same time, there are signs of growing momentum on the part of the opposition parties to the right and the left of Frei's PDC. The opposition, which in the 1964 elections existed for practical purposes only on the left, has become two-sided during the Frei administration. The Radical Party, which opposed him from the right as a splinter in 1964, has since acquired leftist leadership. The rightist Liberal and Conservative Parties, which did not even run a candidate in 1964, have merged to form the National Party, which under this banner has recovered somewhat, while remaining a minor party. There is now considerable backstage maneuvering among conservatives in favor of former President Alessandri, while leftist elements talk of putting together a new and stronger coalition of far-left forces. Nevertheless, the PDC is less divided at present than its leftist opposition, is larger than the conservative forces, and has some advantage from being the incumbent and the primary focus for the non Marxist reform vote.

3. All this marks deterioration from the atmosphere which prevailed when Frei began his term in November 1964 after a campaign in which both leading candidates pledged basic reforms.<sup>4</sup> Frei had received some 56 percent of the total vote (as against his opponent's 39 percent) and a popular mandate to carry out far-reaching social, economic, and political changes. Conditions were favorable for the use of fiscal and monetary policies to achieve both price stability and economic growth. Prices for copper exports—which provide the bulk of export income and an important though variable element of tax receipts—rose almost 50 percent during Frei's first two years in office and have remained high. His administration has received net authoriza-

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<sup>4</sup> Although there was a third candidate, the race was essentially between Frei, who promised "Revolution under Liberty," and Salvador Allende, candidate of the far-left coalition *Frente de Acción Popular* (FRAP), who plumped for Revolution in the Castro style. Both drew many votes from the normal strength of the Radical Party, whose candidate consequently received only some five percent of the total vote. [Footnote is in the original.]

tions of some \$630 million in economic assistance from the US and another \$200 million from international financial organizations. As has been the case for decades, Chile under Frei has received more total US economic assistance per capita than any other Latin American country and is second only to Brazil in total amount.

4. When, in sharp contrast to usual Chilean political practice, Frei attempted to carry out the reform program on which he campaigned, he alienated many of the upper and middle class Chileans who had voted for him simply to keep the Socialist-Communist coalition from attaining power. Although the PDC won a large majority of the seats in the Chamber of Deputies in 1965, the party secured only a minority in the Senate, where about half the seats have been holdovers from 1961. Frei has had to bargain for congressional support case by case and most of his legislative proposals have been blocked, delayed, or substantially modified.

5. Much of Frei's difficulty in getting his programs through Congress is due to his rejection of the Chilean pattern of coalition government. While its politics are bitterly partisan and the concept of a loyal opposition is virtually nonexistent, Chile has a lengthy tradition of maintaining representative government. This record has depended to a considerable degree upon the willingness of the "ins" to arrange coalition governments under which the needs of the "outs" were accommodated in return for their support in the Congress. Frei, however, has chosen to go it alone. The obstruction he has faced in Congress has also been due, in part at least, to the fact that earlier, as a PDC senator, Frei had attacked many of the legislative proposals and programs of the previous administration coalition (Liberals, Conservatives, and Radicals). Nonetheless, some of the essential elements of his legislative program have now been enacted. The outcome of the elections of March 1969 will, of course, affect the prospects for further reform proposals as well as the environment for implementing reforms already enacted.

## II. THE ADMINISTRATION'S RECORD

### *A. Economic and Social Program*

6. The Frei administration has had very mixed results in its efforts to improve Chile's economic conditions. Tax reforms and rising copper prices brought a sharp increase in government revenues and in public investment during Frei's first two years. The administration's inability to restrain the rise in current expenditures, particularly for wages, however, resulted in increasing budgetary difficulties and a slowdown in investment growth during 1967–1968. During Frei's first two years, Chile's balance of payments also improved markedly as a result of the sharp rise in copper prices and the continuation of a high level of for-

eign aid, coupled with the administration's adoption of a more flexible exchange rate policy and improved management of the foreign debt. Despite continued high copper prices, the deficit on goods and services climbed to \$181 million in 1967, however, and Chile suffered a small loss in foreign exchange reserves. Although this deficit grew by another \$100 million in 1968, a record inflow of foreign aid and the expansion of investments by US copper companies were more than sufficient to offset the imbalance.

7. Chile's rate of economic growth during the past four years has been less than the average for Latin America. Per capita output grew at a moderately high rate during 1965–1966 but declined during 1967–1968 as manufacturing and construction activities slowed. Agricultural production has continued to lag behind the growth in population. The rate of inflation slowed during the first two years of the Frei administration but then speeded up and reached about 28 percent in 1968. Thus, four years after Frei's inauguration, budgetary difficulties and the rate of inflation have not been significantly reduced, the trade deficit continues to grow, and overall economic growth is now at best sluggish.

8. *Redistribution of Income.* Many of Frei's serious economic problems can be attributed to the rapidity of redistribution of income in favor of lower-income groups that has occurred during his administration. Wages and salaries have increased much faster than prices and the overall rate of economic growth. In addition, social services have expanded and a large share of government investment has gone into social improvement programs. Whereas previous Chilean administrations had been attentive to the demands of urban middle class groups and of more highly skilled, organized labor, Frei is the first Chilean president to strive for substantial improvement in the living conditions of agricultural workers and unskilled urban laborers. An even more radical change has been Frei's effort to improve the political position of previously submerged groups through establishment of a minimum agricultural wage, attempts to unionize the campesinos, and expansion of educational and other programs. The poorest workers have benefited from his income policy but organized workers probably have gained proportionately more, since they had the power to secure even larger raises. By and large both the political and the economic gains of labor have been made at the expense of others—such as owners of large and middle-sized farms, private businessmen, and the wealthy class in general—numbers of whom had supported the PDC in 1964.

9. *Foreign Copper Investment.* The administration's major economic success has been in securing agreements for substantial new foreign investments in copper mining. Under Frei's program of "Chileanization" the government is participating with US companies in the ownership

and management of the country's copper industry.<sup>5</sup> Political opposition to this plan, particularly from the Communist and Socialist parties which advocated outright nationalization, stalled the program in Congress for some time. The US companies are scheduled to invest some \$480 million in production facilities to raise capacity from 620,000 metric tons of primary copper in 1964 to nearly 900,000 metric tons in the early 1970's. These new investments are insured by the US investment guaranty program, under which the copper companies would receive indemnification from the US Government in the event of expropriation without compensation.

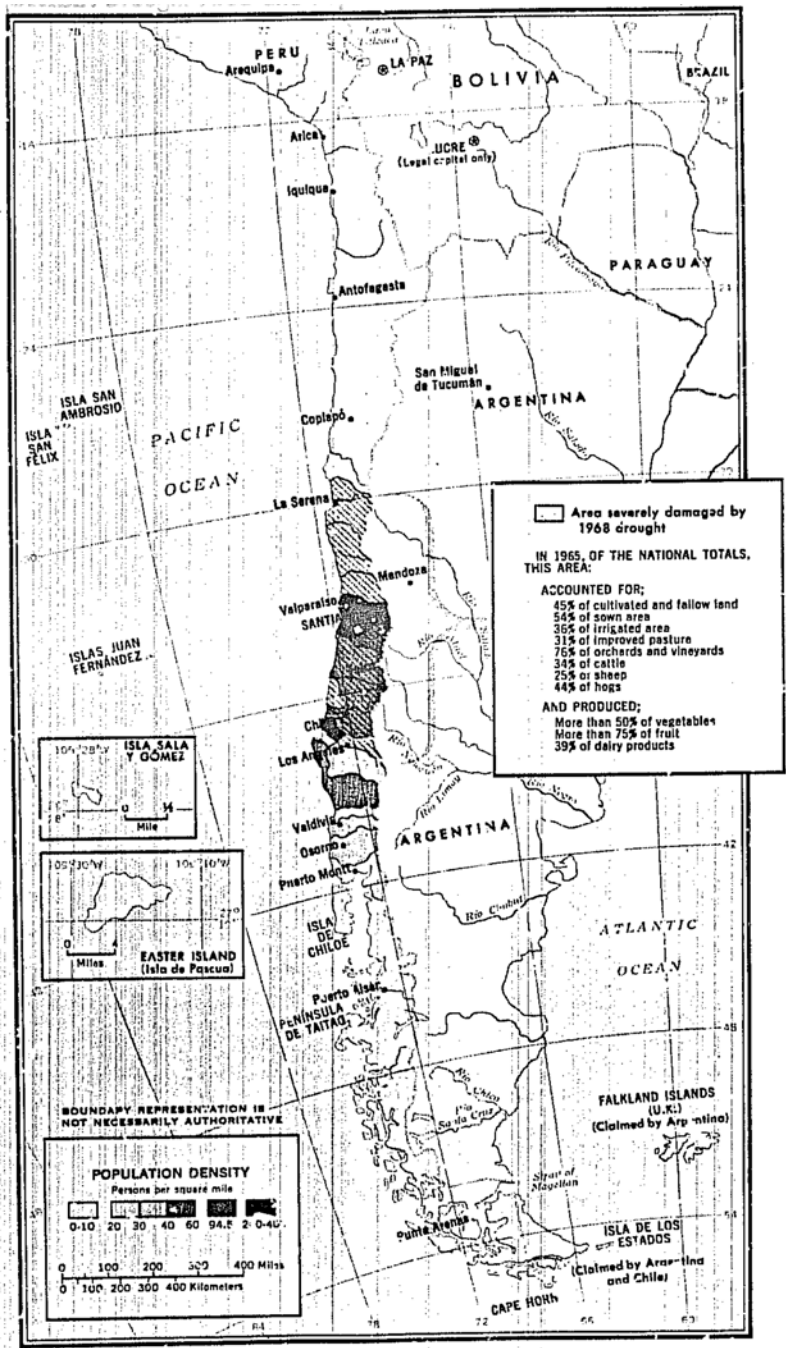
10. *Agriculture.* Despite Frei's concern with Chile's complex and enduring agricultural problems, he has made little progress in resolving them. Promised improvements in farm prices were short-lived, and solutions have not been found for deep-seated problems such as inadequate credit, storage, and marketing mechanisms. In addition, the insecurities associated with Frei's agrarian reform programs have served further to discourage long-needed private investments. As a result, the country continues to be increasingly dependent on imports of foodstuffs. Food shortages have been intensified by the severe drought which began in the key central area of the country during 1968. (See Figure 1 for the area involved and its importance to the economy.) Until World War II Chile was a net exporter of foodstuffs, but net imports of foodstuffs now amount to about \$120 million annually. Perhaps three-quarters of these imports consist of items that could be produced domestically if the agricultural sector were more efficient.

11. Although Frei's agrarian reform bill was held up in Congress until 1967, laws passed in the previous administration enabled some moves toward resettlement and land distribution. Between the end of 1964 and mid-1968, the government's agrarian reform agency acquired about four percent of the total area in farms—including about 15 percent of Chile's irrigated land. Although less than one-half of the land acquired so far has been obtained through expropriation, political involvement of radical members of the PDC has made the reform more damaging economically and more abrasive socially than it needed to be. About four-fifths of the land acquired has been organized into some 270 government-managed cooperative settlements. The program embraced about 9,000 families (some 70,000 persons) by mid-1968 and was

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<sup>5</sup> Of Chile's total output of 626,000 metric tons of primary copper in 1966, 61 percent was produced by wholly-owned subsidiaries of the Anaconda Company, 23 percent by a Kennecott subsidiary in which the Chilean Government has acquired a 51 percent interest, and the remainder by numerous smaller, Chilean-owned companies. The Chilean Government also has interests of 25 to 30 percent, respectively, in two mines being developed by Anaconda and Cerro Corporation; these mines are scheduled to produce 170,000 metric tons of copper annually by the early 1970's. [Footnote is in the original.]

CHILE: Drought Area and Population Distribution      Figure 1





expected to include 14,000 families by the end of 1968, representing perhaps four percent of the rural population. After 3 to 5 years of government tutelage, the cooperative members are to decide whether to continue the cooperative or divide the land up into individually owned small farms. More than \$100 million has now been spent on resettlement, and some of the social objectives of the agrarian reform are being realized. But these outlays, and other large government expenditures on fertilizers, seeds, breeding stock, machinery, and agricultural credit have not accelerated the rate of growth of total agricultural output. Growing government spending on agriculture has been largely offset by the failure to maintain profitable agricultural prices—a key plank in Frei's original agrarian reform program—and by the continuing fear of expropriation which has undermined the incentives of the remaining private landowners. These factors and the drought have combined to depress production severely in late 1968 and early 1969. In the longer run, new foreign assistance for irrigation works, agrarian reform activities, and agricultural credit may help to mitigate some of the adverse effects of Chile's longstanding farm problems.

12. *Education, Housing, and Public Health.* Frei has given a high priority to reforms in the system of public education and has made substantial progress in this field, particularly in expanding school facilities and in improving the quality of instruction for low-income groups. He was less successful in his housing program, which during its first three years fulfilled only about a third of the administration's six-year goal of 360,000 new housing starts. The program has now been revised to set a new target for low-income housing and to stress self-help projects. It will probably benefit from recent legislation which authorizes the Housing Ministry to expropriate urban land at a fraction of its market value. Similarly, Frei is committed to expansion of public health facilities, but any substantial improvement requires basic reforms in the country's chaotic social security system—reforms he has so far been unable to accomplish.

13. *Inflation.* During its first two years in office, the administration's stabilization program succeeded in cutting back the rate of inflation. This promising beginning was undermined mainly by the administration's inability to maintain its wage policy in the face of intense opposition from within the PDC as well as from the far left. The Congress ignored the administration's guidelines and granted increases that allowed real wages in the public sector to rise by some 42 percent during 1965–1967. These large increases made it impossible to balance the budget. They also made it increasingly difficult for the private sector to observe the administration's guidelines, and real wages in private employment rose at an even faster rate. The government's financial problems limited public investment and required borrowing

from the banks, which in turn resulted in the restriction of credit available to business. Large wage gains and tax increases boosted costs in the private sector, stepping up inflationary pressures and putting a cost-price squeeze on some firms that discouraged private investment and contributed to unemployment and a slowdown in economic growth.

14. Despite worsening inflationary pressures from accelerated government spending, rapidly rising real wages, and a large expansion in the money supply, the rise in prices was kept to 26 percent in 1965 and 17 percent in 1966.<sup>6</sup> This achievement, however, relied heavily upon the use of price controls and emergency measures. By 1967, the combination of growing demand, rising real costs, and stagnating output were too strong for price controls to be effective, and the cost of living rose by 22 percent, as compared with a goal of only 10 percent. The original goal for 1968 was relative price stability, but the rise in the cost of living reached about 28 percent. In an attempt to limit the ability of Congress to inflate greatly its wage recommendations for 1969, the Frei administration included its wage readjustment legislation in the 1969 budget bill. As submitted, the legislation provides for a general increase of 22 percent in public sector wages, yet special raises authorized but not paid fully last year to certain public employees—teachers, judges, the military and the police—bring the overall rise in the public sector wage bill to 38 percent. Pressures for wage raises are likely to be even greater in the private sector. Thus we think it almost certain that the Frei government's foundering stabilization program will be put in further jeopardy.

#### *Government Role in the Economy*

15. The Chilean Government has played an important role in the economy since the 1930's, and has been particularly instrumental in developing the industrial sector, which now contributes about 25 percent of gross national product (GNP). Government influence on the economy takes a variety of forms: outright ownership and equity participation in joint companies, financing of private investments in manufacturing and mining and commerce, large transfer and subsidy payments, plus tax concessions, price controls, and trade restrictions aimed at influencing production. Despite the many advantages granted to the industrial sector over the past three decades, however, manufacturing has focused on import substitution and its products are high-cost and noncompetitive outside the protected domestic market.

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<sup>6</sup> This almost met the programmed goals of 25 and 15 percent increases for those years. Prices had risen by 38 percent in 1964. Official government data probably understate the actual rise in the price level, and thus overstate the increases in real wages indicated in paragraph 13. [Footnote is in the original.]

16. Under Frei, the public sector has expanded substantially, and its expenditures in 1968 were equivalent to nearly half of Chile's GNP—the highest ratio in South America. Moreover, while the total share of output allocated to investment is gradually declining, the public sector has become far more important than the private sector in capital formation, in part because foreign financing has gone chiefly to support government investment. Public investment expenditures, which include government loans for private investment in petrochemicals, paper, cellulose, and steel, now represent more than 70 percent of total gross domestic investment. In the early 1960's they usually were less than 50 percent of the total. Public investment under Frei has continued to be concentrated on transportation and electric power facilities, and on housing, education, and other social welfare projects. Government spending has only partly offset the depressing effect the administration's economic policies have had on private investment in manufacturing and agriculture.

17. Within the private sector of the economy, and particularly among the larger landowners, the traditional distrust of government programs has intensified under the PDC administration. While Frei and the more conservative leaders of the party have reiterated the continued importance of private enterprise, legislative and administrative actions have done little to lend credence to their statements. Private interests understandably resent the squeezing of their profits between price controls on the one hand and ever-rising taxes and wages on the other. This squeeze has been exacerbated by a severe tightening of credit, except for the projects being promoted by the government in certain industries. Investor confidence has been further eroded by uncertainties concerning land reform policy and by repeated threats against private industry (including nationalization) that have emanated from the more leftist elements within the PDC as well as from Marxist parties. The present environment for private enterprise also appears to have dampened the interest of potential foreign investors, except for the US copper companies (whose new expenditures are insured) and the foreign partners in a few major investment projects arranged some time ago.

#### *B. Political Developments*

18. While Frei's efforts to carry out his reform program have antagonized the more conservative elements in Chile, he has, at the same time, successfully resisted leftist demands for more rapid and extreme actions. A leftist faction within his own party, which has grown in influence, has joined with other leftists to insist that the scope of reform be widened and its tempo quickened. By pushing ahead with reforms while attempting to minimize their inevitable disruptive effects, he has met with opposition from both sides.

19. Within the party, supporters of the President (called *Oficialistas*) and their opponents are now playing down their differences in the interest of unity, but that effort is likely to break down once the congressional election is over and each faction begins to vie for the nomination. Frei's most determined opponents in the PDC, the far-left *Rebeldes*, urge nationalization of mining, steel, and electric power industries, and the telephone companies, and a sharp rise in expropriation and distribution of land holdings. This faction is particularly critical of the meager results of Frei's agrarian policies (under which land may be redistributed to perhaps 35,000 families during 1965–1970 instead of the announced goal of 100,000 families), and his failure to nationalize the privately owned elements of the banking system. Another group, the *Terceristas*, also criticizes the slow pace of Frei's reform program, but tries to bridge the gap between the rebels and the *Oficialistas*.

20. Radomiro Tomic, at present the leading contender for the party's nomination to succeed Frei, has agreed with the party rebels on the desirability of forging a vaguely defined wide leftist front with the Communists and other groups seeking sweeping economic, social, and political reforms. He has also, while not openly breaking with Frei, advocated a further reduction of the role of private enterprise in Chile. But Tomic's development of a campaign platform, with specific proposals which would win such wide support, remains vague and in a state of flux.

21. The fact that the Frei administration has initiated and brought forward some basic reforms and improvements should constitute a political asset for the PDC, however difficult to measure. Through social action and other programs of varied effectiveness both in the cities and in the countryside, large numbers of people throughout the nation, including practically everyone on salary, have seen significant improvement in their condition since Frei took office. In recent years, however, the opposition has usually gained ground in the congressional election preceding the Chilean presidential election.

### III. OUTLOOK

#### A. Economic

22. The outlook for the Chilean economy over the next year or so is bleak. Although a few aspects of the situation are favorable, such as the foreign investment to expand copper production and the likely continuation of foreign assistance, circumstances generally are distinctly unfavorable. Already caught in a quandary of economic stagnation with rapid inflation, the Frei administration faces increasing economic difficulties and reduced capabilities to deal with them. The chances of positive government action to cope with the country's problems appear slim because Frei, as a lameduck president, probably will have even

greater difficulty in securing congressional support than in the past. As the elections approach, pressures for government spending on wages and welfare almost certainly will intensify, and business confidence will reach a new low, thus further slowing investment. Even with normal climatic conditions, per capita output probably would not have grown in 1969. With the added blow from the drought, the administration faces the likelihood of a decline in production in 1969 and perhaps only a partial recovery in 1970.

23. Although prices for Chile's copper exports have remained abnormally high throughout the past four years, some decline probably will occur in 1969 and 1970. Even the scheduled expansion in production probably will not keep copper earnings from dropping in 1969, and it might merely restore them to 1967–1968 levels in 1970. Inasmuch as the drought is reducing supplies of hydroelectric power and of water, needed by the copper industry, production gains may be lower than projected. The drought will also increase the need for food imports while reducing agricultural exports. Chile's deficit on goods and services may increase by about \$150 million in 1969 to a record high of more than \$425 million—or about one-half of total commodity export earnings. Nonetheless, large-scale drawings on official credits (already in the pipeline or being negotiated with the US Government and international financial organizations) and the inflow of investment capital (chiefly from US copper companies) may be sufficient to cover most or all of such a deficit as well as to finance scheduled debt repayments. The Frei administration, however, may find it more difficult to avoid serious balance of payments difficulties and a return to import restrictions in 1970. Its ability to do so again will depend largely on the willingness of foreign lenders to be fully responsive to Chile's financial needs.

24. Frei's prospects for averting further setbacks in his stabilization program are also unfavorable. In the past the administration has fared poorly in its efforts to hold down wage increases in the public sector, and it will have even less influence with a Congress looking to the elections of 1969 and 1970. There is little chance that expenditures for public investment will be cut, because of the negative impact of such a cut on politically important welfare projects and on employment levels. It will be difficult to secure new tax revenues to keep the budget deficit manageable. Yet failure to hold budget deficits within certain limits will not only feed the inflation but may also endanger continued receipt of budget support aid from the US and drawings on standby credits from the International Monetary Fund.

25. We conclude that the Frei administration will have few, if any, attractive options in determining its economic policies. Rather, the choice is likely to be among several unpalatable alternatives, and as

problems mount, both Frei and his opposition will be increasingly tempted to seek solutions that are politically expedient. Thus pressure is likely to be exerted on the government to tax the foreign-owned copper mines at a higher rate than that agreed upon under the copper expansion program, to demand a larger equity in the mines, or even to nationalize the properties outright. Because Frei himself has gone on record as opposing outright expropriation, we see it as unlikely while he is still in power. Members of his party may, however, declare in favor of partial or complete nationalization during his last year in office, in an attempt to undercut their political opponents. Even those members of the National Party who have been friendly to the US may come to share the growing Chilean sentiment for early nationalization. Expropriation would be more profitable politically than economically, however, since the payment of compensation would be a major drain on income, adding perhaps \$1 billion to an already burdensome foreign debt. If it did not compensate for such an expropriation, Chile would probably lose more in US economic aid and private capital investment than it secured from taking over the copper companies.

26. In sum, the economic problems confronting the Frei administration are unsolvable in the short run and intractable in the long run. They will be particularly difficult to come to grips with during the next year or so, when the effect of the drought and the distraction of national elections will be most apparent. Over the longer run, unless the management of the country's resources improves, the pressure from population growth, particularly from its concentration in the Santiago area (see Figure 1 "Chile: Drought Area and Population Distribution"), will increase.<sup>7</sup>

#### *B. Political: Outlook for the Congressional Election*

27. Despite the deterioration in economic prospects the effect on the outcome of the congressional election in March 1969 may not be particularly severe, owing to continued foreign assistance and good copper prices. This election can have an important bearing on the selection of candidates and the formation of political coalitions for 1970, although voting patterns in local congressional elections are not necessarily repeated in presidential contests where mass voter attention tends to focus on large national issues and personalities. The results are particularly important to the moderates in the PDC whose chances of maintaining control of the party organization will be critically affected by the PDC's showing in the congressional election. The party, which

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<sup>7</sup> We estimate that Chile's population is about 9.2 million, about 66 percent urban, and about 40 percent under 15 years of age. If the population continues to increase at its present rate, which we estimate at 2.4 percent per annum, it will double by the year 2000. [Footnote is in the original.]

has 10 of the 20 hold-over seats in the Senate, should approach a majority there and may even attain it. (See Figure 2: "Chilean Political Parties.") The present PDC majority in the Chamber of Deputies was won, in the election of March 1965, when the other parties were in considerable disarray in the aftermath of Frei's triumph in September 1964. Recovery of the other parties will probably keep the PDC from holding its majority in the Chamber, but it is likely at least to retain a sizable plurality there, and it could attract enough support from independents and smaller parties to form temporary majorities. But a poor showing by the party's congressional slate—which was approved by Frei—would intensify existing problems of party discipline and further weaken its chances in the presidential election.

28. The congressional election is also important to the chances of the parties of the right and extreme left in 1970. If, as seems likely, there is a further comeback by the small conservative National Party, this would enhance the chances that Jorge Alessandri, a popular former president, would run strongly, as an "independent" presidential candidate. The Nationals were badly damaged in the Christian Democratic triumphs of 1964 and 1965 and lack a popular base, but they will probably continue, on a modest scale, the recovery they made in the municipal elections of 1967. They may win some additional seats in the Chamber of Deputies, but are likely to suffer some losses in the Senate.

29. The Chilean Communist Party (PCCh), which probably has about 35,000 active members, has gained status as a legitimate party which consistently stresses the *vía pacífica* and eschews violent revolution as the means for attaining power in Chile.<sup>8</sup> Its prospects for the election in 1969 probably have not been greatly damaged by the party's defense of the recent Soviet occupation of Czechoslovakia. The PCCh is adept at diverting attention from its close hewing to the Moscow line. Unless new actions by the USSR further antagonize the Chilean public, by March 1969 the effect of the invasion of August 1968 is likely to be minimal. Thus the PCCh will probably lose little, if any, of the electoral following which causes other leftist parties to bid for its support in presidential elections.

30. The showing made by the Socialist and Radical Parties in 1969 will determine, in large part, the candidate the PCCh will support in 1970. The Socialist movement has been split by personal rivalries, but

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<sup>8</sup> When the PCCh was outlawed, between 1948 and 1958, the party suffered a serious setback. Since regaining its legal status the PCCh has been careful to avoid any action which might result in its being outlawed again. In 1958 and 1964 the PCCh supported Salvador Allende as the FRAP candidate for the presidency. [Footnote is in the original.]

FIGURE 2  
CHILEAN POLITICAL PARTIES  
PERCENTAGE OF VOTE IN  
ELECTIONS SINCE 1964

PARTY AND BRIEF DESCRIPTION	PERCENTAGE OF VOTE IN ELECTIONS SINCE 1964		PRESENT REPRESENTATION IN CONGRESS <sup>a</sup>		
	1965 (Congressional)	1967 (Municipal)	Chamber of Deputies	Senate	Senate Seats to be Contested in 1969
Christian Democrat (PDC)..... Has preempted the center in Chilean politics.	42.3	35.6	82 <sup>b</sup>	12	2
Radical Party (PR)..... Opportunist, principal following in gov- ernment bureaucracy and middle class.	13.2	16.1	19	10	7
Communist Party (PCCh)..... Able-led, well-organized and disciplined, has labor support.	12.2	14.0	18	5	3
Socialist Party (PS)..... More activist than the PCCh, suffers from personal rivalries among its leaders and dis- putes over tactics.	10.3	13.8	9	4	3
National Party (PN)..... Conservative, represents large landholders, industrial and commercial interests. Formed in 1966 by the old Liberal and Conservative Parties.	13.1	14.6	8	7	7
Minor Parties and Independents <sup>c</sup> .....	8.9	5.3	11	7	3
	100.0	100.0	147	45	25
			3 new seats		5 new seats
			150		30

<sup>a</sup> The entire membership of the Chamber will be renewed for four-year terms. The senators serve eight-year terms, about half of them are elected every four years. The number of senators is being increased to 50 and the number of deputies is being increased to 150.

<sup>b</sup> One PDC deputy died and has not been replaced.

<sup>c</sup> Includes two senators and six deputies of Popular Socialist Union Party (USP) which split off from the PS after the 1967 election.



the orthodox Socialists may attract some voters who normally support Communist candidates but were alienated by the Soviet occupation of Czechoslovakia. Socialist criticism of the occupation has caused new strains in the already shaky Socialist-Communist electoral coalition (the FRAP), but the coalition has survived other serious strains in the decade it has been in existence. Furthermore, the Socialist Party recognizes that it needs Communist support for its leader, Salvador Allende, if he is to be a major candidate again in 1970.

31. The Radical Party, which has recovered from a very poor showing in the presidential election of 1964 (five percent of the vote), also suffers from factionalism. It has traditionally found its main support in the middle class. The rightwing of the party leans towards Alessandri while its present leftist leadership is seeking an electoral coalition with the Communists and, if possible, with the Socialists. The Radicals are united only in their desire to regain power and in their bitter hostility towards Frei and the Christian Democrats. The Radical Party is likely to gain some additional seats in the lower house and to do no better than hold the 10 seats it now has in the Senate. Once the congressional election is over, some moderates and many of the more conservative Radicals are likely to increase their opposition to the efforts of the party's leaders to align it with the PCCh in 1970.

### *C. The Presidential Election*

32. Until the final choice of candidates and of political party alignments is made, it is not feasible to attempt an estimate of the outcome of the presidential election in more than the most general terms. A two-man race is possible, but among many possibilities we believe that the most likely will be a closely contested three-man race.

33. The problem for the left will be to unite competing elements of the Socialist and Radical Parties, with Communist support, behind a single candidate. The prospects for such a coalition are affected by ideological as well as tactical differences among all three parties. While the Communists publicly stress the primacy of the FRAP, they seem disposed to join any coalition which they think they can influence. The Socialists, on the other hand, have repeatedly rejected the idea of cooperation with non-Marxist parties, and continue to cling to their intention of presenting a presidential candidate in 1970. However, the Communists, and even more so the Radicals, have not committed themselves and may have serious misgivings about backing a Socialist candidate. Finally, only a portion of the Radical Party favors an alignment with the far left.

34. Despite these differences, an effective coalition of these three parties is a possibility. If they can coalesce, their candidate would be a

strong contender, especially in a three-man race.<sup>9</sup> Many members of these parties would not support a coalition candidate from another party or from an “alien” faction of their own party. On the other hand, we believe that the candidate of any far-left coalition would benefit from the likely continuation of the general trend to the left that has marked Chilean politics in recent decades. Thus he would be likely to receive considerable support from the large bloc of nonaligned, independent voters and to gain some adherents from former PDC voters, unless that party chose a standard bearer satisfactory to its radical wing.

35. No matter who wins the PDC nomination, there is likely to be some splitting off of party members and followers. The party has no potential candidate as broadly appealing as Frei. Nor is it likely to form an electoral alliance with one of the other large political parties, on either the left or right. At this point there seems to be very little chance that Radomiro Tomic will be successful in forging a broad coalition of leftist forces behind his candidacy or that the party is likely again to receive any substantial support from the Chilean right. Most likely, the PDC will run as a centrist force, with its candidate appealing either for leftist or rightist support, depending on which faction of the party he represents, in the hope of securing a plurality of the total vote. The PDC has strong advantages as the incumbent party, the largest single party, and a focus for the non-Marxist reform vote. But at this point its chances depend heavily upon a variety of circumstances which are beyond its control and at present unforeseeable.

36. The opposition of the National Party and other Chilean conservatives to Frei’s attempts to carry out basic reforms by constitutional means has not made conservatism more popular in the country, but rather has increased the sentiment for radical change. The conservative forces might regain some ground if the aging Alessandri (born 1896) were to campaign vigorously. His remarkable appeal cuts across class and party lines and also reaches a considerable number of independent voters. The conservatives have no other candidate of comparable stature, and without Alessandri in the race they would be likely to suffer another decline in strength and influence in 1970.

37. In sum, the current odds are that there will be a three-man race, in 1970, in which no candidate will win a clear majority, and the final choice will be made by the Chilean Congress. The necessity for such a decision has arisen several times in the last 50 years. On each occasion the Congress has chosen the candidate with the largest number of

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<sup>9</sup> The Socialist, Radical, and Communist Parties, running separately, received a total of 44.5 percent of the vote in the municipal elections of 1967. See Figure 2. [Footnote is in the original.]

votes. We believe that the Congress probably would do so again, particularly if there is a clear margin between the two leading candidates.

38. Whoever is elected in 1970 will have considerable difficulty in getting any program through the Congress, let alone a controversial one. Frei has said that his fundamental mistake was in not pushing hard, early in his term, for an amendment of the Constitution that would enable the president (once during his term in office) to dissolve the Congress and, in effect, to request a plebiscite on his program. If Frei's four years in power have demonstrated anything, it is that even a president with the unusual advantage of a majority, both in the popular vote and in the lower chamber, finds it very rough going indeed when he attempts to change the status quo in Chile.

39. The well trained security forces of Chile have always been essentially antagonistic to the Communists and Socialists; this is particularly true of the paramilitary national police force, the Carabineros, who have had a long history of clashes with extreme leftists. Even so, the security forces have maintained an apolitical position towards national politics for 30 years; on the two occasions (1938 and 1946) when a president was elected with Communist support, the military did not intervene to keep him from taking office. Rather than intervene at once to keep a Communist-supported administration from taking office in 1970, the security forces would probably maintain a constant surveillance over it, particularly if it were led by Salvador Allende, and would plan to move against it only if they were convinced that Chilean institutions, especially their own, were threatened.

40. For their part, the Communists and Socialists have vied with the other political parties in praising the armed forces and in supporting appropriations for military equipment, and have repeatedly professed approval of the role of the military as the protectors of constitutional government. We believe that any Communist-supported administration would be careful, at least initially, to avoid any action likely to cause the military to intervene.<sup>10</sup>

#### *D. Future Relations with Other Countries*

41. If the FRAP were to win the election of 1970, and particularly if the winning candidate were Allende or Alberto Baltra, the pro-Communist senator of the Radical Party, the new administration would almost certainly take steps aimed at moving Chile away from the US and towards closer ties with Communist countries. Allende himself has frequently demonstrated his admiration for Castro and the

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<sup>10</sup> The security forces consist of an army of 23,100, a navy of 13,200, an air force of 7,700, and the Carabineros of 24,000. In emergencies, the Carabineros are placed under army command. [Footnote is in the original.]

Cuban Revolution, and an Allende or Baltra cabinet would probably include members of the PCCh. But we believe that even these leaders would be deterred from precipitate or drastic action by several important considerations:

a. An awareness of the strength of nationalist sentiment in the population generally, in the Congress, and in their own parties—a nationalism likely to be as strongly against subordinating Chile to the tutelage of Moscow (or Havana) as it has been against anything it considers subordination to Washington;

b. A realization that they must have and retain the support of political elements other than those that elected them if their administration is to be at all effective—especially since counsels would probably be divided in their own ranks on some aspects of both foreign and domestic policy;

c. A concern that if their administration tried to move too far and too fast, the Chilean security forces would unseat it;

d. An apprehension (and one which Moscow would probably share) that anything approaching a full embrace of communism in Chile would precipitate action on the part of Argentina, Peru, the US, and other countries—perhaps action in support of a takeover by the Chilean military, perhaps even direct military intervention.

42. All these factors are likely to inhibit a new president, even if he represents the extreme left, from bringing about the adherence of Chile to one or another segment of the Communist camp. These considerations do not, however, argue against a radical shift in internal programs or against an intensification of the effort to be independent of the US. In our view, whoever succeeds to the presidency will be less cooperative with the US than Frei has been. We think that there will be pressures in almost all political parties, including the PDC, for the new Chilean Government to stake out a more independent line; in some of them, demands for a clearly anti-US posture will be strong. Thus Chilean relations with the US are likely to be under repeated strain over the foreseeable future. Any new administration will probably explore somewhat closer ties with Communist countries. And the skillful low key way in which the Soviet Embassy in Santiago has conducted its relations with the Chilean Government and public might begin to bring an expansion of trade and cultural relations between the two countries. Thus far, however, little progress has been made in implementing the economic agreements with the USSR signed in January 1967.<sup>11</sup>

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<sup>11</sup> Total Chilean exports to the Communist countries amounted to \$2.7 million in 1967 compared to \$5.3 million in 1966, while imports were \$4.1 million in 1967 and \$4.2 million in 1966. Although imports from the Communist countries may be up slightly for 1968, no substantial increase in exports is expected. [Footnote is in the original.]

43. We think that the next Chilean administration, regardless of who heads it, will continue Chile's traditional policies supporting non-intervention, the protection of national sovereignty, and the sanctity of treaties. The policies of a new administration will continue to be strongly influenced by the recurrent border disputes with Argentina, by Bolivia's efforts to regain the outlet to the sea it had lost to Chile in the last century, and by concern that Peru will renew its claim to territory it too lost to Chile. The next administration is likely to push even harder than Frei did to stress the independent nature of Chile's role in both the Organization of American States and the United Nations.

44. Perhaps the touchiest issue of all in relations with the US will be that of ownership or control of the US share in the copper companies. Further steps toward greater government participation in or even outright nationalization of these holdings are, in our judgment, inevitable. The manner, the terms, and the timetable of such steps will depend heavily on the makeup of the next administration. An extreme leftist government would very likely opt for complete and rapid nationalization. Even under a rightist administration, or one of the center left such as Frei's has been, some additional "Chileanization," at least, is likely. Chile might assume high economic costs in the process, especially in case of abrupt nationalization; but in the long run nationalistic, political grounds—rather than economic—will almost certainly be the crucial factors in deciding this question.

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## 2. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, March 25, 1969, 1945Z.

1168. Subj: Conversation With Frei (#3—Economic Policy). Refs: Santiago 1160; Santiago 1161.

1. I told Frei I wanted to understand political factors before discussions economic policies since one was largely hitched to the other. I assumed that GOC policy for its remaining 20 months (inauguration new

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<sup>1</sup> Summary: Korry reported on his conversation on economic policy with President Frei.

Source: National Archives, RG 59, Central Files 1967–69, POL 1 CHILE–US. Confidential; Limdis. Reference telegrams 1160 and 1161 from Santiago, March 25, Nos. 1 and 2 in this series of telegrams, are Documents 4 and 5 in *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973.

President November 1970) would be tailored in significant degree to fit the style of the voters it wanted to impress most. Economics in the abstract was of academic interest; for a politician it had to be possible above all else.

2. Frei agreed. He said inflation was the decisive element and the government had to control its expenses above all. (I suspect that while he was sincere, this opening gambit was in anticipation of what he expected me to say. It is worth noting that in the earlier political discussion he had recalled telling Tomic that the single greatest [garble] was not inflation but the disunity of the PDC to which Tomic had made very notable contributions by continuing his earlier intra-party fight against Frei even after he had lost the PDC nod. Without such divisions between party and government, the PDC would easily have had three to four percent more of the vote and then everyone would have hailed the triumph of the PDC. This in turn, said Frei, would have provided Tomic with the momentum to be victor in the presidential elections. Tomic was the victim of his own egocentricity.) Frei said very passionately that if the US did not help Chile now with the pending loans, all the GOC programs would have to be changed. What he would do about inflation and the drought would have to be recalculated. But it was imperative that he know our response soon. He simply could not delay much longer.

3. I said I assumed that Frei would adhere to a stabilization policy since the lack of unity on this issue within his own government and between the government, and party had undermined his own policies. I also recognized that politics are not controllable in a democracy be it his or ours; yet I wondered if coherence within a government was equally unattainable. In any event I was there, on the assumption that my government would act positively soon, to offer some suggestions.

A. I repeated the arguments I have made to him and to anyone else who has listened for the past 15 months about the need to liberate the economy from the deadweight of unmanageable price control. Admittedly it would take a few years but some effective instruments are available. A unique organization, UNICOOP, had had very impressive success with supermarkets in Santiago; its social conscience and its excellent private enterprise management had combined to produce profits being reinvested in low as well as higher income neighborhoods. They had enjoyed a considerable psychological success in low income areas; it was a high priority desire of Pobladores to have one in their neighborhood. UNICOOP had recently signed the first multi-year labor contract in Chile (three years); it offered profit sharing to its employees. It provided a viable, efficient alternative to the robbery of the poor by merchants who cheated on quality, on weight and on usurious interest. Since the majority of Chileans were urbanized, a third of them

packed in Santiago, the politicians would always cater to the city-dweller. By controlling urban prices it was difficult to stimulate agriculture even with the kinds of reforms, incentives and benefits offered by the Frei government. Moreover the heavy hand of a bureaucracy seeking to control 6000 products was felt everywhere. And Christian Democrats had a particularly abrasive bureaucratic quality that in more cases than not was distasteful to the public. A major effort to speed the expansion of UNICOOP together with government internal decisions to ease some of the burdens on UNICOOP could be a healthy incentive for more producer-retailer links which would be emulated by others and which would eliminate the ruinous high-cost middleman bottlenecks which drove up food prices and made a hash of rational distribution in the country. I had been the principal exponent of this philosophy and its advantages with both the BID from Herrera down and with the World Bank, starting with McNamara. Both organizations had flashed a green light of assent. But after considerable effort, I discovered that the GOC had just shoved a request for a CORA land reform loan ahead of the pending UNICOOP (2.4 million) BID loan thus delaying this project a few more months. Since the BID experts had assured me that within a year of approval of the present loan they would be prepared to consider another for double the amount, this unjustified delay would be interpreted by BID as a deliberate reordering of priorities. Yet the UNICOOP potential, which could and would serve as a model for other chains in Santiago and in other urban areas, could do more to free agriculture from traditional restraints so as to provide incentives for production, then BIDs CORA loan. Moreover since the GOC had to announce its 1969 pricing policy for agriculture next week (a point I emphasized later) it should couple such a harbinger of higher prices with a sweetener for the housewife. A government program of support for the rapid expansion of supermarkets would be one such popular reassurance—and one which would also reassure the private sector, particularly the Chilean private sector since UNICOOP was 100 percent Chilean. Finally, since funds were available from international institutions and expertise from them or from us, it would not cost the GOC. Indeed, the end purpose was to reduce the bureaucratic monstrosity that was spread all over the landscape. Frei, who likes this idea, asked if he could not reverse the order of priority for BID consideration of the loans. I replied that I believed it was too late, but would seek to learn. (Washington action).

B. I emphasized the need to get approval of his social security reform bill designed to reduce the high administrative overhead and to avoid certain future bankruptcy of the system. I suggested that this bill, plus his constitutional reform bill, plus his soon to be submitted indirect taxation reform measure, could be helped by the Nacionales. According to the pressure required, I suggested that he consider influ-

encing the Nacionales with the leftist threat of reducing the voting age to 18. The Marxists, Radicals and probably the PDC would back the 18-year measure so as to reduce the Alessandri probabilities in 1970. If the President were to trade a veto of this measure in return for his bills, and if he thought this was practical, it would in my view be an excellent deal. Frei was much intrigued (and I have since put it to Zaldivar who shared the interest).

C. I said a greater effort should be made to eliminate the deficits in such government enterprises as the various transportation entities. Also I suggested separating the pending education bill into two parts, one dealing with the controversial planning aspects and the other with the indispensable self-financing of university level students. I suggested again the possibility of savings accounts with readjustable interest rates in private banks (not alone for the Banco del Estado as today) to incite more savings. No reaction.

D. I proposed that he consider changing the Ley de Inamovilidad since its freezing of workers in plants impels managers with large numbers of workers to invest in labor-intensive uneconomic technology while provoking new plants to invest in capital intensive equipment so as to avoid a permanent albatross of working force. Since it was probably impossible to alter the situation in extant plants why not create a new incentive for new plants and at the same demonstrate the government's interest in creating jobs by suspending the Ley for them. Frei was delighted with "a really good idea I had never heard before."

4. Frei said he had appointed a committee to define his government's socio-economic policies for the remainder of its term. It was led by Zaldivar and included the President and Vice President of the Central Bank (Carlos Massad and Jorge Caus), Senators Reyes and Musalem, Deputy Luis Pareto, and his Presidential Advisor Marfan (a totally officialista group, of course). One idea under study was executing more projects in urban centers to have a psychological impact which was lacking when efforts were concentrated on the peripheries of cities; this would involve some slight changes in plans.

5. He said the problem of Chilean private enterprise was the change the past three years from a position of unused available capacity to full employment of extant plant. He doubted that the market offered sufficient attractions for significant local private investments. Only with formation of Andean Group or LAFTA or marked changes in commerce with neighbors would there be much stimuli unless fresh major investment in basic industries (petro chemicals, minerals) was made by foreigners together with GOC. Chilean private industry knew that the current high level of activity was largely due to the flow of copper investment from abroad. Unless they saw equivalent amounts in the offing, it would be difficult to persuade them to invest; hence the



rationale for a private investment development bank had passed. I disagreed.

Korry

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### 3. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, March 25, 1969, 2105Z.

1172. Subj: Postscript to Frei Conversation (Politics). Refs: Santiago 1161.

1. Frei congratulated me on the accuracy of my pre-electoral predictions and noted another “success”—that I had realized my hope of dissuading Chilean and American industrialists from supporting the Radical Party. He said the Radicals had undoubtedly been hurt by the shortage of funds (except for Senators Bossay and Sule who had many friends). But the current Marxist-Courtin leadership of the Radicals had been given a hard boot and I had served Chilean democracy well by my well-placed kick.

2. However, he wanted me to know that Anaconda had made a great effort to get elected Senator Mauras in the north. Fortunately it had not succeeded. Moreover, he had just discovered that Anaconda had cut off its gravy to defeated Radical Senator Jonas-Gomez in the same zone.

3. I remarked that what pleased me most about the US was the recent elections marked the first time in many years that the US, private or public, had not been accused by anyone of playing a role in the elections.

4. Frei also disclosed that it was costing about 30,000 escudos monthly (\$3,000) to run the organization he has established to maintain his control over the PDC (reftel). When I asked if funding were a problem, he replied candidly that politicians with good causes never have difficulty finding friends with funds.

Korry

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<sup>1</sup> Summary: Korry reported on his discussion with Frei regarding political issues in Chile.

Source: National Archives, RG 59, Central Files 1967–69, POL 1 CHILE–US. Secret; Exdis. Reference telegram 1161 from Santiago, March 25, is Document 5 in *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973.

**4. Memorandum From Arnold Nachmanoff of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, April 23, 1969.

SUBJECT

Chile Program Loan

In the attached cable, Ambassador Korry states that if the US does not approve a program loan which will quickly generate \$10 million worth of escudos for the Chilean budget, the Chilean Finance Minister will try to squeeze that amount from the US-owned copper companies by a forced loan. Korry believes the companies will resist strongly and will look to the US Government to defend their position. He implies that we will have to provide the loan to avoid being placed in an IPC-like situation in Chile.

Korry further claims that failure to approve this loan would be interpreted in Chile as a political decision by the US to disengage from support of President Frei and the political center (i.e., Christian Democratic Party-PDC). It would contribute to the developing political vacuum resulting from the "atomization" of the PDC, and would be viewed by the Marxists as an "invitation to push with impunity their many projects to shift Chile radically to the left."

Korry warns that the PDC junta meeting next month could result in a radical shift leftward which in turn could lead to:

- nomination of a single popular front candidate with a good chance of winning the Presidential election in 1970;
- a call for recognition of Cuba this year;
- a strong demand for renegotiation of the copper agreements;
- a choking of private enterprise and other economically unwise policies.

Korry notes that US policy makers may believe that the US cannot smoothly influence the course of events in Chile, but he unequivocally disagrees. He believes he can influence the trend of events through Frei, with supporting help from Alessandri (the probable conservative

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<sup>1</sup> Summary: Nachmanoff summarized a cable from Korry requesting that a program loan for Chile be approved by the U.S. Government.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 773, Country Files, Latin America, Chile, Vol. I. Confidential. Kissinger wrote, "Let's stay on top of this. HK," in the upper right margin. Eagleburger wrote next to Kissinger's comment, with an arrow pointing at the comment, "Arnie—note." Attached but not published is telegram 1567 from Santiago, dated April 21.

candidate in 1970), presumably with a program loan which would have the qualitative effort of “demonstrating US interest in and support of moderation and stability in Chile.”

### *Background*

Negotiations for a \$20 million program loan for Chile were authorized last December by President Johnson. The loan was designed to provide budgetary and balance of payments support for Chile’s 1969 economic program. However, it was based on the assumption that the copper price would average 45-½¢ per pound or less (each 1¢ in the price of copper translates into \$5.5 million in revenues for the Chilean Government and \$9.5 million in foreign exchange earnings for the balance of payments). Since the copper price is up around 62¢ per pound, State and AID have concluded that the economic basis for the program loan no longer exists.

In March, Korry agreed that economic conditions had changed, but he proposed going forward with the loan on the basis of a different program—namely, support for further Chilean import liberalization. State and AID did not find this acceptable, and instead proposed a standby arrangement which would be triggered by a fall in copper prices: if the copper price falls to 51¢, \$10 million would be made available; if it falls to 49¢, another \$10 million would be made available.

This standby proposal is currently before the interagency Development Loan Committee, and State and AID intend to hold to that position. Korry indicates, however, that the Chilean Finance Minister has rejected the idea of a standby loan.

As far as I can tell, none of the Washington agencies believe there is an economic case for a program loan for Chile at this time. (Treasury and BOB even have some doubts about the need for a standby). Assistant Secretary Meyer will meet the Chilean Finance Minister in Guatemala (where they are both attending the IDB Board of Governors meeting) to listen to his account of the situation. However, John Crimmins (Pete Vaky’s successor at State) tells me that unless something new appears, State and AID do not intend to go beyond a standby arrangement. They are not convinced by Korry’s arguments that failure to provide \$10 million immediately will result in an IPC-like situation and a radical shift to the left.

### *Comment*

I think State and AID’s handling of this issue is correct. There is clearly a prospect of increased pressure on the copper companies and of a shift to the left in Chile. However, the question here is whether there is a causal relationship between failure to provide a program loan and these developments. Korry believes there is; State and AID are dubious. Korry may come up to Washington to try to fight this issue out,

and it may ultimately come to the President for decision. In the meantime, I think we should let this work its way out through the normal operational channels.

Ambassador Korry is a former journalist who practices a very activist and personal style of diplomacy. He is closely identified with Frei and the PDC, and he feels very strongly about the correctness of his position. Aside from the merits of his case, the emotional tone of Korry's cable indicates that if he does not get his \$10 million now, the Nixon Administration might be charged at some future point with responsibility for the deterioration of the Chilean situation—which is likely to occur anyway—because it failed to support democracy in Chile when it had the opportunity to do so. While most serious analysts would recognize that the factors which could lead to increased pressure on the copper companies and a shift to the left are far deeper than the absence of a \$10 million loan, it is also clear that no one could prove that the \$10 million was not the critical factor. Thus, this particular question could be the focal point of a political domestic attack on the Administration's Latin America policy.

It may be worth considering whether a \$10 million Supporting Assistance loan (for political rather [than] developmental purposes) should be offered to prevent this from becoming a domestic political football (and possibly to reduce the risk of—or delay—further Chilean pressure on the copper companies). However, no action will be taken before Meyer has had a chance to talk to the Chilean Finance Minister and make his own assessment of the problem. Meyer will be back from Guatemala on Monday. I would suggest that we wait to see what he has to say. Pete Vaky or I will keep you posted.

5. **Memorandum From Viron P. Vaky of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)**<sup>1</sup>

Washington, May 3, 1969.

SUBJECT

Chile Program Loan

The Chile Program loan issue which was brought to your attention on April 23 (memorandum attached at Tab A) remains unresolved. Assistant Secretary Meyer talked to the Chilean Finance Minister at the IDB meeting in Guatemala, but Meyer apparently was not convinced that there is a clear economic or political case for the loan.

The Finance Minister told Meyer he needed an answer on the loan by May 10 (a few days before he presents his economic program to the Congress) or he will have to find other means of financing an anticipated short-term budget deficit. (The implication is that he will try to obtain a forced loan from the U.S. owned copper companies, a technique used in previous years.)

The standby loan tied to the price of copper which State/AID was prepared to offer as an alternative is unacceptable to the Chileans. Ambassador Korry still feels very strongly that we should provide a \$10–20 million loan and he is coming to Washington this weekend with a revised proposal based on trade liberalization objectives. However, his cables indicate that the underlying rationale for his proposal is some combination of reasons involving economic factors, political factors, and a question of honor.

I find Korry's arguments somewhat inconsistent at this point, but I prefer to hear his case before commenting in greater detail. However, you should be aware Korry is up here to do battle and it is entirely likely that he will ask to see you and/or the President to present his position. In view of Korry's strong feelings and the possible domestic political repercussions of this issue, I would like to talk to you about it should he make such a request.

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<sup>1</sup> Summary: Vaky provided Kissinger with an update on the Chile program loan.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 773, Country Files, Latin America, Chile, Vol. I. Confidential. Kissinger wrote, "Will see Vaky on this" in the upper right margin. Attached at Tab A is Document 4.

6. **Memorandum From the Acting Executive Secretary of the Department of State (Walsh) to the President's Assistant for National Security Affairs (Kissinger)**<sup>1</sup>

Washington, July 1, 1969.

SUBJECT

Chile-Anaconda Agreement

*Proximate Causes of Chilean Action against American Copper Companies*

The historical background of the importance of copper and American copper companies for Chile and Chilean/U.S. relations is dealt with in Enclosure 1. Several factors contributed to the Chilean decision to proceed against the American companies in May 1969 and are essential to understanding the agreement reached with Anaconda on June 26:

—The Christian Democrats (PDC—the Government party) lost badly in the March Congressional elections and faced a Presidential election in September 1970 divided into quarreling factions and aware that nationalization would again be an important Marxist issue.

—Anaconda had recently aroused the Government and public opinion by feuding over customs duties on capital imports, suing against Government-established sales prices to domestic processors, and staking out extensive non-copper mineral claims while failing to establish an earlier agreed-upon joint exploration company. These acts led on April 30 to unprecedented, unanimous and rapid Congressional action depriving Anaconda of its new claims.

—Copper prices have risen steadily since 1964 and have been at extraordinarily high levels for the third year in a row, averaging over 60¢ a pound this year. Chile believed it had provided the American companies windfall profits and cheated itself of its proper share in the Chileanization program by agreeing to lower taxes guaranteed for twenty years with no escalation clause pegged to copper prices.

—Peru's expropriation of IPC, although not a major factor, probably contributed to pressures against Anaconda.

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<sup>1</sup> Summary: Walsh outlined the ramifications of the agreement between the Government of Chile and the Anaconda copper company.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 773, Country Files, Latin America, Chile, Vol. I. Confidential. Kissinger sent this memorandum to the President under cover of a July 11 memorandum drafted by Vaky, apprising him of the Anaconda agreement. The memorandum is printed as Document 17 in *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973. Enclosures 1 and 2 are attached but not published.

*The Negotiations*—President Frei sent a letter to President Nixon on May 4 designed to reassure the U.S. that Frei wished to maintain good relations and would abide by international norms in obtaining greater tax revenue and Chilean participation in the American companies. Anaconda and Kennecott were approached on May 9, primarily on the tax issue. Anaconda was forthcoming on taxes but balked at allowing more than 25% participation in its wholly owned subsidiaries. Kennecott was intransigent, citing its earlier sale of 51% equity. Frei's State of the Nation speech on May 21 publicly stated the goals previously set forth to the companies and the U.S. His proposals for a negotiated settlement, rather than outright nationalization, and his defense of Chileanization were received coldly in Congress. By early June, even the PDC had formally called for full recovery of minerals from Anaconda's subsidiaries.

Serious high-level negotiations with Anaconda began on June 2. They continued virtually uninterrupted until agreement was reached on all major issues on June 26. A summary of the agreement and related U.S. Government actions is enclosed (Enclosure 2). Ambassador Korrry played a brilliant, imaginative and essential role throughout as a behind-the-scenes go-between. His contribution was highly praised by both sides. He achieved the essential U.S. objective: a negotiated, mutually acceptable settlement, without any public attacks on the United States or any indication of the U.S. role.

#### *Significance of Agreement*

(A) *Contrast with IPC Case, and Anaconda Case as a Model for Future Acquisitions of American Companies:* The U.S. press has contrasted the Anaconda settlement most favorably with the IPC case. This is really valid only if the settlement as such is contrasted with the last spasm in the IPC negotiations when the military government came to power in Peru, and if the comparison ignores the long history of negotiations under Belaunde, during which the IPC continued to operate. Anaconda did negotiate under great pressure and very limited time constraints imposed by Chile, in contrast with the pace of the earlier IPC negotiations. Moreover, Anaconda was being asked to divest itself of complex properties valued at perhaps \$800 million, far exceeding the value of IPC.

The method adopted—negotiation rather than outright nationalization—is, however, obviously preferable. Furthermore, in the Anaconda negotiations, the United States through its Ambassador played a most important behind-the-scenes role. In the early years of the IPC negotiations, the U.S. took a distant position in the negotiations themselves, but did curtail aid to Peru.

Further problems arise if the Anaconda settlement is taken as a model for future agreements on acquisition of American companies

by Latin American governments. The basic requirements for an Anaconda-type settlement are, on one side, moderation of the Government's appetite and the Government's political power to sustain a negotiated settlement; and, on the other, adequate corporate reasons for settling. Many special factors led Anaconda to sign. Anaconda's initial 51% equity is being sold at book value, hardly an acceptable valuation for most companies, as evidenced even by Chilean agreement to pay a multiple of earnings for the remaining 49%. The atmosphere of pressure and the very limited time constraints have been mentioned. Copper is so central to the Chilean economy and Anaconda is such a large factor in the industry that the company knew it would be nationalized if it did not agree. Moreover, the earlier Kennecott settlement had established minimum terms for Anaconda. Few companies would consider acceptable the extremely high taxes on profits and dividends accepted by Anaconda; they are tolerable only because of the extraordinarily high world copper prices and the profitability of Anaconda's operations, which have been largely amortized over forty years. Also, the importance of Chile's contribution to Anaconda's total earnings (about 66%) cannot be overlooked; without at least a brief transition, Anaconda's corporate position would be seriously affected.

(B) *Anaconda Settlement and AID Legislation*: If the Chilean script leading to a negotiated settlement under pressure of nationalization is followed by other developing countries, this will undoubtedly discourage U.S. private investment in such countries, particularly in natural resources. The AID guaranty program will of course alleviate the effect of such potential action insofar as it can be directly equated to expropriation with inadequate or no compensation and where such guarantees are in force. The Anaconda problem and other problems that might develop over time should not, however, have an immediate effect on the pending AID legislation or on the legislation for the Overseas Private Investment Corporation. The Anaconda situation is clearly differentiated from Kennecott. Anaconda chose not to have expropriation guarantees in force during 1969, but rather to go on standby, i.e., to give up its right to coverage for an insurable event (expropriation) in order to save the insurance fees during that year. Consequently, regardless of the outcome of the Anaconda-Chilean negotiations, Anaconda would not have been able to make a claim for expropriation based on Chilean action during 1969. Kennecott is expected to be the next American company negotiating with Chile. Although Kennecott has its insurance on current status, the AID guaranty of this investment is solely on Kennecott's long-term debt interest and not on Kennecott's 49% equity interest. Moreover, the guaranteed debt would probably not be affected by a nationalization of Kennecott's equity because the debt servicing payments do not commence until 1972.



Therefore, it is highly unlikely that a substantial guaranty claim would be presented in the near term.

There is a further problem with regard to the AID legislation. The illustrative country programs prepared four months ago show an AID program for Chile for FY-70 of \$75 million, with \$40 million in program loans and other sums for sector loans. Members of Congress may well ask why the U.S. is planning to provide balance of payments assistance to Chile while that country is using its foreign exchange to buy out U.S. copper interests. This question will have to be reviewed as part of the over-all analysis of Chile's balance of payments situation late this year. No program loan was provided to Chile this year, although negotiations for a \$20 million loan were completed in March.

(C) *For Chilean/U.S. Relations:* The chief significance of the agreement, if it holds, is that it removes an abrasive, historical legacy. Anaconda, for decades the primary U.S. representative in Chile in economic, psychological and political terms, symbolized to Chileans their inferiority to and dependence upon the United States. Anaconda's after-tax earnings in the last three years exceed U.S. economic aid, although much of these earnings were plowed back in new investment in Chile. There is no longer a vast foreign state within a state dominating much of northern Chile, affecting significantly both Chile's foreign exchange and budget receipts, and permeating all aspects of Chilean economic life through its purchases.

(D) *For Chile's Domestic Politics:* Frei's Christian Democrats preempted one of the most important issues which could have been used by opposition parties of all shades from right to extreme left in the 1970 Presidential election. The agreement has unified the Christian Democrats around a "victory" for their leader and government and strengthened their hand for the 1970 Presidential campaign. It has provided a platform on which the dissident Party leader, Radomiro Tomic, widely conceded to be the Party's best votegetter and most likely standard bearer in 1970, can make his peace with Frei and go into the Presidential race with unified Party support.

(E) *Anaconda Agreement May Not Hold:* The positive advantages for U.S. policy occur only if the Anaconda agreement is carried out. For many reasons, the agreement may not hold. Caught unprepared by the sudden announcement of the agreement, the Marxist opposition parties have been very restrained so far and have not settled on a line of attack. They can be expected, however, to attempt to frustrate Frei's move to preempt the copper issue by finding or fabricating deficiencies in the agreement. They may well push even more vociferously than ever for outright nationalization or expropriation on terms less favorable to Anaconda. The left could be joined by the right-wing National Party, seeking to carve out an election plank for themselves by im-

proving the terms of the agreement for Chile. The pressures of next year's campaign preclude the hope that the issue can be removed from the political arena.

What is more, negotiations are about to begin with Kennecott. Its position to date has been that it has already ceded majority ownership of its subsidiary to Chile, and it is intransigent on payment of higher taxes. If Kennecott maintains this position in negotiations or in the Chilean courts, standing on the twenty-year tax guarantees in its present investment decree and other agreements, the Chilean Government has told our Ambassador that it is prepared to move to expropriate Kennecott. It will negotiate first, but is ready to introduce whatever legislation is necessary to obtain higher taxes. Any legislation might easily be amended on the floor to include a modification of the present Anaconda agreement or outright nationalization with only token or no compensation. All the political parties in Chile have come out for nationalization. The issue would then be whether President Frei would veto the amended legislation, and whether he could sustain such a veto. The 1970 Presidential election would loom large in such decisions.

No one can predict the 1970 election with certainty. It is likely that there will be three candidates: conservative former President Jorge Alessandri, supported by the Nacionales, independents, and voters of many persuasions; a Christian Democratic candidate, possibly Tomic; and a leftist or Marxist candidate, who could be Socialist Salvador Allende. The Christian Democrats obtained only 30% of the vote in March and could finish last. Anaconda is hoping that Alessandri will win and that the agreement can be re-negotiated on more favorable terms. While he may win, this hope seems illusory, given the political trends and strengths in Chile and Latin America. Salvador Allende was beaten by Alessandri by only 34,000 votes out of 1.2 million in the multi-candidate race in 1958, and Allende received 39% of the vote in an essentially two-man race with Frei in 1964. Should Allende win, his government might as its first act introduce copper nationalization measures to solidify his support.

**John P. Walsh**

*Acting Executive Secretary*

## 7. Memorandum Prepared in the Office of National Estimates, Central Intelligence Agency<sup>1</sup>

Washington, August 6, 1969.

### SUBJECT

Presidential Politics in Chile: Waiting for Don Jorge?<sup>2</sup>

In this memorandum we examine political developments in Chile over the past year and speculate about their implications for the September 1970 presidential election. For some years the electorate in Chile appeared to have been moving steadily to the left and in the 1964 presidential election nearly all the votes were garnered by the victorious Christian Democrats or by the coalition of Socialists and Communists. Nonetheless, the most striking and possibly the most important political development in the past year has been the extraordinary rise in popularity of a decidedly right-of-center figure, former President Jorge Alessandri. Apparently, despite the social advances made under President Frei's "Revolution in Liberty," much of the polity has chafed under it. Some, including a significant group from Frei's party, want more emphasis on "Revolution;" others want instead more stress on "Liberty"—that is, liberty from social change and political turbulence. The latter are gravitating toward Alessandri, who is looked upon as a sort of political *patrón* who can "get things done" without turmoil. Of course, anything can happen between now and the casting of ballots in September 1970, but for the moment the political health of the 73-year-old Don Jorge stands out in sharp contrast to the political ailments of the various leftist parties.

1. Chile has always presented something of a paradox. It is famed for its democratic institutions, political stability, and apolitical military. Its ideologically based parties are more like those in Europe than the personalistic vehicles that abound in most other Latin American countries. It can boast of a number of economic and political institutes that have contributed outstanding international civil servants to the UN and the OAS. Data on the social and economic ills of Chile have been

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<sup>1</sup> Summary: This report assessed the strengths and weaknesses of the political parties in Chile as the 1970 election loomed. It concluded that Alessandri's ascent could easily be reversed and that the political situation was very fluid.

Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 128, Country Files, Latin America, Chile Wrap-Up. Secret.

<sup>2</sup> This memorandum was prepared by the Office of National Estimates. It has been discussed with representatives of the Office of Current Intelligence, the Office of Economic Research, and the Clandestine Service, who are in general agreement with its judgments. [Footnote is in the original.]

systematically collected for years (cost of living indexes were being kept as far back as 1913), and major problems have been repeatedly analyzed. Yet solutions to most of these problems have not resulted: distribution of land and personal income remains inequitable, agricultural productivity remains low, and inflation is still chronic.

2. It has long been accepted as a truism that the Chileans have become increasingly impatient with these conditions and that the electorate has steadily been turning to the left. The victory in 1964 of Christian Democrat Eduardo Frei and his efforts to initiate a “Revolution in Liberty” brought about some important social changes. His government has made a significant start in carrying out an agrarian reform program, markedly expanding social services, and helping to bring about a large increase in the real income of the poorer classes. Yet as Frei’s term approaches its end, the front runner for the 1970 election is a decidedly right-of-center figure, the 73-year-old former President Jorge Alessandri Rodríguez.

*The Redoubtable Don Jorge*

3. When Alessandri was elected president in 1958, his victory was regarded by many to be the “last chance” of the traditional conservative elite to solve Chile’s recurring problems. Although 1958 marked the debut of the Christian Democratic Party (PDC) under Frei in a presidential election, the real contest was between Alessandri, an industrialist and son of a former president, and Salvador Allende, the candidate of a strong alliance of Communists, Socialists, and other leftists—the Popular Action Front (FRAP). Winning slightly over one third of the vote, Alessandri barely defeated Allende while Frei placed third.

4. Remembrances of Don Jorge’s administration would hardly seem to explain the extent of his present popularity. A stout defender of the virtues of private enterprise, Alessandri initially made economic austerity his principal policy. A capable and honest administrator, he managed to raise taxes, lower expenses, and even balance the budget in 1959 (for the first time since his term as Minister of Finance in 1950). His regime on balance was a competent but not an inspiring one; it coped reasonably well with the emergency situations caused by a series of earthquakes and tidal waves that took thousands of lives and caused more than \$200 million worth of damage in 1960. Although the economy expanded at the annual rate of about five percent a year, little was accomplished in the social field and the workers bore the brunt of the austerity program.

5. It is difficult moreover to imagine a candidate more *antipático* in the usual political sense. Alessandri, who compares himself with General de Gaulle, presents a cold aloof image and appears openly to disdain the people he once governed and would govern again. While a

sympathetic biographer says that he is not oblivious to public demands, Alessandri has had as little contact with the masses as possible and eschews popular demonstrations.<sup>3</sup> Stories of his parsimonious ways are legend; in contrast to his predecessors who entertained lavishly at *La Moneda* (the Chilean White House) Alessandri was said to have made his few guests feel that they had been invited to a fasting. Summing up the characteristics of the former president, the same biographer noted that his “stubbornness and conceit were outweighed by his sobriety and austerity.”

6. Yet apparently these rather forbidding personal qualities do have a strong appeal to many Chileans and have helped create Don Jorge’s remarkable popular following. Among his supporters are those who feel that Frei’s “Revolution in Liberty” has gone too fast and those who feel that it has not brought them any real increased benefits. The former include the business classes, traditional agricultural elites, and white collar workers; the latter encompass many lower income people in both the cities and the countryside. All look to Don Jorge as a man worthy of respect—a man above parties and politics, with links to no special interest, and above all someone who can “get things done” with a minimum of social turmoil. Most of his supporters seem to have forgotten the social torpor of the Alessandri years but remember the relative political calm. In evaluating his tenure, Alessandri was proudest of the fact that there were no “social disorders in my regime, no state of siege.”

7. Alessandri has made no strong efforts in recent months to warm up to voters or politicians. Having maintained a position of political independence, he has been assiduously courted by the rightwing National Party and rightwing elements from the heterogeneous Radical Party but has kept these suitors at arm’s length and made no firm political commitments. Nonetheless his campaign strategy seems especially geared to exploit their hopes. The former president has indicated that he will wage a “realistic campaign that does not make sweeping promises but concentrates on the day to day problems and bears in mind the country’s true economic capabilities.” Under the slogan of “*Cosismo*” (the ability to achieve) he means to show that his achievements will be small but constant, as opposed to large but unfulfilled promises. Furthermore he will pledge to curtail the influence of “all powerful and disruptive agencies with vaguely assigned responsibilities” (for that read land reform institutes and other social agencies

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<sup>3</sup> An American observer tells how he saw Alessandri enter the opera to a standing ovation from the rest of the audience. Rather than acknowledge the applause with any of the ordinary politician’s gratitude, he shook his fist indignantly—which only set off a new round of tumultuous applause. [Footnote is in the original.]

sparked by the Christian Democrats). Alessandri's platform finally will emphasize efficiency not only of government agencies but of private industry as well. In this category, he promises to crack down on all corruption and bureaucratic fecklessness.

*Healthy Candidate—Ailing Parties*

8. Alessandri has to be considered the front runner, not only by his supporters but also by Christian Democrats, Socialists, Communists and Radicals who see the aging former chief executive in surprisingly good personal health and their own organizations politically ailing. Various political soundings including informal opinion polls have consistently shown Alessandri's popularity to be greater than any candidate of the other parties. The congressional election of 2 March 1969 furthermore showed that the promise of his return could breathe new life into the once moribund National Party. By huddling under his mantle the party of the traditional elites managed to increase its share of the vote from 14.3 percent in the 1967 municipal election to 20.0 percent, thereby emerging as the second largest party in the country.<sup>4</sup> The personal impact of the former president on this victory was underscored by the extraordinary success of two National candidates for deputy—both of whom happen to bear the name Alessandri. In one district an Alessandri niece, Silvia, a housewife yanked from domestic obscurity, topped a field of 81 candidates including a PDC presidential hopeful. In another a nephew, Gustavo, amassed a substantial personal vote and also led the National Party ticket to significant gains.

9. The Alessandri surge has only exacerbated the ideological strains and factions within the PDC. The pro-government "*oficialista*" wing recognizes the trend toward a candidate who represents austerity and stability but it has been challenged on its left by the "*rebeldes*," some of the most articulate and innovative elements of the party. This loose faction, which included one of the original founders of the party, a principal ideologue, and several youth leaders, has felt that Frei's slowness in enacting reforms represents a capitulation to the forces of the right. They have charged the government with forsaking the old Christian Democratic objective of a "noncapitalist way of development," and deplored one repressive action in March 1969 when government security forces shot and killed squatters in the process of

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<sup>4</sup> The chief parties received the following vote:

Christian Democrats	29.7 percent
National Party	20.0 percent
Communist Party	15.7 percent
Radical Party	12.9 percent
Socialist Party	12.2 percent

[Footnote is in the original.]

evicting them. Disputing the traditional policy of the PDC of avoiding electoral alliances, the *rebeldes* argued that the only way to defeat the right in 1970 is to form a pact with the Marxist parties or elements from them. The *rebeldes* received some support in this and other stands from yet a third group within the party, the "*terceristas*." This latter group is also disgruntled with the government's performance but is more willing to work with the party leadership.

10. Frei and the *oficialista* wing have managed to control the party's direction but not without fracturing party unity. The March election strengthened the *oficialista* position as candidates running on the government line generally did better than the *rebeldes*. At the subsequent National Convention in May the proposal of the Frei wing to run alone barely defeated the *rebelde* position of "popular unity" with the left. Nevertheless this victory cost the party its *rebelde* group, all of whom resigned or were subsequently purged. This faction has now formed its own electoral vehicle, the Action Movement for Popular Unity, and is currently working for the movement its name implies. Moreover "popular unity" still has some appeal within the *tercerista* faction and many continue to lobby for it within the old PDC.

#### *The Maverick Role of Tomic*

11. Indeed, the most significant proponent for "popular unity" also happens to be the PDC's most significant presidential hopeful, former ambassador to the US Radomiro Tomic. Of the various PDC figures, he commands the broadest support within the party and has long been considered the natural successor to Frei. Yet he is convinced that the PDC cannot go it alone in this election and that it must unite with the Communists and other members of the Marxist left if it is to have a prayer first of defeating Alessandri and second, once in office, of effecting social change. Entreaties to both the domestic Communists and the Soviets in his recent trip to Europe have been in vain but he continues to advocate a united left for the 1970 election. At the same time he has indicated that as a "disciplined PDC militant" he would submit to a party draft, apparently with or without such unity.

12. The politics of copper have further complicated the issues of Tomic's candidacy and the political fortune of the PDC. The government's announcement that it would pursue a policy of "negotiated nationalization," by buying up 51 percent of Anaconda Copper's holdings now and the remainder sometime after 1972, has been opposed by an alliance of the Communists, Socialists, dissident Christian Democrats, and the left leadership of the Radical Party. With the reluctant support of the Nationals, Frei has at present sufficient strength in Congress to block leftist bills calling for immediate nationalization. The president has also attempted to exploit this issue to widen the gap between the PDC and the Marxist parties.

13. In this endeavor, Frei has not yet succeeded in containing Radomiro Tomic. The former Ambassador is basically opposed to the copper accords and has espoused immediate nationalization. Although he continues to be the leading aspirant for the PDC nomination when the party convenes in August, differences within the party would be likely to hurt his electoral chances. Tomic and Frei have agreed not to air their differences publicly but others may not be so reticent. Tomic' advocacy of an agreement with the far left and by extension between the PDC and Communist labor organizations is likely to be rejected by the leftist parties and prove anathema to the PDC right. Some of the right and even the center of the party would probably turn to Alessandri if Tomic were the nominee.

*Infighting on the Far Left*

14. "Solidarity forever" is also far from being the theme of the parties on the Marxist left. While the Communist Party has been far too suspicious of Tomic to unite under his banner, it has also had its own difficulties in maintaining the formal unity of the FRAP. The party is quite conscious of Alessandri's drawing power and feels that he can be beaten only by an expansion of the FRAP, but such a movement is being jeopardized by its fractious partners, the Socialists. The Communists would like to include the left wing of the Radical Party in such a coalition but this inclusion is scorned by the Socialists who regard the Radicals as a "bourgeois" party.

15. The growing influence of the more militant revolutionaries in the Socialist Party could further complicate the prospect for electoral unity in 1970. A recently concluded party plenum conceded the impossibility of electing a Socialist president but urged that one be nominated to carry the revolutionary program to the people. While the Socialists have not rejected the concept of a popular front, they have demanded that all participants adhere to the Socialist platform and have refused to back any candidate other than a Socialist. As a portent of future difficulties, Communist observers to the plenum were coolly received and Communist parties in general were actually denounced by hardliners on the Central Committee as "traitors to the Revolution in Europe and Latin America." A small far left terrorist group, the Movement of the Revolutionary Left (MIR), and the Socialists' linkage to it are another sore source of contention. The Communists have always feared the capability of such radical left groups to make inroads into Communist support among youth, as well as their potential for triggering a general crackdown on the left or a military coup. After a raid by the security forces uncovered a MIR arms cache, the Communists were quick to denounce the group.

16. Despite protests of political purity from the Socialists some sort of coalition could be effected in the year before the election. The split in



the Radical Party between the leftist leadership and the rightist faction which bolted to support Alessandri has made it weaker, more ideologically homogeneous, and therefore more acceptable in a future pact. The emergence of the Action Movement for Popular Unity has also been beneficial as it offers a number of attractive figures as possible compromise leaders of a united left. Lastly the Communists hope to benefit from Fidel Castro's recent temporizing on the adherence to the Soviet line. For years his harsh criticisms of the soft-line Chilean Communist Party has sharpened its differences with the Socialists. A more neutral Castro, it is hoped, would help smooth over inter-party relations as well as isolate the far leftist MIR, preventing it from making inroads into Communist youth.

17. The major and possibly insurmountable problem for a broadened FRAP will be finding a candidate acceptable to all factions and parties. The past electoral standard bearer of the left, Salvador Allende, has indicated his willingness to lead once again and has professed the necessity of forming an all inclusive "Fatherland Front." Yet there is some doubt that he could gain the nomination of his own Socialist party. Despite his close personal ties to Fidel Castro, he has been under steady fire from the more militant revolutionary leadership of the Socialist Party. Although he maintains considerable prestige and popularity among the rank and file, he has been outmaneuvered at party conferences by this leadership which maintains strong control over the party machinery. Even if he is successful in gaining the nomination, Allende has stipulated Socialist acceptance of the "Fatherland Front" as a pre-condition to his running in 1970. The rejection of either his candidacy or his platform could lead to two rival leftist slates on the ballot, a militant Socialist and a catchall leftist conglomerate dominated by the Communists.

18. Factional bickering is only one of the factors with which the left has to contend. In a reversal of its apolitical stance of the past 30 years, the Chilean military has shown signs of increasing uneasiness over the spectre of a Communist dominated government. Military leaders have raised the possibility that they would stage a coup at some time before the election if they saw such a leftist victory in the offing. Apparently, there are, as yet, no definite plans for such a takeover and no recognizable faction of perennial plotters of the sort that weave around other Latin American military establishments in *pre-golpe* situations. Before any pre-emptive coup the military would probably attempt to garner widespread civilian support; high military officials are even hopeful that Frei would act as a front for any government they might set up. How the increasingly current rumors of these developments will affect the prospects for a leftist front is at present not clear.

*Implications for 1970 and Beyond*

19. Much of course could happen in the next year to undermine Alessandri's present lead, including a setback to his health. A strong left coalition, should one emerge, would present a formidable challenge. For the present it is significant that Alessandri's political ascent seems to have thrown the traditional parties into disarray. Even before the March election, a sense of defeatism crept into the ranks of the Christian Democrats. In January a bill proposed by the Frei government which would have given future presidents the power, once in a presidential term, to dissolve Congress and call for a new election was defeated by the abstention of thirty Christian Democrats who feared that Alessandri not Tomic would be the first to implement it.

20. To some extent, the outcome of the election will be influenced by the country's economic performance. Part of the PDC's malaise and the improving fortunes of rival political forces can be attributed to the worsening economic problems of the last two years. The costs of social reforms and the growing political turmoil have had a detrimental short-term effect on the economy. These economic problems in turn prohibit a continuation of the rapid social gains of the early Frei years and place severe constraints on the government's ability to fulfill the popular expectations stimulated by his own "revolutionary" program. Already beset by both economic stagnation and rapid inflation, the administration has found its range of policy options further limited by the effects of a prolonged drought. As the election approaches, the government will be even more tempted to follow expansionary fiscal and monetary policies than in the past, but the resulting increase in the pace of inflation could have serious political consequences. In sum, the administration will be forced to choose among unpalatable alternatives—none is likely to greatly boost its political fortunes.

21. The diffusion that marks the present pre-election scene is in vivid contrast to the polarization between the Marxist left and the center left and right that characterized the period before the 1964 election. Then the fear of a Marxist president combined with the fresh appeal of the PDC gave Frei his comfortable majority. Now uneasiness over the PDC's performance and the inability of the established parties to provide an alternative merely enhances the appeal of Alessandri as a sort of political *patrón*, an estate manager who remains aloof from party politics.

22. Yet Alessandri's growing popularity probably does not mean that Chile is swinging in any very definite or permanent way from a leftward to a rightward trend. Alessandri's appeal is probably more personal than ideological in that he evokes a traditional "strongman" image. His polling strength has been estimated to be about 30 to 40 percent at the electorate. This in itself poses nagging questions as to his

tenure and the future of the constitutional system as well should he win a plurality. As elections in which no candidate receives a majority are thrown into Congress, would the present Congress, which is dominated by forces of the center left and left, confirm the wishes of the rightist minority that gave Alessandri his plurality—especially if it were a spare one? If Congress voted against Alessandri, would the military stage a coup on his behalf?

23. It is a fair assumption that even a hostile Congress (especially one threatened by a military coup) would not attempt to nullify an Alessandri victory, if one came to pass, and jeopardize the constitutional system. Assuming an orderly succession, Alessandri still would face a troubled tenure. Economic problems would be intensified by pre-election spending and he would be likely to come into office with no clear mandate for any specific policy other than “cleaning up the mess in Santiago.” He would inherit the present Congress (at least until elections in 1973) in which he has little support and incurs much animosity for his contempt of politicians. Because of this latter trait Alessandri has furthermore aroused suspicions that he intends somehow to rule without Congress and with the military.

24. Although he apparently has no intention of overturning the social programs of the Frei government, Alessandri, if he gains office, would probably be under pressure to do so by his conservative backers. At the same time Alessandri as president could not help but be caught up in the demands for continued evolutionary or revolutionary change. Such demands are evoked by parties or groups that may be presently divided and at odds but nonetheless continue to represent a large proportion of the Chilean electorate. How all of this would affect his style of government is difficult to say at present, but he and other Chileans would probably soon find out that the estate had changed considerably since Don Jorge turned over the keys five years ago.

## 8. Central Intelligence Agency Weekly Review Special Report<sup>1</sup>

Washington, August 15, 1969.

### THE CHILEAN MILITARY ESTABLISHMENT

Chile's armed forces are reputed to be among the most apolitical in Latin America. They have not actively intervened in the government since 1932, a record equaled in few other countries in the hemisphere. The armed forces as well as the police are respected for their professional attitude and capability, although deficiencies in training and equipment are becoming more pronounced.

As a result of its financial difficulties, the government has not provided much modern equipment for the armed forces. Some officers are beginning to view this as an indication that the civilian government is indifferent to the military requirements of the country and of the fighting forces. Furthermore, some conservative officers are concerned that a Communist-supported candidate may be elected in the presidential election next year, and that such a development could provoke intervention by neighboring countries. Younger officers are being influenced by actions of the armed forces in Argentina and Peru. There is growing talk, therefore, of increasing the military's influence over the government.

### HISTORICAL BACKGROUND

During colonial times the army was the mainstay of the government. Because of the army's small size, a militia was developed to supplement the regular army. Most of the militia officers were young native-born colonials, and the militia was an important factor in the struggle for independence.

Chile maintained a relatively democratic political system until 1924. At that time, disgusted with the country's economic situation and with extensive political bickering, a group of conservative generals dissolved Congress and forced the resignation of the president, Arturo Alessandri. Early the next year a more liberal group, led by Colonels Carlos Ibanez and Marmaduke Grove, led a coup against the conserva-

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<sup>1</sup> Summary: This Special Report, prepared in the Offices of Current Intelligence, Economic Research, Strategic Research, and in the Directorate of Science and Technology, concluded that the Chilean military was one of the best-trained and least-political in Latin America, but that certain conditions might be enough to spark a military junta or coup.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 773, Country Files, Latin America, Chile, Vol. I. Secret; No Foreign Dissem. Issued by the Office of Current Intelligence to supplement the *Current Intelligence Weeklies*.

tive junta and brought Alessandri back to serve out the remainder of his term. During 1926 and 1927 Ibanez became concerned about the inefficient way the government was being run, and in the 1927 election he managed to win the presidency. Coping with the effects of the depression, which hit Chile very hard, was too much for him, however, and he resigned in 1931. A spokesman for the oligarchy was elected to replace him. In June 1932 Grove, by now head of the air force, led a coup that established a "socialist republic." Twelve days later he was overthrown by a conservative military group. An election was held in October, and Arturo Alessandri was again elected president. After this time, the military remained out of politics. In fact, a "republican militia" backed by respected elements in society and politics was formed to make sure that the armed forces confined new activities strictly to military matters.

Since the 1930s the Chilean armed forces have been concerned primarily with what they see as a threat from Argentina and with improving their internal security capability. Only in recent years have salary difficulties and increasing internal security problems caused them to renew their active interests in politics. Many Chileans look upon the 1927–32 period as one of aberration in the face of economic disaster and believe that an apolitical military establishment is the only possible system for their country.

#### COMPOSITION AND CAPABILITIES

The Chilean armed forces are among the most competent and professional in Latin America. There are 23,000 men in the army, 14,000 in the navy, and 10,000 in the air force. The carabineros, or national police force, have 24,000 men. The armed forces' equipment, however, is for the most part obsolescent. This situation is responsible for some of the most bitter complaints by the younger officers against the government. They see the Argentine armed forces receiving modern weapons and fear that these weapons may one day be turned against Chile.

The air force in 1966 began a program of purchasing subsonic Hawker Hunter aircraft from Great Britain. The air force would like to buy F-5s from the United States, but budgetary considerations and the prospect of a cutoff of US economic aid if such equipment is bought have delayed any such negotiations.

The navy, too, is plagued by aging equipment. Although it carries two submarines in its inventory, one is in overhaul and the other is in only slightly better condition. Argentina's purchase in 1968 of an aircraft carrier of World War II vintage triggered considerable uneasiness in the Chilean Navy.

The carabineros are a professional national police force of extremely high standards. They probably would be able to contain civil disturbances, even if these were widespread. If the unrest continued



Chilean Army Troops

over a long period, however, they probably would be forced to call on the army for help. The army recently has been increasing its internal security capability, but it is still likely to rely more on firepower than on less drastic riot-control techniques.

Although the armed forces have remained out of the political mainstream, they are very much a part of Chilean life. They are entitled by law to a percentage of the revenues from the copper industry. Many military officers are bitter because they claim that they have not been receiving this money and that, in fact, the government owes the armed forces a great deal of money.

In addition to these budgetary privileges, the military courts have certain judicial prerogatives that are regularly exercised. Military courts have jurisdiction over civilians who abuse the military as an institution, abuse individuals because they are members of the military, or insult the national flag. They also have jurisdiction over crimes against the military whether committed by military or civilian personnel. In 1968, a Socialist senator was convicted of insulting the military and was jailed for some time. A newspaper director was also jailed briefly. Such actions do not cause much outcry, even among Chileans who are most conscious of their civil liberties.

#### CHANGING POLITICAL ATMOSPHERE

Although the armed forces have become increasingly sensitive to the political situation in Chile, they have not yet broken with their tra-

ditional stance of avoiding unconstitutional acts and direct political involvement. A substantial number of higher ranking officers believe, however, that extraconstitutional change will become necessary to break the current stalemate between the executive and legislative branches. They also believe that the military should be given a greater voice in the formation of foreign policy.

Another important factor contributing to the military uneasiness is the possibility that a Communist-supported candidate such as pro-Castro Socialist Salvador Allende could win the presidential election scheduled for September 1970. It is possible that if the Socialists, Communists, and Radicals could combine in an electoral coalition, and if the candidate of this coalition were clearly leading the field, the military might undertake a coup. Such a move would be most likely to come before the election, to avoid the appearance of deliberately flouting the popular will.

This sentiment for action against a leftist government is by no means held universally within the armed forces. Many officers are reluctant to undertake the task of government themselves. In addition, they believe that they could not be much worse off under a leftist government than they are now. Military men holding such opinions probably would take a wait-and-see attitude toward the government. Younger officers, in particular, are more likely to respond to leftist ideology and thus would be more willing to accept a leftist president unless he ignored the sad state of equipment and training in the Chilean armed forces or moved overtly against military institutions and traditions.

Events in neighboring countries are having an influence in Chile. The military take-overs in Brazil, Argentina, and Peru have given many Chilean officers food for thought. They see these governments attempting reforms without being hampered by political bickering; they wonder if similar methods might work in Chile.

There are reports that representatives of the Brazilian and Argentine armed forces have talked with their Chilean counterparts in the hope of influencing them toward a more interventionist attitude. Argentine leaders are known to be concerned that a far-leftist government might come to power in Chile. In fact, some Argentine officers believe that even the Frei government is much too leftist for comfort. This attitude has convinced some Chilean officers that if Allende or a similar candidate were elected and allowed to take office, his government would be threatened by Argentine military action, on the pretext of an incident along the long, ill-defined Andean border. With this fear in mind, they might favor moving against a leftist government to avoid the threat of Argentine action, which would consolidate public support for whatever government was in power in Chile at the time.



Carabineros Arresting  
Demonstrators



Strikers Repelling Carabineros  
With Stones

Many military officers believe that former president Jorge Alessandri would be an excellent person to head a military backed government. Alessandri is presently in a very strong position with respect to the presidential race and could win a plurality of the votes next year. If no candidate wins a majority, however, congress decides between the two top vote-getters. Should Allende be the runner-up, the leftist congressmen might vote for Allende. Under these conditions, the military well might step in to install Alessandri as president.

A restraining factor in any military action against the government is the lack of strong leadership at the top. In addition, the assistance, or at least the acquiescence, of the carabineros would be essential to any successful coup.

#### INTERNAL SECURITY PROBLEMS

The increase in terrorism and violence has begun to worry both the military and the carabineros very seriously. Should there be any widespread breakdown of public order, the military might well feel compelled to take direct action. The extent of the military's concern is indicated by a memorandum circulated within the army in June 1969. This document warned that insurgency is expected at any time after July 1969 and could take place in widely separated areas. Senior officers are warned to take extra precautions to avoid being kidnaped by subversive elements.

During the past 12 months subversion, including both street riots and isolated acts of terrorism, has risen markedly. Opposition elements have increased their ability to create civil disorders. These activities have been led by the youth wings of the Communist and Socialist parties and the extremist Movement of the Revolutionary Left, which is suspected of being the paramilitary arm of the Socialist Party.

In June two terrorist bases were discovered—a "guerrilla training school" in the Santiago area and an arms cache farther south. Bombs, weapons, and maps of military bases and other strategic locations were



found at both sites along with evidence that the Socialist Party was heavily involved.

This development would increase the armed forces' concern—and possibly their willingness to intervene—if the Socialist candidate appears to be winning the presidential election.

### OUTLOOK

As the presidential election nears, reports of military plotting against the Chilean Government are certain to increase. To some extent the military will simply be indulging in the time-honored Latin American practice of keeping an eye on the civilian politicians. It seems probable, however, that widespread public disorder coupled with a strong leftist candidacy could provide the spark that would impel the military to move into the government.

Such action could take a number of forms. The military might form a junta such as the Peruvian armed forces did after their coup in October 1968. They would be more likely, however, to find a prominent civilian to run the government, drawing on technical expertise to undertake the necessary reforms. Frei reportedly has been approached, but has flatly refused to be party to such an action.

Violence will continue to be a problem, especially if the government attempts to hold down on wage increases to combat the soaring inflation. In addition, Socialist provocateurs could take advantage of rural grievances over land reform delays to carry out more "invasions" of land holdings. It was under similar circumstances that eight people were killed last March in Puerto Montt, causing serious political repercussions.

The provocation for a coup in Chile would have to be relatively grave, considering the weight of tradition that is on the side of constitutionality. Nevertheless, the apolitical nature of the Chilean armed forces can no longer be taken for granted. (*SECRET NO FOREIGN DISSEM*)

# A Spoiling Operation: The 1970 Chilean Presidential Election, January 1–September 4, 1970

## 9. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, July 17, 1970, 1620Z.

2714. Subj: Chile: Election Perspectives #4 (Part I of II parts). Ref: Santiago 2210.

1. Summary: After eight months of thundering boredom that served primarily to align the committed, the Chilean Presidential campaign has finally entered that final phase in which the uncommitted 15 to 20 percent of the electorate are in the driver's seat. Although the current lineup of Alessandri, Allende and Tomic appears to be congealing into that ranking, there is, at least theoretically, time to juggle the order. Increasingly, it is the present President that is emerging as a quasi-contender; the three candidates being what they unfortunately are, Eduardo Frei's comparative stature and influence grow daily. Since law and order dominated the electoral events and effluences of the past month, and since that issue revolves around governmental behavior, a lame duck can paddle up a froth of apologies or set his tail churning for solid shore. Frei has clearly decided to be purposeful [garble] consequently, the Presidential race for 1970 is taking on the appearance of the 1964 contest between Frei and Allende with Alessandri at this time the obvious beneficiary. (End summary)

2. "Shall we have a convulsed or tranquil republic," de Toqueville asked of France almost a century and a half ago. This question now dominates the Presidential campaign. It is the issue that has propelled Frei directly into the competition for ballots. All previous elections in Chile had their quotas of violence; the novelty in the current campaign

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<sup>1</sup> Summary: Korry conveyed his understanding of the political climate in Chile just prior to the 1970 Presidential election, noting that the election was shaping up to be a battle between the independent conservative candidate, Jorge Alessandri, and the Popular Unity candidate, Salvador Allende, with Alessandri in the lead. Korry focused on the role the issue of "violence" would play in the upcoming election.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Secret; Limdis. Repeated to USCINCSO, Asunción, Bogotá, Brasilia, Buenos Aires, Caracas, Guatemala, La Paz, Lima, Mexico City, Montevideo, Panama, Quito, Rio de Janeiro, San Salvador, and Santo Domingo. Reference telegram 2210 from Santiago, June 12, is *ibid.*, RG 59, Central Files 1970–73, POL 14 CHILE.

is that there is one group (the MIR), small in number but with a not insignificant layer of sympathetic support in the Socialist Party, that is opposed to holding elections. It is far less the MIR's still modest activities than the responses to them of the parties and of the factions within parties that has shoved the law and order issue to the polemical forefront in the remaining 45 days of the campaign.

3. From the start, the Alessandri forces have sought what is called here the "violence" issue. Given a septuagenarian candidate without a program, at least none that is worthy of the name, and without a party, at least none (the Nacional) that he was willing to admit as his own, his shrewder supporters reckoned that any hope of broad mass appeal rested on the transfiguration of their palsied candidate into a patriarchal figure. To accomplish this metamorphosis in which Alessandri would be presented as the above-party restorer of serenity, the menace of violence and of convulsion was indispensable.

4. Left to their own devices, these Alessandristas would have continued to contrive clumsy provocations of the type that had their standard bearer venture in March into the strongest holds of Marxism such as the coal mining district. When one such foray led to a clash and to the stoning of Alessandri's (empty) auto, his backers in the media kicked the violence gong. Even if I were to assume that Alessandri's physique and spirit could tolerate more such escapades, this tactic could hardly suffice to provoke a meaningful response, particularly from the highest priority target group, the women.

5. It was the followers of Che and of Fidel, the well-educated and romantically inclined sons and daughters of the bourgeoisie who comprise the MIR, who fell in with the plans of the Alessandristas. Committed to revolution, this mod squad of Marxist delinquents set out to "convulse" the country and to do in both Tomic and Allende. A couple of bank robberies, a few powerful bomb explosions and some similar noisy but harmless derring-do the past two months drew the desired headlines. The police added to the bubble of words by stumbling across a guerrilla training camp in the south. The death of two high school students in Santiago in deliberate provocations of the police brought the "violence" controversy to a boil.

6. The Communists, Tomic and Allende were of one outraged and negative mind. Violence could only benefit Alessandri; violence could only disrupt their electoral tactics; violence could only divide their followers.

7. The PCCh, with its memories still fresh of its experience as an illegal and persecuted party, with its dread of a repressive military regime and with its conviction that the constitutional process offers it and the Soviets the most dividends, was clamped into an unwelcome bind. The party had just negotiated a *modus vivendi* with Castro after

months of effort in Moscow in the hopes of keeping the MIR and sympathetic Socialists in docile line until the elections. It had steadfastly rejected Allende's pleas for funds so that at the minimum the PCCh alone would grow by its energetic efforts to register and to influence workers, campesinos, and intellectuals. The MIR tactic exposed the fundamental breach between Communists and Socialists, particularly that majority of the PS Central Committee that is hard-line revolutionary, anti-Moscow and anti-Allende. Even more significant in electoral terms, violence alienated the weakest link in the Popular Front, the Radical Party, whose clientele is the biggest swing element of the electorate. Allende was forced to disown the MIR publicly. But he and the Communists could not disavow the Socialist insistence to exploit the violence by a general strike last week, a tactic that failed miserably, that produced abrasive recriminations within the Popular Unity camp and that briefly united the PDC, the GOC and the Alessandristas.

8. For Tomic and the PDC, violence was no less a damaging issue. The ex-Ambassador to Washington has predicated his campaign on an appeal to the left, on his *de facto* rebaptism of his party as "the Christian left" and on his assumption that he will be elected President by the Congress and govern thereafter with Communist cooperation. His vision of a new society incorporates the beliefs that Chile today is not only inefficient because of its neo-capitalist structure but unjust because of its "institutionalized violence". This latter term is an echo from many Roman Catholic as well as Marxist documents and refers both to the imperfect distribution of income and [garble] and to police and armed forces that maintain these legalized asymmetries. In the crunch over "violence", Tomic, who is anything but inconsistent, stuck to his guns; he hammered at institutionalized violence while seeking to avoid an open split with the Frei govt. While paying homage to the high reputation of Chile's carabineros, he implicitly blamed Frei for not avoiding violence and pressed this past weekend for the removal of the head of the carabineros and the Minister of Interior.

9. Frei rejected the demand and continued the subtle but no less steady drift from Tomic and his platform. Following up the June nationwide TV-radio denunciation by the MinInterior of MIR and rpt [PR] and Socialists for provoking violence, Frei in his northern tour last week rejected in toto the institutionalized violence theory to concentrate his fire on the provocateurs and to emphasize that his govt was going to maintain law and order by conventional means albeit without seeking confrontations. More interesting for its political impact is the stress that Frei is giving to "liberty" and to "democracy", the two words that distinguish his party and his philosophy clearly from that of Marxist-Leninists and the two words that Tomic won't employ against Allende or the Communists.

10. These plays within plays have offered that singular character Alessandri the chance to slip into the role he has long been seeking. “Alessandri is tranquility” is the slogan that is heard on all radio stations. To this has been added a massive publicity drive that the Communists call the campaign of terror and the Nacionales term the campaign of truth. Its message is simple: that Allende means a Communist regime in Chile. This ploy provided Frei a big majority over Allende in 1964 and every Chilean political group is agreed that this fear is a powerful dissuader to the two groups that will determine the outcome of this election—the women and the Radical clientele. (End Part I)

Korry

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**10. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, July 17, 1970, 2334Z.

2726. Subj: Chile: Election Perspectives #4 (Part II). Ref Santiago 2714.

1. Ever since Machiavelli argued the distinction that half of men’s actions were ruled by chance and half by men themselves, most of us have consciously sought to change that balance. For politicians, the interplay between Machiavelli’s fortuna and vertu—a crude anticipation of the Freudian trinity of id, ego and super-ego—is most evident at election-time.

2. It has been my belief, not at all shared unanimously, that any Christian Democrat could have easily won this election. All he needed as tactics, whatever his eventual program, were (A) the polemical dismissal of a 74 year old opponent as an absurd proposition (B) a firm hold on Frei’s coat-tails (C) the pledge of still more rational reforms and (D) a conscious distinction between Revolution in Liberty, the Frei win-

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<sup>1</sup> Summary: In this continuation of telegram 2714 (Document 9), Korry gave a detailed analysis of the three Chilean Presidential candidates—Radomiro Tomic, Jorge Alessandri, and Salvador Allende—and their platforms, and offered his insight into the ongoing Presidential campaign. Korry predicted that Alessandri would ultimately gain support at the expense of the other two candidates.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Secret; Limdis. Repeated to USCINSCO, Asunción, Bogotá, Brasilia, Buenos Aires, Caracas, Guatemala, La Paz, Lima, Mexico City, Montevideo, Panama, Quito, Rio de Janeiro, San Salvador, and Santo Domingo.

ning slogan and revolution. Given the unanimous finding of all 1970 polls that a majority of Chileans regard the accomplishments of the Frei administration as better than average, given the incontrovertible evidences of Frei's unique popularity today and given the traditional Chilean proclivity to bestow sympathy on their outgoing leaders, the President, although a lame duck, was, by luck and chance, the trump ace in the electoral game. This judgment is essential to any understanding of what is transpiring.

3. Tomic is increasingly viewed by all sectors of opinion as a poor third in the race. Indeed some of his downcast supporters have told us they are concerned for the future of party and of Chile because they fear he may not even draw 750,000 of the 3 million expected votes. The question that perplexes most analysts is why a candidate that was doubtlessly beginning to hit on all cylinders only two months ago (see #2 in this series) could so ruinously strip his gears. One possible lengthy explanation follows.

4. From the time I met Tomic three years ago until today he has clung unwaveringly to these assumptions:

A. Alessandri would never stick out the campaign.

B. The Frei regime was basically a failure, or at best a transition, because it was seeking to reform rather than overturn an inherently rotten system.

C. Efficiency, including an end to the 80-year disease of high inflation and the beginning of consistent dynamic growth, required mass participation and mass discipline which, in turn, could only come from the active cooperation of the potent Communists and, perhaps, a sector of Socialists.

D. He alone could bring about the three "miracles" that would transform Chile—the understanding of the US that a society somewhat like Yugoslavia's is in the US interest, the sympathy of the Soviet Union because such a society would end US hegemony and capitalism, and finally the cooperation of the Communists.

5. Although Tomic had always maintained too that he would not be a candidate unless he was assured the support of the "popular parties," the stinging rebuffs of the Communists and Socialists persuaded him only to alter his condition to that of the "popular forces." He reasoned that this semantical modification was of ephemeral insignificance since he would surely be elected—without alienating the popular "forces"—and since he would enact a program that would be bound to forge a working arrangement with the Communists. Moreover he calculated that even if Alessandri remained in the race, his assumptions would compel the Marxist parties to vote for him in a congressional runoff with the ex-President.

6. The fact that the US Embassy did not rpt not at any time demonstrate any hostility or concern to Tomic led him to conclude that his first “miracle” had been achieved. The neutrality of the Soviet Embassy, the cultural accords signed by the Frei govt with Moscow and the manifest Soviet pleasure with Foreign Minister Valdes’ “opening to Cuba” persuaded Tomic that the second miracle had been fulfilled and that the third was only a matter of time. Reports from well-placed PDCers in the GOC and in the provinces that the Communists were listlessly going through the motions of an Allende campaign convinced Tomic, who was exultantly pulling grass-roots crowds, that he had been omniscient.

7. For his part Frei threw the enormous resources of the govt into the Tomic campaign. Funds were made available; inflation was braked by incredible effort to its present level of “only” 23.7 percent; inaugurations were timed to spotlight the PDC’s accomplishments; a public love feast between Frei and Tomic was held after the President’s final State of the Union message which, incidentally, came close to endorsing Tomic; foreign policy actions punctuated the harmony. The PDC was unified despite the profound divisions between its right (Frei) and left (Tomic) wings and the 30 percent that had voted for the party in 1969’s congressional elections was back in the fold.

8. Euphoria blinded Tomic. He ignored his vulnerability as a candidate who looks like a banker, talks like an archbishop and preaches “revolution.” He dismissed the fundamental antipathy of a great many Chileans to the PDC, to the same arrogance that underlies much of Tomic’s performance. He misunderstood the strength of Allende, the commitment to Allende of the Communists, the attraction of the bread-and-butter promises of the Popular Front and thus, miscalculated disastrously the calculus of Chilean variables.

9. If Allende is strong, there is a far stronger, much more primitive fear of violent disruption of life that translates into anti-Communism and preference for progressive change. What distinguishes Chile in Latin America is its very high degree of civility. It is civility that makes Frei so popular, that provides Chile such magnified international leverage and that makes “violence” such a litmus issue. Social engineers such as Tomic and a great many economists and political scientists with one preferred model, cannot quantify such intangibles as civility and therefore rarely perceive the real world in which they live.

10. Tomic and the Marxist parties make much of the 35 deaths that have occurred from police and army confrontations with strikers or demonstrators in the almost six years of Frei administration. By any hemispheric measure, that total is low. Yet the Marxists seek to exploit it as rightist repression and Tomic blames the system. Both understand the average Chilean’s outrage to any violence. At the same time they

unconsciously defy the civility that provokes such outrage by ignoring the obverse side of civility—a strong desire to avoid convulsion. They also forget when they attack carabineros that almost all Chileans desire more not less police for personal protection.

11. Violence cum anti-Communism put the already stalled Tomic drive (see #3 in this series) into reverse. Tomic chose to equivocate over violence and to continue his wooing of the left. Alessandri who had made every mistake in the book suddenly was handed a second chance.

12. The campaign requisites that had imposed mutual tolerance on Frei and Tomic no longer held sway. Frei was not about to accept culpability for student deaths; he was not at all disposed to accept a theory of institutionalized violence that would have made a mockery of his six years in office. On the contrary he reckoned that unless he moved to the offensive against the Marxists, not only he but Tomic and the PDC would suffer grievously. To admit guilt would be to endorse Allende.

13. Tomic has thus far held to his assumptions. The GOC and PDC have sought to divide the Popular Front by various polemics. But there has been no attack yet by Tomic on Allende or on the real nature of Communist plans. Tomic has thus converted the center terrain he held as a PDC candidate into a waffle iron. And as this notion has spread, a steady drift towards polarization between Alessandri and Allende has also occurred.

14. Alessandri has exploited his new life by defending law and order, by dismissing Tomic as a serious contender (instead of responding to his every charge), by hammering on his above-parties position, by comparing prices in his regime with today, by keeping open all options except “convulsion” and by being himself—a crotchety independent patriarch. His supporters have for six weeks mounted a tremendous anti-Communism media campaign. No rpt no candidate is mentioned but Allende and Tomic each have attacked the campaign as one of “terror”—the Communist term—and have blamed the supporters of Alessandri. One of Tomic’s brain-trusts is promoting a congressional investigation. The Nacionales have quickly reposted by saying they regard the campaign as one of “truth” and de facto assume responsibility. Moreover they are recalling that it was the PDC who benefitted from such a campaign in 1964 and they are also ventilating sub rosa threats of looking into Tomic’s financing.

15. With Frei mildly echoing the anti-Communist theme, the Marxists are accusing him of aligning himself to Alessandri and to North Americans. While there have been a few mentions of the Embassy and while the CIA receives a modest amount of publicity in leftist-spheres, a more recent and subtle line is being floated by the best of Allende’s stable. In brief, it says US Embassy reps have for some time



stated their lack of confidence in Alessandri's capacity to govern in tranquillity; these same reps have told the PDC that Tomic cannot win without separating himself from the leftist forces; since the US has no faith in either Alessandri or Tomic and feels Allende is going to win, it is obvious that the US is planning a military coup. Since a coup is the least likely of all eventualities (although genuinely feared by the PCCh) this propagation by the Allende camp of our electoral neutrality is, in the circumstances, the best we can hope from a candidate and a group that has proclaimed US imperialism as the enemy in Latin America.

16. Allende's declaration that he will join with Castro in a revolutionary hemispheric effort and that he will, by legal means, bring to Chile the same kind of structure as Cuba's, is an offering to Alessandri's altar. Again, Tomic prefers not to hear or deal with it and so his political asexuality is reinforced for many.

17. However since Frei is not only the first Christian Democratic President of this hemisphere and founder of the PDC but also the victor over Allende and the unshakeable enemy of Marxism-Leninism, he is increasingly being targetted by the left. He is also being blamed sotto voce by the Tomic camp within the PDC for the unpromising situation of their candidate. The Marxists want to use Frei to split the PDC and some PDCers want him to be the scapegoat. My own view is that Frei wants Allende to finish third; that he wants the PDC to do well and that he has sought in his way to help; that he has decided that Tomic's pig-headedness has put him on the margin of an increasing polarization and that in such circumstances, Allende must be stopped.

18. The net effect is that whereas #2 in this series was Tomic's, #3 Allende's, the past month has been Alessandri's who has gained from both the polarization and Tomic's retrogression. The defection of another Radical Deputy (Samuel Fuentes) to Alessandri is probably the harbinger of more and bigger such shifts from Allende; it is noteworthy that the respected Radical Senator Juliet this week undercut Allende bread and butter promises by stating that obviously no govt could fund them. Another straw is that Tomic is running out of money, that demands for payment on large advances are now being heard and that he has less radio time for the moment than either of the other two. Another is that in two nearby agricultural communities, a very clear shift from Tomic to Allende among campesinos has just occurred, the explanation being that they do not wish to waste their vote on a loser. Another is the field trip report of an Emb officer which confirms a very marked upward movement in the Alessandri column in Concepcion Province; and perhaps most interesting of all, has been the enormous turnout for Alessandri this past week in the Anaconda mine area (both at Chuqui and at nearby Calama); a Chilean newspaper friend says Alessandri will poll very well there.

19. In sum, Alessandri is perhaps at the 38–39 mark now, Allende at the 33 and Tomic at the 25. If Alessandrista over-confidence does not reappear, if Tomic does not change tactics and if no chance event upsets the present pattern, there is a probability that Alessandri will get the sizeable vote he needs to assume office without undue difficulty and that, as the wiseacres here say, Tomic will be displaced as third by Senor Nulo Blanco.

20. One final comment on fortuna and virtu or id and ego. In Allende's case it is hardly advantageous to fall into a defensive posture against the "terror campaign;" the Communists understand the trap and are seeking, as the effective Popular Front radio ads do, to concentrate on bread and butter themes. But Allende is more and more adopting a whining and petulant tone that is not doing him any good. In Tomic's case, he has always articulated his fundamental differences with Frei in intellectual terms. But most informed Chileans believe he is suffering from the one-two syndrome; he has always been second to Frei and it galls him. It is this visceral element that has contributed so much to his programmatic fixations and to his electoral situation. Allende and Tomic, by chance, are men.

Korry

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## 11. National Intelligence Estimate<sup>1</sup>

NIE 94–70

Washington, July 30, 1970.

### THE OUTLOOK FOR CHILE

[Omitted here are the Table of Contents, a map of Chile, and the Conclusions.]

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<sup>1</sup>Summary: This estimate examined the overall record of Chilean President Eduardo Frei's administration, key forces and parties in Chilean politics, and those candidates campaigning for the September 1970 election.

Source: Central Intelligence Agency, National Intelligence Council, Job 79R01012A: Intelligence Publications Files (1950–1975), Box 393, Folder 1: (NIE 94–70) Outlook for Chile. Secret; Controlled Dissem. Prepared in the CIA, the intelligence organizations of the Departments of State and Defense, and the NSA; concurred in by R.J. Smith (CIA), Ray Cline, Donald Bennett (DIA), and Noel Gayler (NSA). Charles Reichardt (Atomic Energy Commission) and William Cregar (FBI) abstained. The Conclusions and Sections IV and V are printed in *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 47.

## DISCUSSION

## I. THE RECORD OF THE FREI ADMINISTRATION

1. The administration of Eduardo Frei took office in November 1964 amid widespread expressions of support for its declared program of "Revolution in Liberty." Its goal was to pursue far-reaching socioeconomic reforms while preserving democratic liberties and institutions. The administration's efforts in housing, education, and agrarian reform, including rural unionization, were designed to expand the active electorate and to increase social and economic benefits to Chile's urban and rural poor. In fact, the growth in real income and social services for these groups has moved them toward fuller participation in national life. Frei's programs have, however, come too fast for some elements of society and too slowly for others. They have been costly, politically as well as economically.

2. While implementing its reforms, the Frei administration saw its financial situation substantially assisted by three developments: record-breaking copper prices averaging almost twice those prevailing in the early 1960s, foreign assistance averaging nearly \$200 million annually, and a sizeable inflow of private investment capital. The latter resulted from the agreements made with three US copper companies in 1967, which promised a favorable tax and investment policy over a 20-year period in exchange for the companies' participation in a major expansion program designed to double the production of copper. The Frei administration obtained additional benefits in 1969 by a phased nationalization of Anaconda's producing mines and by substantially raising tax rates on all major foreign copper companies, actions which effectively ended the 1967 agreements.<sup>2</sup>

3. The aforementioned factors enabled Chile to show a substantial surplus on its balance of payments in all but one year of the Frei administration, even with imports at a fairly high level. As a result, Chile's net international reserve position improved from a negative \$240 million in 1964 to a positive \$220 million in 1969. During the same period, however, the foreign debt of the public sector doubled, reaching a total of \$1.2 billion. Moreover, Chile became even more dependent on copper exports, whose share of export earnings increased from 65 percent of the total in 1964 to 80 percent in 1969. (See Appendix for Figure 1: "The Role of Copper in Chile's Exports, 1960–1969.")

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<sup>2</sup> With their \$560 million expansion programs nearing completion and under a continuing threat of immediate expropriation, the companies had little choice but to go along with the government's escalating tax and equity demands. See Tables I and II of the Appendix for a summary of changes in Chile's tax revenue shares and foreign exchange earnings from US copper company operations resulting from "Chileanization" (1967) and "nationalization" (1969). [Footnote is in the original.]

4. Increased revenues from both external and domestic sources have assisted in the initiation of programs aimed at improving the way of life of the nation's lower classes. Some of Frei's most impressive accomplishments have been in the field of education, where enrollment has increased nearly 50 percent, and the rate of illiteracy has been further reduced from some 16 percent in 1964 to about 11 percent in 1969. Even though he has not met his stated goals in other fields, such as housing and agrarian reform, his administration has made substantial progress despite the obstructionist tactics of his political opponents. Since Frei's program for expropriating and redistributing land did not receive congressional approval until July 1967, he had little chance of providing the 100,000 new, family-sized farms he called for during his election campaign. The costs of the program have been far higher than anticipated, and have held down the pace of land reform. Nevertheless, by the end of Frei's administration, about 25,000 landless families will have been settled—albeit on communal rather than individually-owned farms. (See Appendix for Table III—"Agrarian Reform in Chile.") In addition, his administration is exceeding the notable achievement of his predecessor, Jorge Alessandri, in the construction of urgently needed housing.

5. One of the striking changes under Frei has been in the status of rural labor. Until Frei took power, the unionization of agricultural workers was so severely handicapped by legislation that there were but 24 rural unions with a total membership of just over 1,600. By August 1969 there were 469 rural unions with over 100,000 members. By May 1970, the rural unions were claiming a membership of some 155,000. As a result of unionization in the countryside, the traditional control of the *patrón* over his workers is breaking down. Strikes to press salary and other demands are now legal and occur on a province-wide basis.

6. The politicization of the rural population as a result of unionization and agrarian reform continues apace. Not surprisingly, these developments have met with the strong resistance of the landed interests. Moreover, contrary to its promises, the Frei administration has expropriated efficiently run farms. It has been charged, not without some justification, with favoritism in selecting the farms to be expropriated. In recent months, sporadic incidents of rural violence, which have caused blood to be shed and property to be destroyed, have become involved in the bitterly partisan national political contest to determine Frei's successor.

7. The Frei administration's record on both economic growth and price stability does not compare favorably with that of its predecessor (Jorge Alessandri, 1958–1964). Although Chile's rate of economic growth rose to 6 percent in 1965–1966, compared to about 5 percent under Alessandri, it fell to less than 3 percent during 1967–1969, only in

part because of an extended drought which affected agricultural output in 1969. During his first two years in office Frei substantially reduced the pace of inflation. By 1967, however, the combination of rapidly rising wages, greatly increased government spending, excessive monetary expansion, and stagnating output caused the rise in the cost-of-living to accelerate. The official consumer price index shows an average annual increase of 25 percent over the past three years but other and more accurate official statistics<sup>3</sup> suggest that a 33 percent rate of inflation is closer to the mark, although that figure may also be too low.

8. The Frei administration has given a high priority to income redistribution in order to raise the living standards of the nation's less privileged classes. In 1965–1966 (Frei's first two years in office) real wages rose by an estimated 25 percent. Since then, however, as the pace of inflation quickened and Frei attempted to moderate further wage demands, there has been little further advance. We estimate that, although nominal wages increased by 36 percent in 1967, real wages probably did not rise by more than 3 percent. Similarly, during 1968 and 1969, real wages barely held their own. (See Figure 2: "Real Wages and Rates of Inflation in Chile Using Different Deflators.") Although under Frei many lower paid wage earners have received increases in real wages, as well as expanded social services, the more prosperous and better organized union workers have gained proportionately more because of their greater bargaining power.

9. As a result of government policies which promoted a redistribution of income and a continuing shift of resources from the private to the public sector, domestic private enterprise has lacked both the funds and the incentives to invest.<sup>4</sup> Private investment from domestic sources dropped significantly in the 1965–1969 period, going from about 9 percent to around 4 and a half percent of GDP. Moreover, total fixed investment, excluding foreign copper investment, was in absolute terms no higher in 1969 than it had been in 1964, and as a share of GDP had fallen to about 13 percent. (See Appendix for Figure 3: "Use of Available Resources, 1964–1969.") Net investment by the US copper companies increased at an average annual rate of \$125 million over the 1967–1969 period while other direct foreign investment was negative.

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<sup>3</sup> Since 1966 the official price index, which serves as a basis for negotiating wages, has fallen considerably short of the true rate of inflation. The private consumption indexes provide a more accurate measure and are used as the basis for the discussion of real wages in the following paragraph. [Footnote is in the original.]

<sup>4</sup> Under the Frei administration public sector spending has gone from about 35 percent to 50 percent of gross domestic product (GDP). By 1969 public investment expenditures (including financing of private investment) equaled about 80 percent of gross domestic investment compared with less than 50 percent in 1963. [Footnote is in the original.]

10. Frei's reform programs have involved high political costs, probably exceeding his original expectations. Unlike most of his immediate predecessors, who were elected from the left and ruled with the right, Frei conscientiously attempted to carry out his campaign promises. Because Frei's changes have chiefly benefitted the lower classes, tensions between the classes have been increased and have been carried over into national politics. Political partisanship was also intensified by Frei's decision not to follow the traditional pattern of coalition government, under which opposition parties secured cabinet and other government posts in return for supporting the administration's legislative proposals. Moreover, as was the case with Cleopatra, where Frei has most satisfied, he has most aroused: the very success of his programs has led to still further economic demands and created political pressures for more radical changes. The detrimental economic effects of rapid reform in turn have limited the administration's ability to meet the expectations it aroused, and this has hurt the Christian Democratic Party (PDC).

11. Although Frei has established himself as the most popular political figure in Chile he has not transmitted his personal popularity to his party's candidate. Furthermore, his insistence on abiding by constitutional procedures and accepting the consequent delay and watering-down of his programs caused recurrent dissension within the PDC. More important, in 1964 the PDC provided the only attractive alternative to the candidate supported by the Communists and even more extremist elements of the society. By contrast, the independent voters, and particularly the nominally conservative voters who supported Frei in 1964, now have a widely-respected candidate, Jorge Alessandri, as a non-Marxist alternative to the PDC candidate.

12. These developments have contributed to the difficulties Frei's party faces in the election to choose his successor scheduled for 4 September. There are, of course, other factors involved, which we propose to examine in the following analysis of the electoral contest, the character of the next administration and the implications for the US.

## II. KEY POLITICAL FORCES

### *A. The Parties*

13. *The Christian Democratic Party (PDC).* The Chilean Christian Democratic movement is noticeably to the left of its counterparts in Western Europe. Although not a confessional party, it puts much greater emphasis on carrying out the socio-economic tenets of papal encyclicals than they do. An extreme leftist faction has been sharply critical of the pace and scope of Frei's "Revolution in Liberty" and some of its members have bolted the party. Another faction of the party also urges an acceleration of change but has remained within the movement

and supports Radomiro Tomic, the party's candidate to succeed Frei. Until 1963, when it emerged as the country's largest political party, the PDC had only limited and largely middle class support. Since then it has won a sizeable following among the urban and rural working classes. While its share of the total vote in the last two national elections fell from some 42 percent in 1965 to about 30 percent in 1969, it is still the country's largest political party.

14. *The National Party (PN)*. The PN was formed in 1966 from the remnants of Chile's traditional Liberal and Conservative Parties. It has some middle and lower class support but basically represents the large- and medium-sized landholders, and industrial and commercial interests. The PN's principal political asset is the appeal of the candidate it is supporting, Jorge Alessandri. The PN, largely as a result of its identification with Alessandri, has revived from the stunning setback Liberal and Conservative candidates received when they won barely 13 percent of the total vote in the 1965 congressional elections. In 1969 the PN increased its following to 20 percent of the votes cast, and is now Chile's second largest political party.

15. *The Chilean Communist Party (PCCh)*. Since regaining legal status in 1958, the PCCh has developed the most effective political organization and leadership of any Latin American Communist party or any other Chilean party. It has been careful to play down its close adherence to the Moscow line and to avoid direct involvement in violent revolutionary action. This is in line with the party's emphasis on the *vía pacífica* as the means for attaining power. Since the PCCh has not been able to win more than some 15 percent of the total vote in national elections, its leaders have sought and obtained electoral alliances with other parties. This tactic has also enabled the PCCh to secure control of a great many combined local campaign organizations, and to utilize to the hilt the capabilities of the party membership which has expanded to some 40,000.

16. *The Socialist Party (PS)*. The Chilean Socialist movement has long been rent by personal rivalries as well as by differences over policies and tactics. Although the PS does have a more moderate faction, it has consistently been more radical than the Communist Party in its programs and tactics; an important faction advocates the seizure of power by force as the only way the Marxists can come to power in Chile. The PS draws its following largely from the lower classes, particularly organized labor, but also has some support among student and professional elements of society. In the last congressional election in 1969, the PS increased its share of the total vote to some 12 percent, only a slight gain over the 10 percent its candidates had received in 1965.

17. *The Radical Party (PR)*. There are a variety of other parties strung across the political spectrum in Chile. The only one of any im-

portance, however, is the PR. Until eclipsed by the rapid rise of the Christian Democratic movement, the PR had been the major centrist party in Chilean politics, representing middle and some upper as well as lower class interests. In recent years the PR has been beset by recurrent factionalism with respect to policies and tactics, which has been exacerbated by personal rivalries. As a result the PR fell from first position in the congressional elections of 1961 to fourth position in 1969, when it secured just under 13 percent of the total vote. Over the last year or so the party leadership courted the Communists and Socialists in the hope of securing their support for a Radical candidate in the September 1970 elections. This tactic of wooing the Marxist left seriously disrupted the party. When its leaders decided to go along with a Socialist candidate—after their own was rejected—some prominent Radicals and many among the rank and file bolted the PR and now support Alessandri.

*B. The Security Forces*<sup>5</sup>

18. After the early 1930s, the Chilean Armed Forces established and maintained a generally apolitical position which has only recently been brought into question. The army, the predominant service, usually managed to make its views known to the top-level of the administration in power and when grievances arose they were settled quietly on that level. Since the Carabineros (national police) were charged with the day to day task of maintaining internal order, they suffered the resentment engendered in putting down demonstrations and riots staged by student and other political activists. Only when such matters threatened to get out of hand did the army take over to restore order. Both continue to enjoy a respected position in Chilean society.

19. In October 1969, some army units led by Brigadier General Roberto Viaux mutinied over serious grievances involving salaries eroded by inflation, deteriorating equipment, and dissatisfaction with Frei's appointees to the top military posts. The military leadership had tried earlier to paper over these problems by removing Viaux from command of troops. The mutiny, known as the "Tacnazo," was quickly contained and the military were calmed down by salary increases and the replacement of the Minister of Defense and some military leaders. But resentment in the military and apprehension among the political leaders persists. The upshot of all this is that the politicians can no longer take for granted the tradition of the Chilean Armed Forces of not involving themselves directly in Chilean politics. This is not to say that

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<sup>5</sup> The Chilean security forces consist of an army of some 23,000, a navy of about 14,000, an air force of over 9,500 and the Carabineros of nearly 24,000. The Carabineros have initial responsibility for maintaining internal order but in case of emergency they are placed under army command. [Footnote is in the original.]



the armed forces are soon to go the way of repeated intervention in national politics as has been the case with some other Latin American security forces. It is clear, however, that the Chilean Armed Forces, and perhaps the Carabineros as well, have a renewed awareness of their potential political power and a greater inclination to use it.

### III. THE ELECTION OF 4 SEPTEMBER

20. During this campaign the electorate is weighing a number of factors not present or not as important in 1964. This time the voters have a choice not only between the pace of reform (Frei and Allende in 1964) but also between reform (Tomic and Allende) and consolidation (Alessandri). With the "Tacnazo" still in their minds, many may consider whether the election of Allende would increase the possibility of military intervention. So far the policy of the US and its presence are not nearly the important issue in this campaign that they were in 1964.

#### A. *The Candidates*

21. *Alessandri*. Although his early sizeable lead has been reduced, Jorge Alessandri, who preceded Frei in the presidency (1958–1964), appears to be the front runner among the three major candidates. He draws support from all classes in Chilean society. A successful businessman and a political conservative by Chilean standards, Alessandri has capitalized on the distrust many independent voters have for "politicians" by stressing his own political independence. A crusty, 74 year-old bachelor, he nevertheless has established a "father image" with particular appeal to the distaff side of the electorate. Moreover, Alessandri has a reputation for personal integrity, political honesty, and competence which rivals that of Frei himself. Alessandri is supported by the conservative PN, which sees him as the PN's only chance to regain power in Chile, by right-wing and centrist groups formerly aligned with the PR, and by nominally independent voters, including many from the lower class.

22. During the present election campaign the deterioration in Alessandri's physical condition has become apparent to a public which has seen relatively little of him since late 1964. Alessandri has been unable to compete with his younger rivals in the vigor of his campaigning. Their more efficiently managed and smoother functioning political organizations also appear to have contributed to a gradual erosion of his large early lead. His candidacy has also been affected by statements and actions of some of his more reactionary supporters in the PN, including statements and actions defending the use of force in opposing agrarian reform.

23. Nonetheless, Alessandri's basic appeal as a man of integrity, who is above petty politics and can set things right, persists. While he obviously attracts those who feel he can reverse or at least slow down

the pace of change, he also draws support from those who believe that Chile needs time to consolidate and adjust to the changes wrought under Frei, rather than to accelerate the pace as the two other candidates promise. Moreover, the serious disturbances of late June, involving urban terrorism by the extreme left and clashes between the Carabineros and students, is more likely to redound to Alessandri's benefit as a "law and order" candidate than to the benefit of his two leftist opponents. These incidents also bolster Alessandri's emphasis on the "*tranquilidad*" that he asserts prevailed when he was president, and which he promises to restore.

24. *Allende*. Salvador Allende, the Marxist Socialist running for the presidency for a fourth time, is supported by an electoral front, the Popular Unity (UP), whose major components are the country's Communist, Socialist, and Radical Parties. Allende secured the nomination of the UP after some bitter infighting in his own Socialist Party and resistance from the Radicals who wanted one of their own as standard bearer. He received decisive support from the Communists, who are furnishing most of the organization and leg work for his campaign. He also has the support of the United Popular Action Movement (MAPU), a group which bolted from the PDC, of some members of other small political groups, and of a number of the older labor unions that are strongly influenced by Communist and Socialist leadership. Although his chances have been somewhat reduced by disagreements within the UP, Allende still appears to be running in second place.

25. The electoral platform of the UP does not differ markedly from that on which Allende has run in previous elections. It stresses the unification of "popular" forces in order to carry out extensive and radical reforms. High in its priorities are the rapid nationalization of broad segments of the economy, including the remaining US ownership in the big copper mines. Although Allende has played down his identification with Fidel Castro, which proved to be something of a handicap in the election of 1964, he promises to establish diplomatic relations with Cuba, North Vietnam, East Germany, Communist China, and North Korea, and to increase trade and other ties with these and other Communist nations.

26. Allende and other UP spokesmen have not campaigned extensively against the US as they did in 1964. Allende, in particular, has stressed bread-and-butter issues and has skirted the more extreme proposals in the Basic Program of the UP in his attempt to present himself as a moderate, pragmatic leftist. In the last few weeks this strategy has been undercut by the identification of individuals captured in guerrilla training camps as members of the PS. Furthermore, since Allende is identified with the Marxist left, he has been adversely affected by the recent outbursts of terrorism and violence involving leftist extremists

in a society where reliance on constitutional procedures for solving national problems is still generally supported. Allende has demonstrated his sensitivity to this kind of issue by efforts to explain away the statements of some of his supporters threatening harsh treatment for their opponents after Allende triumphs.

27. *Tomic*. Radomiro Tomic is a veteran Christian Democratic leader, sometime Senator, and former Chilean Ambassador to the US. He accepted nomination by his party only after his grand strategy for bringing the PDC into an electoral coalition with the Communists and Socialists was rejected by the leaders of all three parties. Although he has a record of solid achievement by the Frei administration to run on, Tomic has continued to press still further leftward, insisting that he will follow a non-capitalist path, speed up agrarian reform, and nationalize various industries, including the holdings of the US copper companies during his first year in office. He apparently believes that his best campaign strategy is to talk sufficiently to the left to attract the large segment of the population that wants change but hesitates to entrust it to a Marxist candidate. Thus the principal difference between the domestic platforms of Tomic and Allende is that Tomic mingles some assurances to private enterprise with his calls for achieving a vaguely defined variety of socialism under a constitutional system; for example, he promises to negotiate compensation for the nationalized mining properties. In the field of foreign policy Tomic acknowledges the importance of close relations with the US, but stresses the necessity of an independent role.

28. Initially, Tomic's campaign was slowed by the fact that some of his rivals for the PDC nomination and other more moderate party members, including Frei, gave him something less than enthusiastic support. He has recovered from that low point by conducting a most energetic campaign and by putting more stress on the positive achievements of the PDC in power. Tomic, however, still concentrates much of his campaign oratory against the right and Alessandri. His reluctance to come out forcefully against the disorders caused by leftist students, and the terrorist activities involving student and other extreme leftists, has embarrassed the Frei government and left the law and order issue to Alessandri by default. The hierarchy of the Roman Catholic Church, in contrast to its support of Frei and the PDC in 1964, is maintaining a non-partisan position.<sup>6</sup> And the failure of the Frei administration to

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<sup>6</sup> Before the 1964 elections, the hierarchy of the Roman Catholic Church had openly broken its formerly close ties with the country's conservative forces. Although leaders of the Church maintained that it was neutral, their statements endorsing reform identified them with Frei and the PDC, which had adopted the hierarchy's Pastoral Letter of September 1962 as the basis for its party platform. The hierarchy has put considerably more emphasis on the non-partisan role of the Church toward this election than it did in 1964, among other things because it does not regard Tomic as another Frei. [Footnote is in the original.]

maintain control over inflation has given Tomic's rivals a gut issue which both of them have hastened to exploit.

29. Tomic has certain valuable assets. He has the backing of the government apparatus and the country's largest political party, which is well-funded and well-organized for the campaign. He undoubtedly will attract much of his support from the middle and lower-middle classes and from many of the new lower class voters who have benefited or hope to benefit from reforms associated with the Frei administration. Tomic probably also will be supported by some conservatives and moderates who cannot accept either the Communist-supported Allende or the aged and autocratic Alessandri. Despite these assets, however, and the recovery he has made from his initial slow start, Tomic still appears to be running third in a three-man race.

#### *B. The Outcome*

30. At the present time, no candidate seems likely to win the majority needed for direct election. In that event the Congress would meet on 24 October to choose between the candidates who finish first and second. On four previous occasions when this has occurred (1920, 1946, 1952 and 1958), the Congress in effect ratified the popular vote by selecting the front-runner, regardless of how slim a margin he obtained. This time, however, there almost certainly will be more political horse-trading than on previous occasions—particularly if the front-runner is Alessandri, who has only 43 nominal supporters among the 200 members of Congress.<sup>7</sup> Unless his share of the vote approaches the 40 percent mark, Alessandri might be passed over, particularly if Tomic is second and within a few percentage points in the popular vote. But if Allende is second—even a close second—Frei's influence, and perhaps that of the military, would be exerted on behalf of Alessandri, ostensibly to honor the Chilean tradition of ratifying the popular vote but in reality to block Allende. If Alessandri finishes second, his chances of winning Congressional approval are virtually nil if Tomic leads the pack, and poor even if Allende edges him by a narrow margin.

31. On the other hand, if Tomic were to secure even a slim plurality in the popular vote, he would almost certainly be elected. If he came in a close second his chances for victory would be good against either of the two other candidates. Allende, however, must finish first in the popular vote in order to have much of a chance of becoming president. Even then, if his margin over Tomic is narrow, enough of the PN and independents may vote against him to elect Tomic. If Allende's margin over Alessandri is narrow, the outcome would be largely decided

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<sup>7</sup> The other 157 votes appear to be split fairly evenly between supporters of Allende (82) and Tomic (75). [Footnote is in the original.]

within the PDC. Since Tomic has continued to court the UP, and Frei has opposed such tactics, there might be a showdown between the two for control of the party's congressional bloc. Frei may use his influence to block Allende if Allende leads Alessandri. And he might even support Alessandri if Tomic ran not too close a second on 4 September.

32. Although the percentages of the popular vote won by the two final contestants will be extremely important in deciding the winner, other factors will come into play if there is a close one-two finish. The commander in chief of the army has publicly and categorically announced military support for the constitutional right of the Congress to select either candidate. The unanswered question is whether he speaks for and can control the army, to say nothing of the navy, the air force and the Carabineros. In the event that public unrest continues—let alone accelerates—and Alessandri finishes only slightly ahead of Allende or even Tomic, there is at least some chance that Alessandri's backers would find allies among other military leaders in putting pressure on the Congressmen who might otherwise be inclined to vote against him.

33. In the event that the decision goes to the Congress and Allende is rejected, his supporters are likely to carry out widespread public demonstrations. These could lead to violent street encounters with the security forces. If Allende had finished first in the popular vote, they almost certainly would. The country's more extremist groups, including those which had not supported Allende, would exploit such an outcome as confirming the fallacy of the peaceful road to power. In the event of widespread and sustained disorders, the well-trained and competent Chilean security forces would be sorely tested, but would be able to prevent a forcible overthrow of the government by the extreme left.

[Omitted here are Sections IV and V.]

## Appendix

TABLE I

### CHILE: GOVERNMENT SHARE IN GROSS PROFITS OF MAJOR COPPER COMPANIES<sup>a</sup> 1966–1970 (Percent)

PRESENT GOVERNMENT EQUITY		1966	1967	1968	1969	1970
Anaconda/El Salvador .....	51%	50.1	49.9	50.0	68.1	87.6
Anaconda/Chuquicamata.....	51%	61.1	58.6	57.8	74.6	86.5
Kennecott/El Teniente.....	51%	78.5	70.0	72.6	80.0	83.5
Anaconda/Exotica.....	25%	—(Being Developed)—				55.7 <sup>a</sup>
Cerro/Andina.....	30%	—(Being Developed)—				58.4 <sup>a</sup>
Weighted average rate.....		67.2	61.9	61.0	75.8	84.6

<sup>a</sup> Does not include higher tax rates on “excess profits” (when copper exceeds \$.40 a pound) which probably will be applied to these companies as well.

TABLE II  
CHILE'S NET FOREIGN EXCHANGE EARNINGS FROM THE  
OPERATIONS OF US COPPER COMPANIES  
(In Millions of US Dollars)

	PROJECTED <sup>a</sup>									
	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Total net returns to Chile.....	321	363	406	644	679	745	568	668	764	770
Exports of copper (f.o.b.).....	489	549	549	741	802	1,002	898	895	988	987
Imports of operating goods and services (c.i.f.) .....	-43	-43	-55	-60	-62	-77	-79	-79	-79	-79
Profit remittances.....	-123	-146	-132	-117	-79	-118	-106	-64	-75	-75
Imports of capital goods .....	-4	-41	-108	-98	-62	-11	—	—	—	—
Changes in investment, net.....	2	44	152	178	80	-51	-145	-84	-70	-63

<sup>a</sup> Assuming average copper prices of 65¢ a pound in 1970, 58¢ in 1971, 50¢ in 1972 and 1973, and 55¢ in 1974 and 1975, that the rest of Anaconda's holdings are nationalized in 1972—the earliest option date permitted under the 1969 agreement—and that the payment terms included in this agreement are adhered to.

TABLE III  
AGRARIAN REFORM IN CHILE

	ACRES EXPROPRIATED (in 000's)			NUMBER OF	
	NUMBER OF	IRRIGATED	TOTAL	NUMBER OF	NUMBER OF
	FARMS EXPROPRIATED	LAND		FAMILIES SETTLED	LAND TITLES ISSUED
Total, 1959–1964....	N.A.	45	2,064	1,159	1,159
1965 <sup>a</sup> .....	85	93	1,105	2,061	0
1966 <sup>b</sup> .....	262	141	1,263	2,109	0
1967 .....	221	128	592	4,218	0
1968 .....	220	110	1,608	5,500	0
1969 .....	332	141	2,524	5,612 <sup>b</sup>	1,700 <sup>c</sup>

<sup>a</sup> Including several large holdings taken over from state entities.

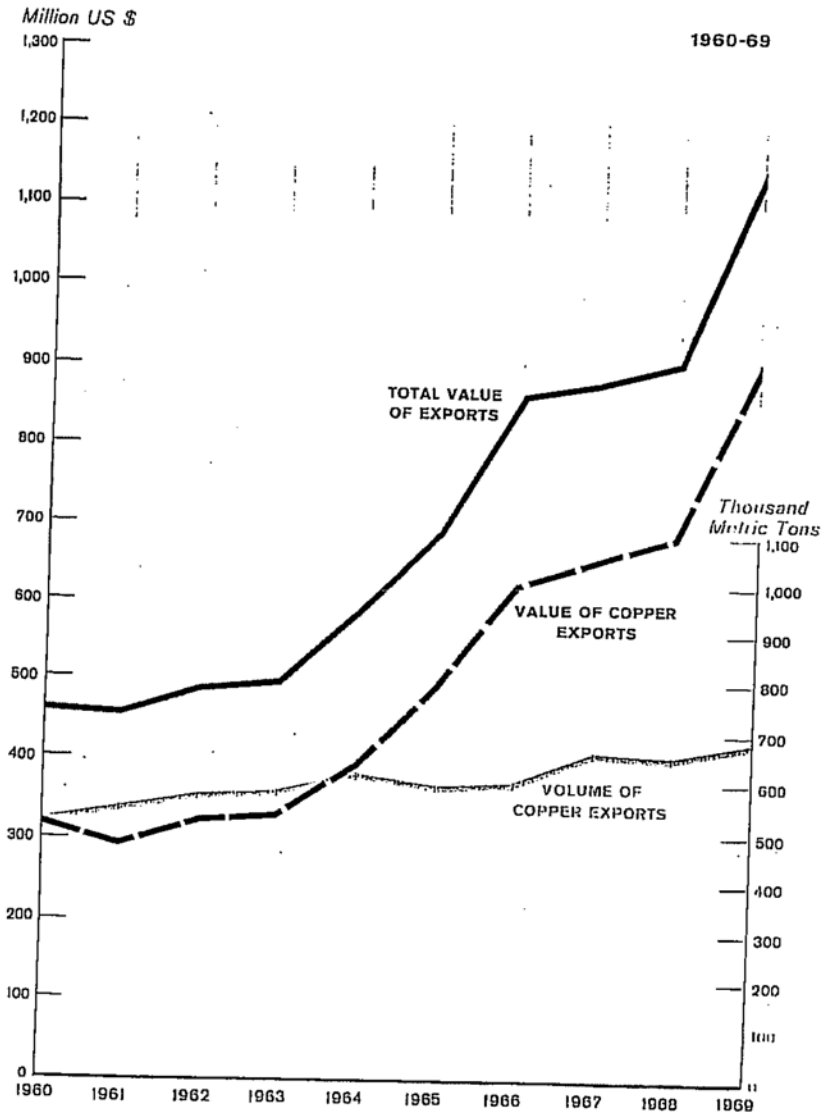
<sup>b</sup> Provisional figure.

<sup>c</sup> Permanent communal rights only.



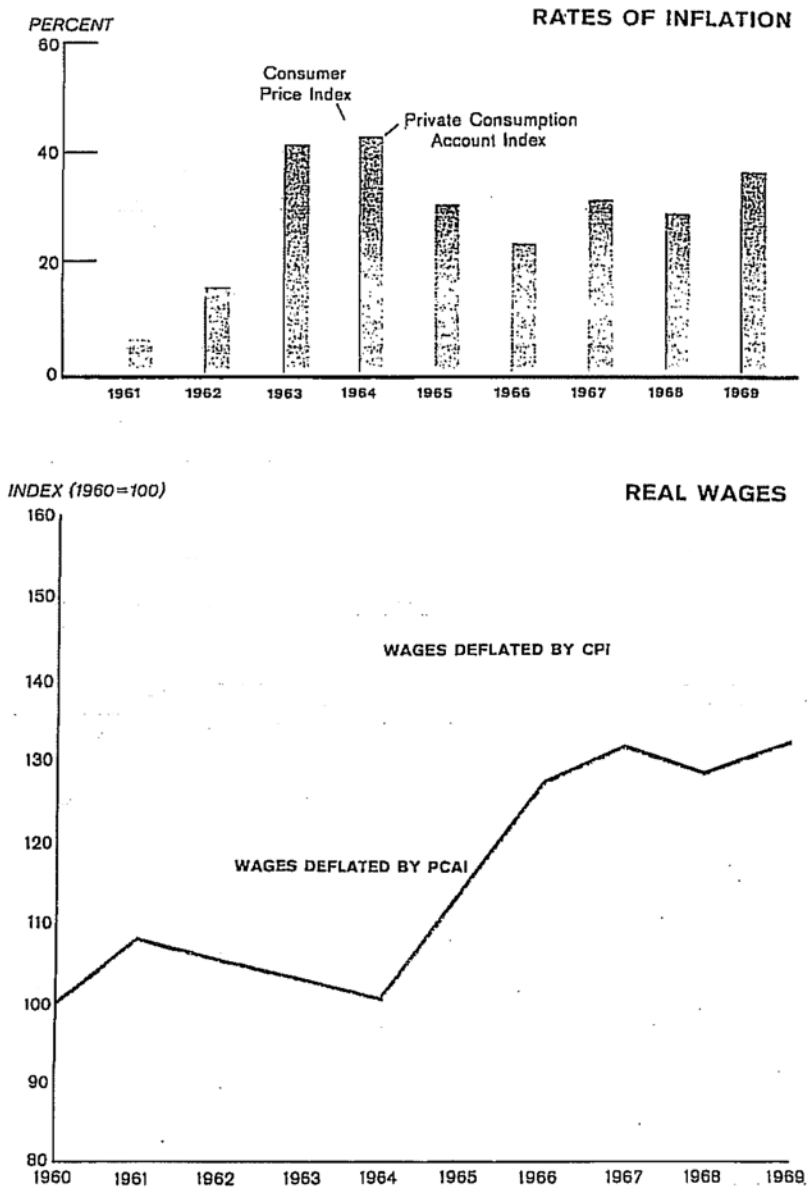
## The Role of Copper in Chilean Exports

Figure 1



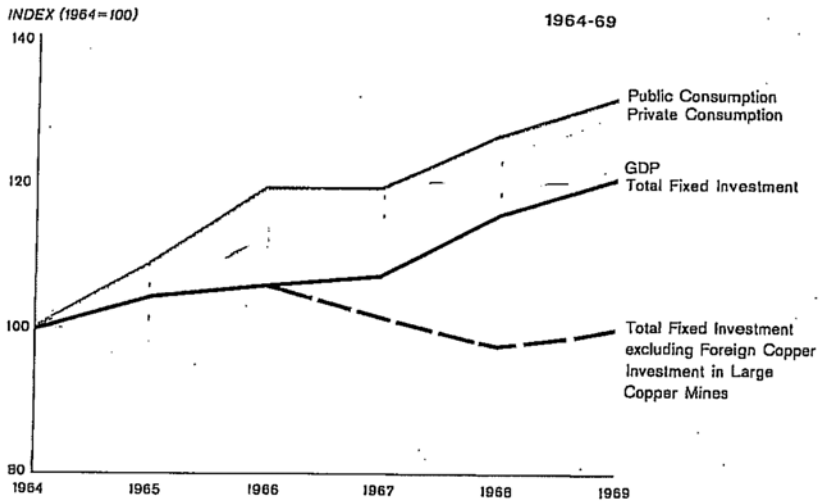
Real Wages and Rates of Inflation in Chile using different deflators

Figure 2



# Growth of Consumption, Investment and Gross Domestic Product in Chile

Figure 3



**12. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, August 13, 1970, 1620Z.

3141. For Meyer from Korry. Ref: State 130820.

1. Many thanks for reftel which confirms our total agreement on all points. Hope you will understand why, despite my totally harmonious talks with Crimmins, I wished to have in writing your views so as to avoid my inadvertent risking of the very dangers we both perceive. (I am shamed by this admission of bureaucratic proclivity.)

2. In that connection, the Communist Party's physical raid on the advertising agency that spearheads the anti-Communist anti-Allende propaganda campaign has bitterly disappointed the PCCh because of its failure to implicate the USG. Therefore it is possible if not probable that as they have often done, (you will recall the anti-Peace Corps campaign here) the Communists will fabricate documents. I intend to get word to Frei of this possibility, of my lack of real concern and of my expectation that he will see to it that this effort is discredited to the maximum extent by those resources he controls.

3. Re Phase Two, I would like to stress that if Phase One continues to be as effective as it is and that if other factors mesh, there will be no rpt no need for any Phase Two since Allende will not be a threat. The election results will determine our actions. Without knowing the results and without really knowing what Frei may be planning, we operate in a vacuum of speculation and theories in which I pump out thousands of words for contingencies without really having any confidence that the contingency will develop (prior or post inauguration) or that it will develop in any of the manners I hypothesize. But because the game may well begin Sept 5th, I hope you understand why I must continue to try to fashion possible models that may or may not be compatible with either the circumstances that prevail Sept 5th or with Washington today. Election Perspectives #5 in the typewriter now should be read in this context. My linkage of option 4 of NSSM study with Phase Two was an effort to knock down any serious contempla-

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<sup>1</sup> Summary: Korry expressed that if Phase I—the 40 Committee's program to channel covert funding to those forces opposing Allende in the 1970 election—continued to be effective there would be no need to implement Phase II of the program—inciting military intervention to prevent Allende's Presidency—as Allende would not be elected.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile Chronology 1970. Secret; Roger Channel. Reference telegram 130820 to Santiago, dated August 12, is Document 51 in *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973.

tion of a Chilean military role after an Allende election while weighting the military as one of several factors in the Phase Two time frame.

4. I value your forbearance and trust it will continue to prevail.

Korry

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**13. Memorandum From the Chairman of the Interdepartmental Group for Inter-American Affairs (Meyer) to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, August 18, 1970.

SUBJECT

Chile—Response to NSSM 97

In accordance with the instructions of NSSM 97 of July 24, 1970, enclosed is a review of U.S. policy and strategy in the event of an Allende victory in the Chilean Presidential elections. It was prepared by the IG/ARA at the request of the Under Secretary for Political Affairs.

**Attachment<sup>2</sup>**

Washington, undated.

*NSSM 97—CHILE*

This paper addresses the policy and strategy questions that would arise for the United States in the event of an Allende victory in the

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<sup>1</sup> Summary: The attached study, prepared in response to NSSM 97, discussed the international and domestic implications if Salvador Allende won the upcoming September 1970 Presidential election. Perhaps most directly, the repudiation of the Chilean Government debt of \$700 million to the U.S. Government was cited as one of the key threats to U.S. interests should Allende be elected. The study concluded that while Allende would be cautious initially, he would ultimately pursue socialistic economic policies and display a strong anti-United States animus.

Source: National Archives, Nixon Presidential Materials, NSC Institutional Files (H-Files), Box H-48, Senior Review Group, Chile (NSSM 97), 10/14/70. Secret; Sensitive. A copy was sent to the Under Secretary of State, the Chairman of the JCS, the Director of Central Intelligence, Packard, Haig, Lynn, Kennedy, and Vaky. For the text of NSSM 97, see *Foreign Relations*, 1969–1976, volume XXI, Chile, 1969–1973, Document 46.

<sup>2</sup> Secret; Sensitive.

Chilean Presidential elections. It is not intended to suggest anything regarding the chances of such a victory.<sup>3</sup>

I. *LIKELY POLICIES AND GOALS OF AN ALLENDE  
ADMINISTRATION*

A. *Domestic: Destruction of the Right and Establishment of Control*

The election of Salvador Allende would bring to power political forces with the ultimate goal of establishing an authoritarian Marxist state. Long-term goals of an Allende administration would thus include the suppression of free elections, the state ownership of all or almost all business enterprises, the establishment of state farms, and the imposition of police-backed labor discipline.

Allende, an adept and experienced politician who seems to share the caution of Chile's Moscow-leaning Communist Party, would almost certainly move gradually and with great care toward these goals. Within the first few years of his administration, however, we would expect to see him attempt to defuse, dismantle, or destroy various groups and institutions which currently stand between him and his objectives.

In the political sphere, his administration will waste little time in attacking the conservative National Party through its economic bases, and in attempting to split the Christian Democratic Party by wooing that portion of it which favors some of his programs. Should Allende succeed in overcoming effective political opposition, he would then move toward some of the institutional restructuring—establishment of the promised unicameral "People's Assembly," subordination of the judiciary to political control—required for the achievement of his ultimate goals.

In the economic sector, we would expect Allende first to move toward carrying out his platform's promises to expropriate basic industries, with the copper companies, petroleum distributors, and banks at the head of the list. The imposition of strict controls, focusing on consumer prices and foreign exchange, would also be part of his early program, as would a variety of tax measures and credit restrictions aimed at crippling or destroying the major private enterprises. Reasonable success in these attempts would probably be followed, still in a cautious manner, by a widening in the scope of measures to bring the economy under the complete control of the state. As governmental control of commerce and industry widened, labor freedoms would be

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<sup>3</sup> National Intelligence Estimate 94–70, The Outlook for Chile, states that "It is not possible to single out any one of the three candidates as the likely winner," and that Allende "must finish first in the popular vote to have much chance of election by the Congress." [Footnote is in the original.]

increasingly restricted, with the long-range goal being their entire elimination.

An Allende administration would place heavy emphasis on a sharp and rapid expansion in government-provided social services, hoping thereby to win public support and disarm the opposition. Measures would include intensified housing and public-works programs, and expanded educational and public-health efforts. Agrarian reform would probably receive considerable emphasis with the dual purpose of gratifying the rural masses and destroying the political and economic power of the major landowners.

It is with regard to the security forces that Allende would exercise the greatest caution of all. Initially he would attempt to set aside suspicions, with the short-term goal of neutralizing the Armed Forces and the Carabineros. To this end, he would almost certainly move to improve military pay, benefits, and equipment. The prerogatives and traditional practices of the President as Commander in Chief would enable him not only to name a Defense Minister and service chiefs politically sympathetic to him, but to begin by careful use of promotions and assignments to remove military leaders thought to oppose Popular Unity. Over time, Allende would be attempting to achieve the support of the Armed Forces for his programs. Some restructuring of their organization could occur in the process, and an attempt to establish a counter-balancing "People's Militia," or alternatively to convert the Armed Forces into something similar, could eventually be made. The length of Allende's quest for the presidency and the Communists' almost pathological fear of a military crackdown, however, both would almost certainly lead an Allende administration to move, at least initially, with prudence in its dealings with the Armed Forces, and an Allende administration would quickly back off in this period should military sensitivities begin to appear aroused. Indications of an Allende administration's immediate intentions with regard to the Carabineros are limited to a pledge to disband the Mobile Groups, crack civil-disturbance units long targeted by the Chilean left as a primary arm of repression.

#### *B. Bilateral: Extirpation of All U.S. Influence*

Allende would waste little time in redeeming his pledge to expropriate the copper companies, and the prospects would be negligible for compensation acceptable to the companies. He is also pledged to denounce "all treaties or agreements . . . which limit our sovereignty and specifically the treaties of reciprocal assistance, pacts of mutual aid, and other pacts which Chile has signed with the United States." We would also anticipate demands for the removal of the Peace Corps and AFTAC and perhaps even NASA as well. The Ford and Rockefeller Foundations could anticipate similar treatment. Were AFTAC re-

moved, the U.S. military presence in Chile would be limited to a small MilGroup. Although not likely, Allende might permit the MilGroup to remain as part of his policy of restraint toward his own military.

Popular Unity spokesmen, including Allende himself, have stated that they would seek no confrontation with the United States. This statement, however, beyond the fact that it has been made during the electoral campaign, could well mean something entirely different to Allende than it does to us. Certainly the measures which he has promised to take would raise to a very high level the likelihood, and even the inevitability, of some kind of confrontation. He could well seek controversy with the United States in order to gain support at home. At the same time, we believe he would avoid provoking the United States to take serious action, and would not want to put us in the position of the aggrieved party.

### *C. International*

The Popular Unity platform calls for Chile to “denounce” the OAS and seek a “truly representative” organization. While this could presage nothing more than an attempt to find support for the path on which Chile is already embarked, it raises the possibility of Chilean withdrawal from the OAS. Attempts to foster organizations which exclude the United States would logically follow. In any case, there can be little doubt that an Allende government would promptly establish relations with Cuba, North Vietnam, *et al.* Attempts to expand trade and cultural relations with socialist countries are also to be expected, and in some cases (including the USSR) would require nothing more than greater use of agreements already in existence.

With respect to intervention in other countries for purposes of subversion, an Allende government would be unlikely to go much beyond the Popular Unity platform’s expression of “solidarity” with “liberation” struggles and with attempts to build socialism. Again, Allende and the Communists are aware of the risks of solidifying hostile hemispheric opinion should Chilean support for insurgencies in other countries become discernible. Although export of revolution, then, will probably be largely verbal, at least in the first two or three years, Allende’s talk of a Cuba-Chile axis from which to “launch” revolution could foreshadow Chile’s becoming a haven and even a training ground for revolutionaries. Bolivia in particular could become a troublesome temptation: Individual Chileans have already been found within Bolivia’s main guerrilla group. This in turn could create serious problems with Argentina and Brazil.

With particular regard to the USSR, an Allende administration would almost certainly seek economic assistance, and possibly even arms (although Allende’s policy of dealing cautiously with the Chilean



military would be a restraining factor, especially if Western arms also were available).

As for Allende's seeking fairly early in his administration a major Soviet presence—military or political-economic—a number of factors make such a policy doubtful. These include Chilean nationalism, concern about possible reaction by the United States and neighboring countries—particularly Argentina—and historic apprehension by some Chilean Socialists regarding the Soviets. Nevertheless, the assumption that Chile would not offer the USSR bases or permit Soviet equipment or a presence remains uncertain.

With regard to Cuba, the Popular Unity pledge to "solidify itself with the Cuban revolution" is unlikely to result in a Chilean attempt to establish a formal military alliance with Cuba.

## II. REACTION

### A. Domestic

In the pursuit of his goals, Allende would have some important assets. He is a familiar figure in Chile, with a comfortably bourgeois lifestyle. He is considered idealistic, and his honesty has never been publicly questioned. He is also an experienced and adept politician who first entered Congress in 1937, has served in both houses, was in the cabinet for a time during the first Popular Front government, and first ran for the presidency in 1952. While his relations with the hierarchy of the Socialist Party are poor, he has the backing of the larger, better-organized and better-disciplined Communist Party. The influence of both parties in the media, the labor sector, and the educational institutions is currently strong, and with the leverage and resources of government could become predominant. The sympathy of at least a portion of the Christian Democratic Party for some of his goals—including the expropriation of important industries—would provide him initially with a congressional majority for parts of his program. As a constitutionally elected president he would enjoy not only the prestige of the office and of his legal accession to it, but also a broad range of constitutional powers and prerogatives. Furthermore, Chile has already moved a considerable distance down the path Allende would want to pursue: the Chilean economy is already heavily statist with respect to basic industry, for example, and Chile's "independent" thrust in foreign policy has already led it to closer contact with socialist countries and exports to Cuba. Timely and effective resistance to his program by the various groups opposed would be handicapped by the many divisions and uncertainties which would exist among them.

In the process of attempting to achieve his goals, however, Allende would have to contend with a variety of groups and factors. The Armed Forces and the Carabineros, for example, have been widely

viewed as representing a brake on Allende's plans. We do not believe that any of the security forces would act to prevent Allende from constitutionally taking office: general acceptance of the Marxists as *bona fide* Chilean politicians, disparate political views within the security forces, and their traditional (if recently weakened) respect for constitutional processes lead us to this view. The Armed Forces, particularly at the higher levels, would nevertheless regard the new president with considerable suspicion and even hostility; and this would be even truer in the case of the Carabineros, who have borne the brunt of Marxist-inspired civil disorders. As we have stated in section I.A. above, we would expect Allende to combine generosity with a careful policy of assignments and promotions in order to allay these suspicions and remove the obviously hostile from key positions. Should he move with sufficient caution and skill, we believe these acts would further decrease the prospects for a cohesive, institutional military move against him.

Nevertheless, such a move, or alternatively a coup by key units banking on the support or acquiescence of the rest of the security forces, would remain a real possibility, and could be triggered should Allende act in outright violation of the constitution or move in a way clearly threatening to the military's institutional interests. The outbreak of widespread civilian opposition to Allende's program could also be a factor in determining military resolve to remove him. In sum, Allende would appear unable to move precipitously against the military or the constitution, but a gradualist approach sufficiently prudent to avoid inciting the military or the civilian political opposition could result in a steady erosion of the military's capacity and will to move against him.

The non-Marxist majority in Congress (which will legally remain intact until March 1973) would also represent a potential stumbling block to the realization of an authoritarian Marxist state. In particular, Popular Unity's call for a unicameral "People's Assembly" is most unlikely to find favor with opposition congressmen looking forward to the continued exercise of office. As a minority president, Allende would be taking a great risk in attempting to use the new plebiscite power to settle a constitutional impasse with Congress. A broad range of other powers would be constitutionally available to him as president, but any attempt by Allende to use them to do away with Congress or govern in defiance of it would be likely to arouse the kind of opposition that would stimulate the military to remove him. By itself, however, Congress might find itself out-manuevered were Allende to become president and move skillfully and cautiously enough.

Somewhat similarly, Chile's weak and archaic legal system by itself would seem unlikely to provide effective resistance.

In Congress or out, the political parties (except the Communists, whom we expect to adhere to Allende as long as he pursues their program) would offer some potential for resistance, but would have their difficulties in bringing it effectively to bear. Within Popular Unity, the Radicals may well come to resent their minor role and doubtless do not share the more far-reaching of Allende's projected plans; but their well-known opportunism and diminishing strength make them highly susceptible to manipulation. Allende's relations with the Socialist Party hierarchy are poor, but the Socialists may find themselves tempted by the perquisites of power, and in any case are no match for the well-organized, well-disciplined Communists. Among the opposition, the Christian Democrats (PDC), Chile's largest party, could be severely strained by the sympathy with which a portion of it views some of Allende's programs. That portion could find cooperation with Popular Unity to be a bad bargain, however, and move closer to the PDC's moderate position. The conservative National Party would be seriously weakened by an attack on its economic bases, especially were its access to the media foreclosed, and could find itself finished as an effective political force. In sum, Allende's political opposition, although a majority in the popular vote and in Congress, has lacked the cohesion and leadership to withstand the long-term and well-planned undermining of its strength.

In the labor sector, Allende would probably find that the strong influence of Communists and Socialists, coupled with a large dose of "bread-and-butter" benefits and an unhesitating willingness to use the security forces as required, would enable him to avoid or quash any serious resistance.

Allende could have problems with the economy. Chile's dependence on copper—80% of export earnings in 1969—would probably not constitute a problem, as the world market is expected to remain reasonably firm over the next few years. The principal markets for Chilean copper, Western Europe and Japan, would be unlikely to close as a result of U.S. or copper-company pressure. Furthermore, high copper prices and record Chilean production have given Chile an unprecedentedly high balance of foreign reserves, a comfortable cushion for Allende. On the other hand, action against foreign investment would tend to dry up foreign sources of investment and credit, on which Chile has been heavily dependent. Soviet assistance, were it forthcoming, could off-set this problem, if only partially. The country's decades-old inflation (currently running in excess of 30%) is Chile's most keenly felt issue. Allende can diminish the effect of inflation by total management of the consumer economy, including price control. Therefore, it is not likely that inflation as such need increase under his administration.

### B. *International*

Many OAS member governments would feel concern at the victory for the radical approach which Allende's election would represent. They would expect the United States to take a hostile posture, but despite their concern, the great majority would probably prefer that we adopt a live-and-let-live approach that would avoid any suggestion of intervention in Chilean affairs. Some countries that might well dislike an Allende government in Chile—such as Mexico, Colombia, Venezuela, and Costa Rica—would probably resist any attempt to mobilize OAS action against Chile. Even Argentina, which clearly figures to be the most apprehensive and opposed of all, would probably not want to intervene unilaterally, and reportedly has not ruled out the possibility of a *modus vivendi* with an Allende government. Brazil, lacking common borders with Chile, would probably share Argentina's antipathy toward Allende but not her concern. Peruvian-Chilean mistrust is deep and of long standing, but President Velasco is publicly and categorically committed to the right of each country to "select its own model for development". Bolivia, even if still governed by a self-described "nationalist leftist" regime, would be most suspicious of Allende's calls for revolution, and should Chilean membership in Bolivia's guerrilla group reach important numbers, Bolivia could come to favor some kind of action against Chile.

Cuba would clearly welcome an Allende victory, and Castro would doubtless hope to find in Chile a useful ally in his attempts to discredit the OAS and exacerbate relations between the United States and the Latin American countries. Mutual expressions of solidarity would be accompanied by efforts to expand trade and cultural relations.

The USSR would also welcome an Allende victory, but would take a cautious approach. It would wish to avoid becoming over-committed to a coalition government of uncertain future, and would be at least as fearful as Allende and the Chilean Communists of provoking either the Chilean military or the United States. While attempting to appear responsive to the development needs of a "revolutionary democracy," the USSR would probably therefore keep any assistance to Chile at a moderate level, at least until the course of the Allende government were clearer and its continued survival reasonably assured. Nevertheless, the advantages of having a foothold in South America could be very tempting to the USSR.

### III. *THREATS TO U.S. INTERESTS*

In examining the potential threat posed by Allende, it is important to bear in mind that some of the problems foreseen for the United States in the event of his election are likely to arise no matter who becomes

Chile's next president. All three candidates have expressed unhappiness with the OAS resolutions on Cuba, and Tomic's domestic platform, including the nationalization of such basic industries as the U.S. copper companies, is quite similar to that of Popular Unity. While Alessandri has pledged to honor the existing copper accords, he is capable of reversing himself should it prove politically expedient, and further pressure in this regard is inevitable. Nevertheless, the prospects for acceptable compensation would be significantly better under Tomic or Alessandri, and neither of these two would take up the anti-U.S., pro-Soviet line foreseen for Allende.

#### *A. Within Chile*

We identify no vital U.S. national interests within Chile. Beyond our interest in the survival of democracy there, we have more tangible interests in Chile's substantial indebtedness to us,<sup>4</sup> in acceptable treatment of existing private U.S. investment (notably the copper companies), in the market for \$300 million per year of U.S. exports to Chile, in the AFTAC installation, and the NASA installation. As indicated in section I.A. and I.B. above we would anticipate varying degrees of danger to these interests under an Allende administration, with the copper companies most obviously threatened and our exports least jeopardized. The Chilean public's favorable interest in the space program would provide some hope for the survival of the NASA installation, and even the AFTAC installation, if properly and promptly explained, might weather the advent of an Allende government; the French nuclear tests are ill-received in Chile.

#### *B. International*

The United States has no vital strategic interest which would be threatened even by the establishment of an enlarged Soviet presence in Chile. Nevertheless, expansion of that presence could take many forms, some of which might improve Soviet strategic positions to an extent as yet impossible to judge. These would include more extensive, possibly unlimited utilization of Chile's unique geographical location in support of the Soviet space and FOBS programs. Refueling and reprovisioning of Soviet ships, already accepted as a commonplace in Chilean ports, could be expanded to support a Soviet naval presence in the area. The Soviets reportedly have started supplying informational material (much of it innocuous or unrelated to military matters, some more applicable) to Chilean Navy officers. This cultivation and increased offers of cooperation in various naval activities and in oceanographic re-

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<sup>4</sup> The Chilean Government's outstanding debt to the U.S. Government is over \$700 million. [Footnote is in the original.]

search and fishing would be useful to Soviet maritime activities without the establishment of bases. Because of the caution which we estimate would characterize both sides of Chilean-Soviet relations, we consider the establishment of Soviet military bases unlikely, certainly in the short (2–3 years) run.

Whatever the military considerations, an Allende government would create considerable political and psychological costs. The election of Allende would certainly bring a destabilizing factor to hemispheric cohesion on such matters as Cuba, subversion, development assistance, and the role of the United States in hemispheric affairs. While, as we noted earlier, we judge the prospects for actual Chilean intervention in other countries to be quite limited, the establishment of an Allende government calling for revolution in the hemisphere, reestablishing full and close relations with Cuba, and “denouncing” the OAS would provoke the hostility of some governments and the apprehension of others. Under such circumstances the OAS could come to find itself in crisis, with some governments favoring some form of response to the Chilean challenge and others hewing to the Latin American tradition of non-intervention. Depending on the degree of Allende’s fitness, some might be attracted to follow in his efforts to weaken the OAS and work through exclusively Latin American organizations. The internal stability of some countries would also be affected if, for example, Marxist elements encouraged by the Allende example (see below) were to step up the scope and pace of their efforts, as they probably would.

Were Allende to become Chile’s next president, his victory would undoubtedly provide Marxists everywhere with an enormous boost in morale and in propaganda effectiveness, particularly because he would have been chosen constitutionally. An Allende victory would inevitably be seen around the world and within the United States as a definite set-back to U.S. interests and aspirations and would be exploited as such by our adversaries. As an example of a Marxist-Leninist state, Chile under Allende would doubtless inspire Marxist elements throughout the hemisphere, and the result could be an increase in pressure on the region’s more moderate governments. Private foreign investment, already under attack now, would be a particular target for such pressure. We note, nevertheless, that Chile as an example would be unlikely to find any effective hemispheric imitator, at least for some time: the strength, skill, and freedom of action of Chile’s Marxist sector are unique at present in the region.

The influence that Chile as a Marxist-Leninist state could wield is subject to further limitations. As we have stated, the addition of another Marxist voice to the hemispheric dialogue seems certain to increase tensions. As a regional leader, however, Chile has enjoyed influ-

ence out of proportion to her size and strength because of her credentials as a genuine democracy committed to an independent foreign policy. To the extent that Chile under Allende might become identified as just another mouthpiece for Moscow, her ability to persuade others would be correspondingly diminished. Similarly, the economic difficulties that we foresee Allende encountering in fairly short order would limit the “model effect” of Chile.

#### IV. THE ISSUE

In sum, we would expect an Allende government to move gradually and cautiously toward the establishment of an authoritarian Marxist state. To this end, it would seek to destroy, neutralize, or obtain the support of the various groups and institutions which might block its progress. Some groups, most notably the security forces, would be watching Allende closely, and could move to overthrow him if he were seen flagrantly flouting the constitution or threatening the military’s institutional interests. Divisions and uncertainties within and among these groups, however, mean that a sufficiently gradualist and skillful approach by Allende could avoid provoking the military almost indefinitely. On this basis, time would enable Allende to entrench himself ever more firmly in power.

Internationally, we see as one of Allende’s goals the extirpation of U.S. influence from Chile. While we expect him to try to avoid a serious provocation of the U.S., his promised actions, including the expropriation of the U.S. copper companies, raise to a high level the probability of some kind of confrontation with us. We take at face value Allende’s platform promises to “denounce” the OAS, to intensify relations with socialist countries and to establish close ties with Cuba. Expansion of the Soviet presence in Chile could occur in many different ways, but we believe the establishment of a major permanent Soviet military presence to be unlikely but not impossible. We also believe Allende would probably—and almost certainly in the period in which he was trying to consolidate himself—avoid the risks of discernible Chilean subversion in other countries.

Regarding threats to U.S. interests, we conclude that:

1. The U.S. has no vital national interests within Chile. There would, however, be tangible economic losses.
2. The world military balance of power would not be significantly altered by an Allende government.
3. An Allende victory would, however, create considerable political and psychological costs:
  - a. Hemispheric cohesion would be threatened by the challenge that an Allende government would pose to the OAS, and by the reac-

tions that it would create in other countries. We do not see, however, any likely threat to the peace of the region.

b. An Allende victory would represent a definite psychological setback to the U.S. and a definite psychological advance for the USSR and the Marxist idea.

The issue that the foregoing analysis poses is this: what can and should the U.S. Government do to limit or to prevent the clearly negative effects of an Allende government on our interests in Chile, the hemisphere, and the world?

## V. OPTIONS

### A. *Make Conscious and Active Effort to Reach Modus Vivendi*

1. *Stance*—This option would assume that there is some chance for reaching a satisfactory *modus vivendi* with an Allende government, and would accept the will of the Chilean electorate as constitutionally expressed following free honest elections. We would take the initiative in expressing to the Chilean government our desire to have the best possible relations consistent with our legislative restraints, and our willingness to consider on their merits reasonable Chilean requests for assistance, either bilateral or multilateral. We would take no initiative to terminate or reduce any bilateral assistance programs. Recognizing differences in outlook, we would do our utmost to sidestep potential confrontations, e.g. over expropriation of the U.S. copper companies.

2. *Advantages*—This option would bolster the credibility of U.S. respect for the democratic process, and would emphasize U.S. willingness to try to get along with governments of different ideological viewpoints. By taking the most positive possible approach, we would be encouraging Chile to remain in the hemispheric structure and undercut those seeking to move Chile closer to the USSR. We would also avoid casting the U.S. in the role of a great power taking harsh measures against a weak, poor, and distant neighbor. This stance would show, in Chile and out, that we are prepared to give Allende a chance and that we don't have an automatically negative response to pre-electoral positions of Latin candidates for office. It would thus minimize Allende's opportunities to seek support by claiming "imperialist" pressure.

This option could blunt charges that we pushed Allende into the Soviet embrace, which could be significant in terms of our relations with the other countries of the hemisphere and in other sectors of opinion. It also could increase the chances of maintaining a U.S. presence in Chile. Finally, it does not rule out the possibility of subsequently adopting some other option should developments make such a move desirable.

3. *Disadvantages*—One disadvantage of this option is that there is no evidence that Allende has any interest in achieving a *modus vivendi*.



He would not be deterred from taking measures that would force us to abandon this posture. The option might be interpreted, in Chile and out, as support for Allende, thus discouraging his opposition. In the highly unlikely event that Allende were to accept, it would make it easier for him to establish himself, and the longer he is in office, the more difficult it will probably be for oppositionist elements to move effectively against him. This option could also make the U.S. appear impotent in the face of, or indifferent to, Allende's known objectives, and equally indifferent to the possible establishment elsewhere of similar governments encouraged by the Allende model. It would be necessary (and in some instances impossible) to stretch to their limit U.S. legislative provisions restricting U.S. assistance to Chile if as we expect Allende expropriates U.S. property without compensating and if he establishes diplomatic and trade relations with Cuba, North Korea, and North Vietnam.

*B. Adopt a Restrained, Deliberate Posture*

1. *Stance*—This option would be posited on the belief that a satisfactory *modus vivendi* is impossible, that confrontations are inevitable, and that it is in U.S. interests to respond to them in a deliberate way which avoids over-reaction and maintains flexibility against future contingencies. Such a stance would be cool and correct and would recognize Allende's constitutional status. We would receive calmly any Chilean request for the removal of personnel or the termination of programs, and carry out the request expeditiously and as gracefully as possible. In the absence of such requests we would let existing programs wind down. Personnel connected with any program would depart when the program ended, and there would be no new starts in bilateral assistance. In our reaction to anti-U.S. measures, for example the expropriation of the U.S. copper companies, the presumption would be in favor of avoiding in the early stages a rigid response but not to foreclose the adoption of such a response should developments warrant it. Our position in the multilateral agencies regarding Chilean requests for aid would be keyed to the foregoing factors. We would try to concert with other countries of the OAS regarding Chile, but would not forego our right to independent decisions. In every instance, the keynote would be flexibility.

2. *Advantages*—This option would convey the appearance of greater firmness (than in Option A) in the face of what would widely be viewed as a set-back, and at the same time would avoid, as would Option A, the political risks of intervention. Moreover, this option would afford flexibility, as it could be softened to Option A or hardened to Option C as circumstances warranted. Consequently this option is much more directly controllable by us than Option A. Additionally, it would avoid the appearance of support for Allende, and at the same time limit

somewhat his opportunities for obtaining support by claiming “imperialist” pressure. Finally, consultation with our neighbors would help underscore our commitment to the collective approach whenever possible.

3. *Disadvantages*—This option would not deter Allende from an anti-U.S. course and would provide him some basis for increasing his support by claiming “imperialist” pressure: the stance would contrast markedly with the high level of aid given Chile during the early years of the Frei administration. It could strengthen the hand of the hard-liners in the Chilean government, and might facilitate the movement of Chile into the Soviet orbit.

*C. Seek to Isolate and Hamper Allende's Chile*

1. *Stance*—This option would be premised on the assumption that Allende's programs could be severely hampered, leading to his possible eventual failure (but not his overthrow) through economic sanctions and other measures short of the use of force or direct intervention. This premise would subsume the desirability or acceptability to us of a frankly, explicitly hostile U.S. posture. We would on our own initiative promptly terminate military and economic aid programs, pull out aid and military missions, and sharply reduce the U.S. Embassy presence in Chile, perhaps to the point of breaking relations. We would freeze Chilean assets in the U.S. Our economic measures would follow the Cuban program, e.g. an embargo of all trade between Chile and the U.S. and the severing of transportation links. We would seek—or preferably support—an OAS expression of concern or indictment about Chile's actions, and if the atmosphere were conducive, seek or support the exclusion of Chile from the OAS. In other international forums, we would adopt an explicit adversary position against Chile. We would use our influence in multilateral agencies and with other public and private sources of credit in order to deprive Chile of financial resources, and we would seek the cooperation of others to this end. We would also seek to deprive Chile of markets, especially for copper.

2. *Advantages*—This option might deter Allende in his course, might weaken him, and might even cause him to fail. It would be psychological stimulation to dissident elements in Chile, and could deter the establishment of similar regimes elsewhere. Of the activist options it is the least costly politically, and pursuing it as part of an OAS decision or in concert with some OAS members would further reduce the political costs.

3. *Disadvantages*—The odds are considerably better than even that this option would be ineffective in deterring Allende in his course, weakening him, or causing him to fail. It would provide him with an ideal “foreign-devil” issue with which to obtain support from Chile's

strongly nationalistic public, and would facilitate the movement of Chile into the Soviet orbit. It would both fail of OAS support and, by dividing the organization, fit Allende's hopes of destroying its effectiveness. We would be very unlikely to obtain the agreement of Western Europe and Japan (Chile's principal markets for copper) to an economic-denial program. The option would undercut the credibility of U.S. respect for the democratic process, and would be viewed with concern by many Latin Americans and some governments.

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**14. Annex to the Study Prepared in the Interdepartmental Group for Inter-American Affairs In Response to National Security Study Memorandum 97<sup>1</sup>**

Washington, August 18, 1970.

ANNEX NSSM-97

*Extreme Option—Overthrow Allende*

1. *Stance*—This option would be based on the judgment that an Allende government would be a security threat to the United States sufficiently great to justify a covert effort to overthrow him. This option also assumes that every effort would be made to ensure that the role of the United States was not revealed, and so would require that the action be effected through Chilean institutions, Chileans, and third-country nationals.

It is assumed that the only institution in Chile capable of removing Allende or preventing him from assuming office if he is elected is the Chilean military. However, it is not likely that the Chilean military will act against Allende unless provoked by blatant Allende actions that

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<sup>1</sup> Summary: This annex to the response to NSSM 97 (Document 13) presented a fourth option not contained in that study. It was premised on the assumption that an Allende government was a threat to the national security of the United States and therefore warranted the overthrow of Salvador Allende by the Chilean military. The annex included possible strategies to encourage the Chilean military to overthrow the government.

Source: National Archives, Nixon Presidential Materials, NSC Institutional Files (H-Files), Box H-48, Senior Review Group, Chile (NSSM 97), 10/14/70. This paper, referred to as the covert annex to the response to NSSM 97, was attached to a copy of the response presented to Kissinger in preparation for a Senior Review Group meeting on October 14. For the minutes of the October 14 meeting, see *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973, Document 150.

break abruptly with Chilean traditions. A direct threat to the military itself would be the most pronounced provocation, but acts seen as flagrantly flouting the structure of Chilean political, social and economic traditions conceivably could stimulate a move by the Chilean armed forces. But it must be recognized that the military in Chile traditionally respect the constitution and generally pursue a role of non-involvement in political affairs. We have no information indicating that the military leaders plan to abandon this posture in the event of an Allende victory. As stated in the NSSM, we expect that Allende would move with extreme caution with regard to the military forces. He would improve their pay and perquisites, and by careful use of his powers of appointment and promotion, would put into key spots officers sympathetic to him while isolating opponents. In these circumstances the emergence of a unified bloc of officers dedicated to the prevention of a revolutionary Marxist state in Chile is not a realistic prospect. In summary, we cannot depend on the military for spontaneous and independent action to remove Allende, at least during the early stages of his administration.

It can be assumed that national party leaders and conservative business elements fearing an Allende government would give some thought to involving the military in contingency planning. However, we do not know the breadth and depth of the contacts maintained with the military or which may be under development by these groups. But even though we thus are unable to make a judgment as to the chances of success of such efforts to stimulate the military, it is still considered doubtful that the latter would move without itself being predisposed by its own conclusions as to the undesirability of an Allende government.

This option also assumes that the Argentine armed forces, although unhappy with the prospects of an Allende government, do not now have specific ideas about an overthrow. Nor do we have any expectation that the Chilean military would respond to an Argentine stimulus. It is possible, although remotely, that the Argentine armed forces would complement a Chilean military effort to overthrow Allende if the latter undertook the step on its own volition.

This option further assumes that U.S. support would be a helpful but marginal factor in the calculations of the Chilean military in an attempt to topple an Allende administration. [7 lines not declassified] If these determinations augured well, steps could be taken toward the objective of ultimately suggesting or sponsoring military action against Allende. Even in this estimate we conclude that the Chilean military must be already conditioned and disposed to move on Allende and that our involvement would not be the decisive influence to push them in this direction.

2. *Advantages*—Successful U.S. involvement with a Chilean military coup would almost certainly permanently relieve us of the possibility of an Allende government in Chile. The coup would demonstrate the unwillingness of moderate Chilean forces to permit their country to be taken down the path toward an authoritarian Marxist state and would show a degree of concern by Chilean forces for the wellbeing of its neighbors in the hemisphere.

3. *Disadvantages*—This option plainly involves the highest risks for the United States. The most important disadvantage is that there is little chance that, even with our stimulation, an overthrow of Allende would be attempted, and there is almost no way to evaluate the likelihood that such an attempt would be successful even were it made. An unsuccessful attempt, involving as it probably would revelation of U.S. participation, would have grave consequences for our relations in Chile, in the hemisphere, in the United States and elsewhere in the world. Were the overthrow effort to be successful, and even were U.S. participation to remain covert—which we cannot assure—the United States would become a hostage to the elements we backed in the overthrow and would probably be cut off for years from most other political forces in the country, including the Alessandri and Christian Democrat groups.

15. **Backchannel Message From the Ambassador to Chile (Korry) to the Assistant Secretary of State for Inter-American Affairs (Meyer) and the Chief of the Western Hemisphere Division, Central Intelligence Agency (Broe)<sup>1</sup>**

Santiago, August 28, 1970.

For Asst. Secy. Meyer and Mr. Broe from Ambassador Korry. Subj: Kunakov Archives.

1. Undersec Foreign Affairs Patricio Silva evening Aug 27 requested urgent meeting on sensitive topics. Because he suggested it

<sup>1</sup> Summary: This message described a meeting between Chilean Under Secretary of Foreign Affairs Patricio Silva and Korry in which the Chilean official repeatedly questioned Korry on the U.S. Government's role in a number of incidents and whether the United States had the intention to intervene in Chilean affairs. Korry denied any U.S. involvement in the incidents.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile Chronology 1970. Secret; Eyes Only.

would be inconvenient for me to go to Ministry and because of other commitments, he chose to come to residence for breakfast Aug 28th.

2. Most important of three topics raised concerning suspicions of CIA intervention in Chilean affairs was Kunakov archives appearing in *Mercurio* and on which I have had exchange of messages with addressees.

3. Silva emphasized strongest manner that only reason GOC approaching me is that from outset of my stay here and on one or two occasions since I declared to Valdes that there is no USG activity in this country without my approval and that therefore anything considered CIA was my business and my responsibility. Equally firmly he stressed that he was only raising suspicions and these were not rpt not to be construed as accusations. Finally he stated that GOC's motivation was to prevent harm to US-Chilean relations.

4. Re Kunakov papers, Silva began by referring to 1967 beach-house affair concerning Soviet diplomat and female member of Chilean Foreign Ministry, the sensitive topic to which I anticipated GOC reaction in my message to Asst. Sec. Meyer earlier this week. He said GOC had indications that in final two articles of series (#6 and #7) this weekend, his Ministry would again be implicated via this beach house affair. He wanted me to know that if the Ministry were mentioned in some way other than another stale repetition of the minimal facts, it would be forced to clear the record. It would do so by stating that this entire affair was only between the two great powers and that no one in the Ministry had ever been involved. He reminded me that Amb Dungan had given Minister Valdes "the true facts" on the incident. He said that only five or six Chileans knew these facts since their record was kept under lock in the Minister's own safe and that only yesterday had he requested and received permission to read them. He said the Chileans who knew "the true story" were the President, Valdes, himself, his predecessor Oscar Pinochet (now Amb to Moscow), Chilean Amb to Geneva Besa (then the superior of the female employee), the ex-Sub-Director of Investigaciones Zuniga and probably the late Investigaciones Director Oelckers (whom he said never divulged anything to anyone). He added that aside from one article in Socialist *Ultima Hora*, there had never been anything in press.

5. In response I reiterated that I took full responsibility for all activities of U.S. personnel and that I understood why he had raised with me his suspicions on Kunakov and other related matters. I appreciated GOC's consultation.

6. I said that I could give him categorical assurances that we were not involved in any way with Kunakov. I added that I had just read #5 in the series and that it appeared to be a further rehash of the four previous articles without a single new fact. Hence I had assumed the series

was terminated. If it were not, then the GOC could deal with the matter in any way it saw fit taking into account, as it would, the further damaging effect to our relations caused by statements of GOC spokesmen or PDC personalities.

7. As for Amb Dungan I really knew nothing of what may have transpired between him and the GOC on this beach-house matter. I had not sought any information on the subject and had read with passing interest the exchanges between right (*PEC*) and left journals here in 1968 or so on the subject and to which the author of the Kunakov archives had alluded in the same fashion. I had taken no special interest because I felt that my statements at the outset of my stay to the GOC re my responsibility for all U.S. activities had clearly established ground rules and that what was past was past. Frankly I had reacted to the Kunakov series in the same manner as Silva had in his public comments and had so informed the Dept. I did not know when the author had come to Chile nor anything else about him except that he seemed to make a living out of commentaries that were anti-Communist. Others made their living in Chile and elsewhere out of anti-U.S. publicity. It was not my affair.

8. Silva said I was wrong about the author. He had not emigrated to Chile; he was born of Yugoslav immigrants in Punta Arenas; he was married to a white Russian who was a fanatical anti-Soviet anti-Communist. She was a member of white Russian groups that had been identified in U.S. publications as being part of the worldwide CIA network. Because of these antecedents and because it “appeared” to be so typical of other CIA operations elsewhere in the world as described in authoritative books and publications in the U.S., he hoped I would understand why there were the suspicions that the articles had engendered.

9. I said it had come as no surprise that such suspicions had been articulated. Indeed I had become acclimated to such reactions. As I had told the Undersec of Interior Achurra recently at a social function I had expected that the PCCh’s disappointment over the meager results of its raid on the Andalien offices, in particular no connection with the U.S., would lead to the same kind of forgery of documents as in the Peace Corps affair last year. I had compiled a lengthy list of incidents during my three year stay in which the PCCh had mounted successful campaigns to destroy the U.S. prestige with the Chilean public and with the sole exception of the attempt by a mob to sack our Consulate after the overthrow of Belaunde Terry in Peru, the GOC and the PDC had implicitly endorsed each of these undertakings by anti-American forces. These endorsements had come in the form of deliberate silence as in the case of the Peace Corps when the govt had the facts or in the form of background leaks that had complicated our position as in the case of

Senator Fuentealba's charges and other instances which I could but would not mention since they were not relevant to his question. However I did wish to stress that events not words affected relations and that my interpretation of our relations was that the U.S. would adhere strictly to bilateral relations and that they would be carried out with rectitude no matter who was the future President of Chile. We would have no special friendships with any parties or factions, because we had been educated to understand that favored prodigy relationships were neither welcome here nor productive of mature partnerships.

10. U.S. policy was the framework for my assertions that I knew nothing of the authors of their motivations and I really did not have any interest in them. I could only suggest as an experienced hand that the international organizations to which they allegedly had belonged or belong had been subject to a great many changes in recent years as he also must know from the press. The essential point I would hope he and his colleagues would keep in mind is their knowledge that the U.S. was a pluralistic society in which private organizations had the right to defend their interests and had the access to a great deal of public knowledge. Nothing in the Kunakov documents that I had read in *Mercurio* indicated anything but quasi-public knowledge in Chile. I could only repeat my statement that we were not involved.

11. Silva began to defend his role in Peace Corps but soon tired of that. He said he understood my position and that he recognized that *Mercurio* and Edwards were committed to the triumph of Alessandri. They had deliberately sent out a smoke screen to react to the congressional investigation of the Commission of Terror. It was rather successful. It was not the same as *PEC*'s operations.

12. I interrupted to ask if he were suggesting that we had anything to do with *PEC*. He immediately and forcefully stated that the GOC knew that we had nothing to do with *PEC*'s reincarnation nor any relationship with it since then. I said that I wished him to know that all members of my Mission had strictest instructions to have no form of communication with anyone remotely connected with that publication. He said he was aware of that instruction and believed it had been implemented. He said the GOC knew *PEC* had been re-launched by Carlos Urenda and that therefore there was a clear link to Edwards. Comment: We have no knowledge of any Urenda or Edwards connection with *PEC*. [3 lines not declassified] End comment.

13. Another related subject raised by Silva concerned a cable received this week from the Chilean Embassy in Bogota which he showed me and which said:

A. Visas had been requested and granted for two U.S. officials named Ned Zander Paes and Daniel Brice Baite. Former's other visas to



many Southeast Asia and Latin countries were detailed and latter's primarily to Latin American posts.

B. Extra-officially, the Chilean Embassy had also been requested (without any source given as to whom or how) to provide multiple visas for four unknown U.S. officials.

14. Silva linked this to the third topic which was that Chilean Emb Washington had just reported that since June 30th and most recently this week groups of U.S. Navy officers and enlisted men totalling 68 as of yesterday had requested three month visas to Chile and that Silva had checked with Naval CINC Porta to learn if any official naval visits were anticipated. Reply was negative.

15. To both these questions I replied:

A. I knew nothing of either but our procedure was that I or DCM personally approved every official visitor. I had for more than one year blocked the visits of all U.S. general officers much to their chagrin and to that of the Chilean high command. I was certain that DCM would have some fully acceptable explanation about the U.S. Navy visas and my best guess would be that it had to do with UNITAS. However I would check by telephone with Washington and with DCM immediately and I would appreciate it if his Emb would be instructed to provide the names and other details of the visas to the Dept officer who made the inquiry. Comment: This query has been telephoned to Chile Desk and I have in the interim informed Silva by phone that UNITAS band was making 24 hour transit stop here Oct 15th while en route Buenos Aires to Lima. He commented that they needed no three month visas for overnight stop and requested complete investigation. I may wish to overrule plans for band's transit whatever the innocence of their travel. Silva's suspicions only confirm correctness of my policy on military and other visits.

B. As for Bogota I could only reiterate that no one would or had entered the country without my or the DCM's approval. No one would. I would make inquiries and let him know within 48 hours the results. However I did wish him to know that the Embassy for reasons he would find justified (he agreed) was taking measures to add to the personal protection of the official community; I had not taken such actions earlier because in my judgment they were not warranted but that there was no doubt we were approaching a much more serious period insofar as personnel security was concerned. Comment: We have checked with Emb Bogota and learned that Messers Paes and Baite are State Dept communications personnel en route here in connection with security. I will so inform Silva promptly. End comment.

16. I will weigh effects on Phase Two of all this after sleeping on it during the weekend. I believe judgments expressed in my message to Meyer prevail.

**16. Memorandum for the 40 Committee<sup>1</sup>**

Washington, August 31, 1970.

**SUBJECT**

Options in Chilean Presidential Election During the Congressional Run-Off  
Phase (5 September–24 October 1970)

1. This memorandum provides the Committee with a series of options which, if implemented, could influence the outcome of the election of a president by the Chilean Congress on 24 October, if no candidate obtains a majority in the general election on 4 September.

2. *Background*

a. On 25 March 1970 the 40 Committee endorsed a proposal for political action designed to reduce the threat of a presidential victory by Salvador Allende, candidate of the Popular Unity (UP—a coalition of Communists, Socialists and leftists). On 27 June the Committee approved Ambassador Korrry's request for an additional [*dollar amount not declassified*] for anti-Allende activities, but deferred any decision on the Ambassador's proposal for influencing the congressional vote should the election go to Congress. The Committee was briefed orally on 7 August at which time the risks involved in embarking on a course of action to identify "persuadable" individuals in the Chilean Congress were discussed. It was agreed that the Committee would have to consider separately any request for authority to influence the congressional vote.

b. The most recent reliable political surveys continue to indicate that none of the three candidates will receive the required majority of popular votes. Jorge Alessandri, the 74 year-old independent, continues to lead his rivals, Allende and Radomiro Tomic, the Christian Democrat Party (PDC) candidate, but not with sufficient strength to attract the majority support he needs to be elected president on 4 September. This being the case, the constitution requires that Congress select the president from the two candidates who receive the highest

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<sup>1</sup>Summary: This memorandum discussed options available to the U.S. Government to influence the outcome of the September 4 Chilean Presidential election and the subsequent October 24 election should none of the candidates achieve a clear majority. It outlined U.S. requirements, costs, and issues for taking no, limited, and broad covert action in the event that Allende or Alessandri were elected.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1970. Secret; Eyes Only. A handwritten notation on the bottom of the first page reads, "40 Committee meeting—8 Sept. 1970. Embassy to give assessment; recommendations to be made for 40 Committee consideration at 14 Sept. meeting." For a description of the 40 Committee meeting, see *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973, Document 92.

number of popular votes. An analysis of the candidates' voting strength in the present 200-man Congress shows that the UP and Allende hold 82 votes, the PDC and Tomic have 75 and the Alessandri supporters hold the remaining 43 seats. To elect a president on the first ballot there must be a majority present (101) and the winning candidate must poll a majority of those present. If no majority is obtained a second vote is called. Should the second vote still not produce a president, a third vote will take place on the following day and the president will be elected by a simple majority of those present and voting. The popular vote is expected to be close and in all probability all 200 congressmen will be present for the first ballot.

c. The Chilean tradition of endorsing the leading candidate on the basis of popular votes cannot be counted upon in this election in which political dynamics may disrupt party loyalties, especially within the Christian Democratic and the Radical parties. For example, Allende's support in Congress of 82 votes is composed of 28 from the Communist Party, 19 from the Socialist Party, 28 from the Radical Party, and the remaining 7 from the three smaller parties in the coalition. With Allende in second place, President Eduardo Frei has said that he believes about 18 Christian Democrats would support Allende. On the other hand, since Alessandri has considerable influence among the Radicals, we can expect a number of them to vote for Alessandri rather than Allende. How many might do so cannot be safely predicted at this time, but probably there would be no fewer than six. Thus, as second runner, Allende could have a total of 94 votes on the first ballot. However, since firm information on how each individual Radical and Christian Democratic congressman will vote is not available, there is no guarantee that this analysis will prove to be correct.

d. The consequences for the U.S. under an Allende administration were spelled out in NSSM 97 which, in part, said, "The election of Allende would bring to power political forces with the ultimate goal of establishing an authoritarian Marxist state. Long term goals of an Allende administration would thus include suppression of free elections, the state ownership of all or almost all business enterprises, the establishment of state farms, and the imposition of police-backed labor discipline." In foreign affairs, the NIE on Chile dated 30 July 1970 said, "On key international issues, which involve any kind of an East-West confrontation, an Allende administration would be openly hostile to U.S. interests or at best neutral."

### 3. *Possible Electoral Situations and Options*

a. The electoral situations which may require some type of action to deny the presidency to Allende in a congressional run-off and possible courses of action follow:

(1) *Alessandri in first place over Allende by less than 100,000 votes:*

(a) Possible options:

1 *Take no action.* This posture stresses the USG's respect for the principle of self-determination and implies the conclusion that there is no satisfactory alternative to accepting a Marxist government in this hemisphere if it is constitutionally elected.

2 *Take limited action.* This alternative would allow for the continuation of the present anti-Allende propaganda campaign or direct political action to influence the outcome of the congressional vote, or a combination of the two. In either case the action could be taken through the cooperation of [26 lines not declassified].

3 *Broad action.* This action would include steps described in 2 above in tandem with other [less than 1 line not declassified] assets in the Democratic Radical Party, the National Party and possibly [less than 1 line not declassified] contacts in the military. This broader approach would provide wider access to the Congress, but without measurably increasing leverage on it. In this case the U.S. would have to fund, direct and coordinate the efforts of the assets involved, thereby increasing the risk of exposure.

(2) *Allende in first place over Alessandri.* In this situation, the above options may also be considered. This situation offers the least chance of success and Alessandri has said he will not accept the presidency unless he finishes first in the popular vote. In addition, any action by the U.S. Government at the Washington level might also be desirable in order to encourage key world leaders to adopt a position which would influence the congressional vote against Allende.

(3) *Allende in first place over Tomic.* This situation is unlikely to occur, but if it does the same options as in 2 and 3 above might also be considered. Although the chances of denying Allende the presidency are slim, they would be better than in situation (2) above because of PDC strength in the Congress and the possibility that Alessandri supporters would vote for Tomic.

b. The following electoral situations might not require any action:

(1) *Alessandri in first place over Allende by more than 100,000 votes.* Although there is no guarantee that Congress would select Alessandri over Allende no matter what his margin of victory might be, informed estimates place a high probability on Alessandri being elected under these circumstances.

(2) *Tomic in first place over Allende by any number of votes.* The assumption in this situation is that Tomic would receive all of the congressional votes of the PDC and enough of those of the National Party to give him more than the required majority. Again, there is no absolute guarantee that this would take place.

(3) *Alessandri in first place over Tomic and vice-versa.* In this situation, Allende would not be a contender in the congressional run-off.

#### 4. *Implementation*

a. In any of the action situations outlined above, the continuance of the propaganda instrumentalities could be used to:

(1) stimulate public opinion in such a way that it would bring pressure to bear on Congress not to vote for Allende, and,

(2) encourage a political climate in which a majority of Chileans would approve the selection of either Alessandri or Tomic if Allende is in first place.

b. The propaganda effort would include, but not necessarily be limited to extensive use of radio; publication of brochures, pamphlets, magazines, etc., depicting life under a Marxist regime, discussing Communist Party policies, and expanding upon themes put forth in the program of the UP and on statements made by UP leaders; replaying in the Chilean press of pertinent news stories of revelations which might originate outside Chile; publicizing pertinent quotes by prominent Chilean congressmen; sponsoring speeches by exiles from Communist bloc countries; sponsoring public appearances by prominent Chilean congressmen; and, sponsoring women and youth organizations so that they may exert grass-root pressure on Congress.

c. [3 paragraphs (13 lines) not declassified]

(3) [1 paragraph (16 lines) not declassified]

d. [1 paragraph (7 lines) not declassified]

e. The [less than 1 line not declassified] which might be used to try to influence the Chilean Congress include [name not declassified] whose activities in attempting [less than 1 line not declassified] were approved by the 40 Committee; [less than 1 line not declassified] members of the National Party and [less than 1 line not declassified] senior officers in the Chilean military. The use of any of the above [less than 1 line not declassified] is limited to the extent that they can only try to influence those congressmen whom they may know. The military contacts also might issue tailored statements which would intimate that the military might not allow Allende to assume the presidency if chosen by the Congress.

#### 5. *Risks*

a. The slightest revelation that the U.S. Government is involved in a political action operation against the Chilean Congress could mean almost certain victory for Allende, while at the same time seriously affecting the credibility of the U.S. Government in world affairs.

b. The risks involved in the continuation of the propaganda activity would be minimal, since only [less than 1 line not declassified] mechanisms would be used, and it would be a continuation of the anti-Allende activity.

c. The risks to the U.S. Government would be somewhat higher if [8 lines not declassified].

d. The possibility of security problems would be significantly increased if other covert assets were used; however, these are trusted people and their use, especially with Allende in first place, might justify the risks involved.

e. If Alessandri receives at least 100,000 votes more than Allende, then the chances of success in persuading the Congress to elect Alessandri are good, and there is a good chance that the operation could be carried out without the U.S. hand showing. However, with Allende in first place by whatever margin over either of the other candidates, the chances of denying the presidency to Allende are unfavorable, and the risk factors would necessarily increase as a result of a more hostile operational environment.

#### 6. Costs

a. Propaganda continuation—Based upon the experience gained in the anti-Allende pre-election propaganda campaign, the estimated cost for this option after 5 September through the congressional vote is [*dollar amount not declassified*].

b. Political Action—The Ambassador and the CIA Station Chief have agreed that political action to influence the congress against Allende would cost approximately [*dollar amount not declassified*].

c. It is estimated that the use of [*less than 1 line not declassified*] in attempting to influence congress would amount to [*dollar amount not declassified*].

d. If all the options are taken, the total cost for the activity would be [*dollar amount not declassified*].

#### 7. Issues

a. It is requested that the Committee address itself to the following issues:

(1) Should the propaganda activities be continued into the congressional run-off period and, if so, under what precise circumstances?

(2) Is political action to be initiated to try to influence the Chilean Congress during the run-off period and, if so, under what precise situations?

(3) If political action is to be initiated, what should be its extent, i.e., limited or broad?

(4) Is direct contact with Chileans authorized to obtain the political intelligence required to plan and to implement a political action program?

## 17. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, August 31, 1970, 2045Z.

3413. Subj: Chile: Election Perspective 6. Ref: Santiago 3205.

1. Summary. The interminable Chilean Presidential campaign ends Thursday noon and after a breather of 20 hours, some 3,100,000 voters are expected to cast ballots Friday. The three candidates are like three castrates acting the part of Casanova, each lustily acclaiming his imminent triumph, each certain only of his lack of an absolute majority. The real issue then is whether any of the three will gain a large enough first majority to convert the congressional runoff of Oct 24th into a formality. Both Alessandri and Allende are genuinely confident of attaining 40 pct; Tomic cannot hope now for more than a tight outcome in which he would sneak into second place and thus have the best chance of being elected President; visiting US professors and even some US businessmen foresee Tomic emerging as President by this process. The most respected poll predicts a thumping Alessandri triumph; another projects Allende as the winner. The Embassy foresees Alessandri edging Allende with the possibility of a last minute swing of anti-Communist and anti-politiqueria sentiment widening the gap. A close race would create a tense climate in the 50 days before the runoff. (End summary)

2. Other South American countries have carnivals; Chile has elections. The Latin nexus between the two is finally self-evident these last few days before the Sept 4th vote. The sexennial exercise in democracy here is now infused with the Carioca's annual indulgence in passion, release and mystery. After ten official months of stultifying campaign that made Chile "the kingdom of anyplace inhabited by anyone", Santiago is alive with the movement, with the gay nervousness and the drama that this is a truly fateful choice between democracy and Communism.

3. Shortly after midnight this past Sunday (and for 24 more hours) autos began beeping through the capital's streets, guns were exuberantly discharged and distraught ward heelers scurried through penultimate patterns as the Alessandri forces mounted what later that morning was to be the largest political demonstration in this campaign.

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<sup>1</sup> Summary: Korry reported on what to expect in the upcoming election.

Source: National Archives, RG 59, Central Files 1970-73, POL 14 CHILE. Secret; Limdis. Repeated to USCINCSO, Buenos Aires, Lima, Asunción, Bogotá, Brasilia, Caracas, Guatemala, La Paz, Mexico City, Montevideo, Panama, Quito, Rio de Janeiro, San Salvador, and Santo Domingo. Reference telegram 3205 from Santiago, August 18, is *ibid*.

At least one quarter of a million Santiaguinos packed the broad park-and-avenue from the downtown rail station for one-mile to the Fine Arts Museum. The multitude had a festive air for all its heterogeneity of well-heeled rubbing shoulders with the great unwashed. It had the confidence of a winning side and the purposefulness of an army that knows public panoply persuades the doubters.

4. The strategists behind the 74 year old ex-President are going flat out to create a mood of polarization that would mean death to the hopes of the standard bearer of the Christian Democratic Party, Radomiro Tomic, and that would signify the prospects of a clear margin of victory over the Marxist-Leninist forces led for a fourth and final time by Salvador Allende, the Socialist doctor. Alessandri's brain-trust is confident that it has at least 38 pct of the expected 3,100,000 voters (of 3,500,000 inscribed) in its pocket. They are aiming at 45 pct so as to obviate any congressional choice in the runoff scheduled for Oct 24th. All signs indicate they have an even-money chance of breaking beyond 40 pct into the clear ground of a definitive margin.

5. Allende is also confident. Indeed in his unexpected call on President Frei in the middle of last week, he and his commando gave off a bravura of rehearsal for the grand and formal entry on inauguration day. While Frei was much impressed by the aura of victory, he was also moved to remark to a mutual friend that this band of power-seekers had all the attributes of an Indian scalping party; it was, he said, as if the Araucanos (Chile's Indians) had finally triumphed over the Conquistadores.

6. The President is also much affected by the results, still unpublished, of the Hamuy poll. Hamuy, as I have noted previously is a controversial figure who has been paid \$150,000 for his election year samplings by the PDC and by govt agencies. Although an adherent of Allende in 1964 and a bohemian of anarchist belief, he is universally respected in PDC circles as an honest, professional seer. His national figures, I have been repeatedly informed, show Allende to be a winner. (His long-delayed poll will probably be published to show Allende and Tomic neck and neck.) Moreover, we all know that the Allende forces are genuinely confident, that they do believe they have at least 40 pct of the vote and that their most serious concern is that somehow this triumph at the polls will be plucked by military intervention. They cannot entertain a calculus that does not begin with the known 39 pct that Allende attracted in his 1964 race against Frei and with the further known fact that the nominal sum of Popular Unity components total 46 pct. Also on their side they have the unfulfilled aspirations of an awakened mass of poor that equals 60 pct of the electorate, an inflationary rate of 30 pct again this year, considerable unemployment and underemployment, the sympathy of possibly a majority of those who influ-



ence opinion through the media and the most complete freedom of action in every sector.

7. Yet the poll we most respect despite its patronage by Alessandri forces is that of CESEC (Centro de Estudios Socio-Economicos). Most of the front-page of Chile's lending publication, *El Mercurio*, which is also the great thunderer of the Alessandri campaign, was devoted Sunday to CESEC's final national figures:

Alessandri	41.7
Allende	30.5
Tomic	27.7

CESEC's sample was taken August 8 to 16; it includes the usual caution of possible three percent error. We have checked the methodology of CESEC and are satisfied that it, and more importantly, the accompanying honesty, appear to be beyond doubt.

8. Nonetheless there are doubts. Frei has them; I have them. For example this past Saturday after being apprised privately of CESEC's figures, Frei said he could not accept CESEC's results for the north that gave Alessandri 47 pct. The President argued that he had worked as editor in and Senator from the north and knew it particularly well. He placed Alessandri third there. Therefore, he concluded, if one area was so misrepresented, he could not accept anything else from CESEC. The Embassy sent one officer to the north last month and his unscientific but competent impressions differ from both Frei's and CESEC's; our man in the north found considerable Alessandri strength and he projected the ex-President as a respectable second behind Allende with Tomic a poor third.

9. The Embassy, incidentally, has its own guesstimates based on a few personal visitations, analysis of past elections and general appreciations. After allowing for a deliberate arithmetical bias in favor of Allende wherever there was doubt and equally bearish weighting against the Alessandri fever, it gives Alessandri at least 38 pct, Allende 34 pct and Tomic 28 pct. If these projections materialize, Chile will probably have a very difficult 50-days that would be the antithesis of the cooling-off that the writers of the constitution had in mind.

10. It is significant that aside from the most loyal of the PDC and a few visiting American professors, there are few who think Tomic still has a good shot at the ring. His supporters are parading throughout the city in noisy bands and he too will have his final mass demonstration Wednesday to end the interminable campaign. (All electoral activity is banned for 20 hours preceding the Friday holiday vote and Allende will end his efforts with a Tuesday rally.) Frei still thinks that the race may end with only seven or so percentage points separating first and third. The President is persuaded Tomic has recovered somewhat in

the last fortnight, particularly with women, and that Tomic has benefitted from finally concentrating on establishing a link with Frei and his govt's achievements. He also thinks, as do most high level PDCers that what the Marxists and the PDC have labelled "the campaign of terror" (the massive anti-Communist propaganda drive launched three months ago by Alessandri's supporters) has aided Tomic considerably; some say is the one element that keeps Tomic in contention.

11. Indeed, there are scattered indications that women, particularly middle class Santiago females, have been shifting lately towards Tomic because of the "terror campaign". They reason that Allende means Communism and that Alessandri signifies violence; hence they conclude that the best chance for tranquility, their over-riding concern, is Tomic. How many calculate in this fashion is difficult to assess. What is certain is that the PDC has been focusing on this issue and the female vote. The ladies will surely determine the winner; for the first time they may outnumber (their abstention rate is generally considerably lower) the men who have 200,000 more registered.

12. A few hopeful straws in the wind prompted a group of Tomistas last week to announce their acceptance of an equally public challenge by the head of Alessandri's campaign (Ernesto Pinto) that he was prepared to wager 200,000 escudos (\$10,000) Tomic would finish third. Campaign headquarters have a busy sideline making election "book" for any who wish to risk a flyer on their favorite. Uncertainty has also been scented in the land of milk and money; Swiss bankers have silently been arriving to be of service in the event of an Alessandri defeat. Liquifying assets has also placed the modest but flourishing saving and loan associations in a difficult squeeze; this sector of Chilean activity has experienced withdrawals equal to six or seven million dollars in the past few months. From this one indicator it would not be rash to reckon that perhaps 30 to 50 times that amount would be available for prompt handling by the friendly Swiss bankers.

13. The electorate may well, as befits a democracy, sweep away the uncertainties with a clear verdict Friday. Frei, a man with no penchant for hard decisions and with a proclivity for eternal second thoughts, would prefer, as a French general in Indochina once said, to wait for the solution from above instead of looking for it within oneself. He tells visitors that the military will intervene if Allende is President; this deliberately loose talk is probably aimed at persuading voters since there is no reason yet to believe that the military has any such intention nor any such plan, and it is most improbable that Frei would suggest to the armed forces that they upset a democratic result.

14. Nonetheless there is a certain rustling of sabers. Gen Viaux, retired for his rebellion of last October, is being willingly manipulated by professional plotters, most notably Jorge Prat; his intemperate activity

is probably adding to the divisiveness of an already disunited Army. It would not be surprising if the govt which has infiltrated Viaux' circle would employ preventive measures to put Viaux on ice if the election results suggested such prudence.

15. Without any evidence in support, I believe there are more meaningful talks underway between serious Alessandristas and service leaders. It would not come as a total surprise if the leaders of the Navy, Air Force and Carabineros were to exert pressures on their Army counter-parts to take either symbolic action, in the event of an Alessandri first majority, or to consider other interventionary measures in the event of an Allende triumph.

16. Other preparations in the political sphere have been made to prepare for these two contingencies. There is increasing evidence of a successful Alessandri operation with the orthodox Radicals. This past week, Sam "fifty" (for thousand) Fuentes, a Radical Deputy who has turned a pretty penny by flip-flopping between Allende and Alessandri, announced definitely for the ex-President. Radical Senator Alberto Baltra, the disappointed aspirant for the Popular Unity candidacy, sought me out at a social function Friday to display unprecedented friendship and to confide that in his province (Cautin), Alessandri would have an absolute majority, a strange confidence for one of the "leaders" of the Allende campaign. If the ex-President were to finish first ahead of Allende, Alessandri counts on all but one (Miranda) of the seven Radical Senators' secret ballots and most of the 20 Radical Deputies in the congressional runoff. His advisors are also convinced that at least 20 of the 75 Christian Democrats in the congress would without any doubt vote for Alessandri over Allende while 18 would opt for the Marxist. Hence the nominal lineup of 44 congressional votes for Alessandri and 81 for Allende is misleading; a truer reading would be 80 for Alessandri and 83 for Allende with 37 Christian Democrats on the auction block.

17. In sum, I am less than confident of Friday's verdict and am still assailed by doubts ventilated in #5 in this series that herewith ends.

**Korry**

# Two Tracks: U.S. Intervention in the Confirmation of the Chilean President, September 5–November 4, 1970

## 18. Intelligence Memorandum<sup>1</sup>

1461/70

Washington, September 7, 1970.

### SUBJECT

The Situation Following the Chilean Presidential Election

#### 1. *Election Results:*

The final results of the election on 4 September, subject to verification before 23 October by the National Electoral Court, are:

Salvador Allende	1,075,616	36.3%
Jorge Alessandri	1,036,278	34.9%
Radomiro Tomic	824,000	27.8%
Null or void	25,861	.8%

Only about 2,960,000 of the 3,500,000 registered voters actually went to the polls. The 16 percent abstention rate is high by Chilean standards.

Allende did not equal the 39 percent of the vote he received in the two-way 1964 presidential election, nor did he come close to the approximately 46 percent he would have gotten if the parties in his coalition had delivered their total voting strength shown in the 1969 congressional elections.

The small number of null or void votes offers little hope that the five-man electoral court, although it is composed entirely of Alessandri backers, can find enough dubious votes to challenge Allende's lead of nearly 40,000.

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<sup>1</sup> Summary: This CIA memorandum contained a post-election forecast of an Allende government which suggested that Allende would move cautiously and gradually toward establishment of a Marxist state and would not threaten U.S. vital interests. The Allende Presidency would, however, create economic and psychological losses for U.S. policy in Latin America.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1970. Secret; Sensitive. Prepared in the Office of Current Intelligence and coordinated with the Directorate for Plans.

## 2. *The Congressional Lineup:*

The incumbent Congress, most of which was elected in 1969 and retains office until March 1973, will be charged with choosing between Allende and Alessandri when it meets for the purpose on 24 October. It is likely that Congress will respect Allende's plurality and select him as Chile's next President.

Membership of the full Congress of 200 (150 deputies and 50 senators) is divided as follows:

### *Representatives of Parties in Allende's Coalition*

Communist Party	27
Socialist Party	20
Radical Party	29
MAPU (Breakaway Christian Democrats)	3
Others	<u>3</u>
Subtotal	82

### *Backers of Alessandri*

National Party	36
Others	<u>7</u>
Subtotal	43

<i>Christian Democrats</i>	<u>75</u>
Total	200

The winner in the congressional runoff could have as few as 51 votes. A quorum of only 101 members of Congress is necessary for the first ballot and, in order to win, a candidate must receive a majority of the votes of those present. If there is a tie, another vote is taken immediately. If this does not produce a majority, another vote is taken the next day and the winner needs only a majority of any number which attends and votes at that time.

Congress has always chosen the top presidential vote-getter on the three other occasions in this century when no candidate received the required majority of the popular vote. This time is not likely to be an exception. In fact, before the election, Alessandri stated flatly that he would not accept the presidency if he did not win a popular plurality or a majority. His history of stubborn rigidity suggests that he is not likely to change his mind, or to lend himself now to deals by others to head off an Allende presidency. However, some of his backers have urged him not to concede and he has not yet done so.

The time between now and the congressional vote on 24 October is sure to be a period of intense political pressures and complex maneu-

vering as contending political groups seek to secure their objectives. The most likely end result, however, will be that a decisive number of leftist Christian Democratic members of Congress will swing to Allende. Defeated Christian Democratic presidential candidate Radomiro Tomic, who had hoped to lead a unified leftist coalition including the Communists, is likely to urge this course on his party followers. This move would be rationalized by the hope, almost certainly unfounded, that the Christian Democrats could thus prevent the disciplined Communist Party from dominating the next administration. It could also be justified by the fact that many of Tomic's policies are identical or very similar to those propounded by Allende. The blatantly opportunistic Radicals, already nominally in Allende's camp, will have no reason to desert him at this point.

There is an outside possibility that lame duck President Frei might attempt a political maneuver aimed at denying Allende the presidency. One scheme, which has been rumored and subsequently denied in clandestine reporting, would involve an effort by Frei to swing the Christian Democrats to Alessandri in the congressional vote. Alessandri would, by prior secret agreement, resign the presidency some months after taking office. New presidential elections would constitutionally be required and Frei could himself be a candidate. Frei's continued personal popularity might bring him victory and a new term in the presidency. This complex scheme, or any possible variation of it, would be most likely to collapse before it got far. It is doubtful that Frei could swing such a maneuver or now has the taste to try. He appears totally disheartened and in a near state of shock over the outcome of the election.

If, by any chance, Alessandri should be named president by Congress, the result would most likely be an upsurge of violent reaction by Allende supporters. The armed forces would be hard pressed to contain the violence and might not succeed.

### *3. The Loci of Power in Chile*

The traditional sources of power in Chile have been weakened in recent years and most of them are beset with internal differences. All of them are affected by the fact that well before last Friday's election Chile as a nation and a society had already turned clearly toward a statist economic course and a leftist and nationalist political course. This has quickened under Frei, despite his moderate predilections. Perhaps as important has been the fact that traditional power groups have not combined to hold their own, or even sought very hard to do so.

#### *The Military*

The Chilean Army's long nonpolitical tradition has made it vulnerable to shabby treatment from successive governments and has not

averted a substantial growth of leftist influence at all ranks. It has even been penetrated by revolutionary extremists. The Army has been profoundly affected by the uprising in one of its units in October 1969 and the resentments which led to the revolt have not been really resolved. The effects have been to divide and weaken, rather than to give a common purpose, and the Army's pride, discipline, and proficiency have all continued to erode. Many generals reveal deep uncertainties and mistrust of each other's motives and commitment as well as of more junior officers and noncoms.

The commanders of the Navy and Air Force, and probably most of the officers of these small services, would like to resist an Allende government, but are too weak and dispersed to be effective.

The uniformed national police, the *carabineros*, are a well-armed and well-disciplined force which is a little larger than the Army and there is strong rivalry between them. The *carabineros* are committed to their major responsibility of defending the constitutionally elected government. Although their commandant under Frei is strongly conservative, he is already a lame duck and it is doubtful whether he could lead the force to back a move against Allende as a duly elected president.

#### *The Church*

Much of the leadership of the Roman Catholic Church in Chile has long been in the vanguard of the progressive movement within the churches of Latin America. Individual churchmen frequently speak and act in ways which would be considered subversive in such countries as Brazil and Colombia. Many radical Christian Democrats are close to the Church and the numerous influential Catholic universities and secondary schools are strongly influenced and frequently dominated by committed leftists. In this election the Church did not openly support either Tomic or Alessandri, although most of its members were probably divided between the two. Some radical churchmen backed Allende. Additionally, it should be remembered that a smaller proportion of Chileans are even nominal Catholics than is the case of most Latin American countries.

#### *Private Business*

The economic power not wielded by the Chilean government through its extensive participation in business and industrial enterprises is concentrated in the hands of a few people. Most of them backed Alessandri, although some of the freewheeling ones tried to keep lines open to Allende. Frei originally had the support of many businessmen, but it diminished during his six years of extensive reforms and Tomic made small effort to regain their confidence. Many economically powerful Chileans have always kept large holdings

abroad and seem likely to leave the country rather than risk the chance that Allende will not carry out the extensive expropriations he has promised, many of specific companies. Smaller businessmen and industrialists who have no choice but to stay will probably try to accommodate Allende's policies as long as they manage not to be squeezed out. Few Chilean businessmen, small or large, have had a good word for any government in recent years, even Alessandri's. The large daily *El Mercurio* speaks for the economically influential and Allende has made its owner, Agustin Edwards, one of his major targets. The many subsidiary newspapers, publishing and other firms, as well as the banks owned by the Edwards family will probably be taken over or forced to the wall by taxation or other means. A major rallying point and voice will thus be eliminated as fast as possible and others with less resources will be treated similarly.

The major economic resource of Chile, its copper mines, are already partly nationalized and Allende will probably move quickly to fulfill his promise to take full control of them. Their recent expansion, largely through US investment and technical expertise, will provide Chile with an assured income, despite recent decline in world copper prices. This, combined with current large credit reserves, will give an Allende government wide latitude of action.

#### *Labor Unions*

Chile's largest and most effective labor groups are almost all led by Communists or Socialists. Such unions as the copper workers, a privileged and highly paid elite, did not give Allende all out support in the campaign but can be expected to exert all the influence they can in a Marxist government. Non-Marxist leaders in the large Chilean Labor Confederation (CUT) will find themselves weaker than ever. Christian Democratic organization among peasants has increased in recent years, but the strong Marxist peasant organization will probably overshadow it with government help.

#### *The Middle Class*

This is a large but amorphous group with little sense of common interest. Many are by any standard actually poor, a situation sharpened by Chile's rampant inflation. Like most Chileans, the middle class is divided into many identity groups which they emphasize by preference. These divisions are heightened by an obsession with independence and the plethora of highly opinionated media, which are very influential among a people 90 percent literate.

#### *Students*

University students and, increasingly, secondary students, play a disproportionately large role in Chilean politics. This role is usually



disruptive and is encouraged by many professors and administrators. The radicalization of the students is likely to increase under Allende. However, he and his Communist allies believe their hold on power could be threatened by extremist actions and he may take moves to control them.

#### *4. Developments after a Congressional Decision Favoring Allende:*

If Congress declares Allende the victor on 24 October, the odds would strongly favor his inauguration on schedule on 4 November. The possibility of a military power play exists, but it is too early to assess the chances of success, particularly in view of the reasons discussed above. The Army commander's pre-election statement that he would respect the decision of Congress even if it selected the man with the second largest number of votes was not universally supported by top military leaders. However, in the present context armed forces leaders could see it as a way to avert an Allende government. Even if a military take-over were to be attempted, with or without the connivance of President Frei, the probable reaction would be serious and sustained violence by Allende's partisans that might ultimately prove beyond the power of the armed forces to suppress.

The chances of a military coup would, of course, increase in the period before the inauguration if there were to be a major outbreak of violence. Political forces to the right of the Allende camp do not appear to have the ability or the inclination to resort to sustained violence, and they would have little popular support if they tried. Allende and his chief backers, particularly the Communists, can be expected to do everything in their power to prevent and to avoid the provocation of pre-inauguration violence. The extremists on the far left, who have denounced Allende and his supporters for pursuing the peaceful road to power, have lain low in recent weeks. They were encouraged to do so by Fidel Castro, who warned them that they might endanger an Allende victory. These revolutionaries, however, have become increasingly capable and self-confident, and may wish to prove to Allende that he cannot discount them and their more radical ideas.

The intelligence community's judgment of the likely policies and goals of an Allende administration were discussed at length in the response to NSSM #97, dated 18 August 1970. Nothing has happened to change these judgments. The summary portion of the response to NSSM #97 is quoted below.

In sum, we would expect an Allende government to move gradually and cautiously toward the establishment of an authoritarian Marxist state. To this end, it would seek to destroy, neutralize, or obtain the support of the various groups and institutions which might block its progress. Some groups, most notably the security forces, would be

watching Allende closely, and could move to overthrow him if he were seen flagrantly flouting the constitution or threatening the military's institutional interests. Divisions and uncertainties within and among these groups, however, mean that a sufficiently gradualist and skillful approach by Allende could avoid provoking the military almost indefinitely. On this basis, time would enable Allende to entrench himself ever more firmly in power.

Internationally, we see as one of Allende's goals the extirpation of U.S. influence from Chile. While we expect him to try to avoid a serious provocation of the U.S., his promised actions, including the expropriation of the U.S. copper companies, raise to a high level the probability of some kind of confrontation with us. We take at face value Allende's platform promises to "denounce" the OAS, to intensify relations with socialist countries and to establish close ties with Cuba. Expansion of the Soviet presence in Chile could occur in many different ways, but we believe the establishment of a major permanent Soviet military presence to be unlikely but not impossible. We also believe Allende would probably—and almost certainly in the period in which he was trying to consolidate himself—avoid the risks of discernible Chilean subversion in other countries.

Regarding threats to U.S. interests, we conclude that:

1. The U.S. has no vital national interests within Chile. There would, however, be tangible economic losses.

2. The world military balance of power would not be significantly altered by an Allende government.

3. An Allende victory would, however, create considerable political and psychological costs:

- a. Hemispheric cohesion would be threatened by the challenge that an Allende government would pose to the OAS, and by the reactions that it would create in other countries. We do not see, however, any likely threat to the peace of the region.

- b. An Allende victory would represent a definite psychological set-back to the U.S. and a definite psychological advance for the Marxist idea.

19. Memorandum Prepared in the Central Intelligence Agency<sup>1</sup>

Washington, undated.

The following actions have been taken in response to the President's instructions of 15 September 1970:

1. Organizational:

a. Two special operating units have been organized at Agency Headquarters and were in operation by 18 September. Both units will operate within the Agency under the cover of the 40 Committee approval of 14 September for political action.

b. Three Chiefs of Station have been recalled, two arrived in Washington on 18 September to serve as Chief and Deputy Chief of one of the special operating units which will be known as the military unit of the task force.

c. [1 paragraph (4½ lines) not declassified]

d. The original 40 Committee program group has also been augmented by the addition of two officers. This unit will continue to function from the present quarters of the Chile Desk to provide support for the 40 Committee program.

2. Political/Economic:

[2 paragraphs (13 lines) not declassified]

c. The Communists have been conducting an intensive campaign to gain control of all media in Chile before the election run-off. *El Mercurio* has been a key target. All of our [less than 1 line not declassified] Stations [less than 1 line not declassified] have been advised of this campaign and instructed to generate press support for *El Mercurio's* position of resistance to pressures of Allende's forces.

d. Our Station Chief in Santiago has indirect contact with various Chilean military leaders [1 line not declassified]. There is a clear evidence of possible coup plans which call for President Frei's authorization to take the following steps:

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<sup>1</sup> Summary: This memorandum recounted the operational details of U.S. covert actions in Chile in response to instructions from President Nixon given in a meeting on September 15. These actions included funding for *El Mercurio*, the conservative Chilean paper, communications with the Argentine military to uncover additional Chilean vulnerabilities, and investigations into possible coups brewing within the Chilean military.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, 1970. Secret; Sensitive; Eyes Only. Regarding the September 15 meeting with President Nixon, see *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973, Document 93.

- (1) Resignation of the Cabinet,
- (2) Formation of the new Cabinet composed entirely of military figures,
- (3) Appointment by Frei of an acting President,
- (4) Frei's departure from Chile.

The success of such a coup would ultimately depend on Frei's total commitment to follow through.

e. Agency representatives debriefed [*1½ lines not declassified*] as part of a continuing attempt to identify possible military leads and economic vulnerabilities.

f. Two senior staff officers have arranged to meet with [*less than 1 line not declassified*] to brief him on the Chilean situation and to ask him to contact [*name not declassified*] and obtain his support in persuading his counterpart in Chile from taking any public action to endorse Allende.

### 3. Propaganda:

a. A series of guidance cables have been sent [*less than 1 line not declassified*] urging them to attempt to generate press response in their respective countries which is intended to:

(1) help create an atmosphere of hope that an alternative to a Marxist government in Chile will be found;

(2) avoid premature acceptance by the general public of an Allende *fait accompli*;

(3) convince Chileans that a majority of their fellow Latins are concerned, watchful, and hopeful that an appropriate solution can be found;

(4) generate support for the efforts of *El Mercurio's* owners and publishers to continue to fight to bring about Allende's defeat;

(5) make a maximum effort to exploit through all media assets the reported campaign which the Communists are conducting to gain control of all media in Chile prior to the election run-off.

b. Guidance cables were also sent to selected European Stations requesting appropriate support of the above noted objectives.

c. A paper has been prepared for the Director proposing that he contact [*name not declassified*] to enlist his support in having [*less than 1 line not declassified*] assist *El Mercurio* and expose the Communists campaign to control the media of Chile.

d. We are exploring ways in which [*less than 1 line not declassified*] to determine how [*less than 1 line not declassified*] might bring its influence to bear on the Chilean situation.

e. [*1 paragraph (5½ lines) not declassified*]

f. [*1½ lines not declassified*] we are exploring the possibility of having the Brazilian and Argentine military discreetly encourage the Chilean Army to take action to prevent Allende's succession.

g. In a continuing effort to identify possible economic pressure points we have enlisted the support of experts from various components of the Agency.

h. Upon receipt of the intelligence from our Santiago Station indicating that a possible military coup was developing, a cable was sent to COS, Santiago indicating he should discreetly encourage such a movement.

i. We are in the process of contacting [3 lines not declassified] who [1 line not declassified] will be sounded out on any possibilities for discreet recontact of Frei by him personally. If that is possible, we would hope to use him to stiffen Frei's resolve to keep an Allende government from coming into power.

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**20. Backchannel Message From the Ambassador to Chile (Korry) to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Santiago, September 19, 1970.

**Progress Report #2.**

At opera night 18 Sept Ambassador chatted briefly during intermission with President Frei under watchful eyes diplomatic corps including Soviet Ambassador. Frei whispered that Ambassador must see Ossa and indicated important date would be Tuesday, 22 Sept, since nothing would happen over weekend. German and Italian Ambassadors later commented to Ambassador that Frei very pessimistic about PDC changes in Congress and that Frei was "desperate" about situation in Chile.

Also at opera during other intermission, Carlos Figueroa, Minister Economy, approached Ambassador saying had to meet soonest because needed Ambassador's political advice and wanted go over with him the economic report. They will meet 20 Sept.

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<sup>1</sup> Summary: This message described brief meetings between Korry and top Chilean officials at a recent night at the opera. During the intermission Korry had a short encounter with Frei. The German and Italian Ambassadors to Chile later noted that Frei seemed particularly pessimistic concerning the current political situation.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, 1970. Secret; Sensitive; Eyes Only. Progress Report #1, September 18, is Document 103, *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973.

Ambassador had met earlier in day with Raul Saez who said has been so busy gathering information for Zaldivar economic report to government on 22 Sept that he has neither seen Ossa nor been made aware that the economic report may be tied into a plan for ministerial resignations. Saez explained that Ossa completely occupied with preparations for 18–19 Sept national day celebrations, thus they had not seen each other for several days. Saez said making every effort see Ossa soonest. Saez called the Ambassador the morning after (19 Sept) to say that “things are shaping up,” having seen Ossa previous evening.

Ambassador will see Ossa evening 19 or 20 Sept.

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## **21. Telegram From the Department of State to All American Republic Diplomatic Posts<sup>1</sup>**

Washington, September 19, 1970, 2103Z.

154387. For Ambassador. Subject: September 16 Chicago Backgrounder on Chile. Ref: State 147753; State 154299; Santiago 3783.

1. FYI only. Following is text of backgrounder given in Chicago September 16 in answer to a specific question on Chile. The content of the backgrounder was embargoed until 6:00 p.m. EDT, September 19. It is attributable to “administration officials,” direct quotation prohibited.

2. You should not repeat not comment on any stories appearing with regard to this. Following text should be considered as background comment to question asked as to view of “dangers and activities of Marxist elected in Chile.” While reflecting White House views, the text and substance are not repeat not to be repeated publicly.

3. Text of backgrounder follows:

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<sup>1</sup> Summary: This telegram transmitted the background briefing by U.S. “administration officials” (Kissinger) to journalists in Chicago outlining the Chilean election law pertaining to those elections with no clear majority and the overall ramifications of the recent Chilean election in which Marxist candidate Salvador Allende earned less than one and a half percent more than his opponent Jorge Alessandri.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Confidential; Exdis. Repeated immediate to the Consulates in Belize, Curacao, Nassau, and Paramaribo, USCINCSO, and the Embassies in Bonn, Canberra, London, Moscow, Ottawa, Paris, Seoul, Taipei, Tokyo, Rome, The Hague, and Wellington. Although the backgrounder is not attributed, in his memoirs, Kissinger described delivering the backgrounder himself to a group of Midwest editors and broadcasters in Chicago on September 16. (*White House Years*, pp. 672–673)

Quote: The election in Chile brought about a result in which the man backed by the Communists, and probably a Communist himself, had the largest number of votes by 30,000 over the next man, who was a conservative. He had about 36.1 per cent of the votes. So he had a plurality.

4. Qte: The two non-Communist parties between them had, of course, 64 per cent of the votes, so there is a non-Communist majority, but a Communist plurality. I say that just to get the picture straight.

5. Qte: According to the Chilean election law, when nobody gets a majority, the two highest candidates go to the Congress. The Congress then votes in a secret ballot and elects the President. That election is October 24th. In Chilean history, there is nothing to prevent it, and it would not be at all illogical for the Congress to say, "sixty-four percent of the people did not want a Communist government. A Communist government tends to be irreversible. Therefore, we are going to vote for the no. 2 man. This is perfectly within their constitutional prerogatives. However, the constitutional habit has developed that Congress votes for the man that gets the highest number of votes. But then, of course, it has never happened before that the man with the highest number of votes happens to represent a non-democratic party, which tends to make his election pretty irreversible. I have yet to meet somebody who firmly believes that if Allende wins there is likely to be another free election in Chile.

6. Qte: So this is the situation that is now confronted by Chile. By a constitutional habit, the Congress votes for the man with the highest number of votes. The man with the highest number of votes is the candidate backed by the Communists.

7. Qte: There is the additional problem that the Congress is not elected at the same time as the President, so in the Congress, as it now stands, the total number of seats is 200. The group that backs Allende, including the Communists, has 82 seats, so that all Allende has to do is pick up 19 seats from the other parties, and he will be in. The conservative candidate, that is, the no. 2 candidate, around whom the rallying would have to take place, has only about 45 seats. So he would have to pick up 56 or something like that to make it.

8. Qte: So both the internal structure of the Congress, plus constitutional habits, would argue that Allende is likely to win the congressional election, barring something extraordinary. This problem is compounded by the fact that the non-Communist parties in Chile have been very divided among themselves, and you have the unusual phenomenon of people arguing, "well, maybe Allende won't be so bad. Maybe he will run a democratic system". And it is the usual revolutionary dilemma that, with a revolutionary seeking power, those who represent the non-revolutionary side do not all at the same time clearly

understand what is happening. Therefore you have a great deal of confusion in Chile.

9. Qte: Now, it is fairly easy for one to predict that if Allende wins, there is a good chance that he will establish over a period of years some sort of Communist government. In that case you would have one not on an island off the coast which has not a traditional relationship and impact on Latin America, but in a major Latin American country you would have a Communist government, joining, for example, Argentina, which is already deeply divided, along a long frontier, joining Peru, which has already been heading in directions that have been difficult to deal with, and joining Bolivia, which has also gone in a more leftist, anti-U.S. direction, even without any of these developments.

10. Qte: So I don't think we should delude ourselves that an Allende take-over in Chile would not present massive problems for us, and for democratic forces and for pro-U.S. forces in Latin America, and indeed to the whole Western Hemisphere. What would happen to the Western Hemisphere Defense Board, or to the Organization of American States, and so forth, is extremely problematical. So we are taking a close look at the situation. It is not one in which our capability for influence is very great at this particular moment now that matters have reached this particular point.

11. Qte: But you asked me about what the situation is. It is one of those situations which is not too happy for American interests. End qte.

**Rogers**

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## **22. Message From the Central Intelligence Agency to the Station in Chile<sup>1</sup>**

Washington, September 21, 1970.

1. There seems to be a basic misunderstanding in regard to [Track Two]. Let us clarify.

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<sup>1</sup> Summary: The CIA requested that Korry let his actions in Chile be guided by the instructions he received from the Department of State.

Source: National Archives, RG 59, Chile–ITT–CIA 1963–1977, Lot 81D121, Chile Papers, Church Committee, August 12, 1975. Secret; Immediate; Eyes Only. The original is a copy with bracketed excision to protect cryptonyms and code names. The original, signed, and un-redacted version of this message is in Central Intelligence Agency, Directorate of Operations, Job 80–00012A. The message from Under Secretary of State Johnson under reference in paragraph 2A is in *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973, Document 113.



2. You are operating on two sets of instructions:

A. [*codeword not declassified*] (Track One)—as outlined in Johnson message to Korry (Director [*number not declassified*]) which is based on parliamentary solution to deprive Allende of Presidency. Johnson message provides strict outline of limits of action under this coordinated authority.

B. [*codename not declassified*] (Track Two)—this is authority granted [CIA] only, to work toward a military solution to problem. As part of authority we were explicitly told that [40 Committee], State, Ambassador and Embassy were not to be told of this Track Two nor involved in it in any manner.

3. Your suggestion of having Station urge (repeat having Station urge) Korry to visit Frei and suggest military solution is excellent and would be workable if we were working in tandem. We are not. Thus, would be tantamount to having Korry act as unwitting agent in implementing Track Two of which he is not aware and is not to be made aware. If he decides to defy Department instructions and act on his own that is his affair but Station cannot be responsible for pushing him in that direction since would be violation of our [*codename not declassified*] instructions [*less than 1 line not declassified*]. You can if you wish urge Korry in most generic terms to pay personal visit on Frei but you should not suggest scenario to him in line with ref b above for obvious reasons.

4. Hence, being deprived of use of Korry as spearhead into Frei we have decided, [*7½ lines not declassified*].

5. [*1 paragraph (15 lines) not declassified*]

6. [*1 paragraph (2½ lines) not declassified*]

7. Again urge you to understand that in relations with Ambassador you are limited to actions outlined in Johnson cable and should not give *any* indication of existence of [Track Two.] If we confronted with changed circumstances, we may alter these instructions.

8. [*1 paragraph (1½ lines) not declassified*]

End of message.

**23. Backchannel Message From the Ambassador to Chile (Korry) to the Assistant Secretary of State for Inter-American Affairs (Meyer) and the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Santiago, September 21, 1970, 6:04 p.m.

*SITUATION REPORT*

1. In the course of 20 September, Ambassador Korry exchanged views about the Chilean situation and about available courses of action to deny Allende the presidency, with Minister of Economy Carlos Figueroa and with Minister of Defense Sergio Ossa. Both enjoy the personal confidence of President Frei and both belong to an informal working group within the cabinet, composed of five cabinet ministers who are convinced that steps need to be taken to prevent Allende's election by congress. The following five cabinet ministers belong to the aforementioned group

- a. Sergio Ossa, Minister of Defense
- b. Raul Troncoso, Minister without Portfolio
- c. Carlos Figueroa, Minister of Economy
- d. Andres Zaldivar, Minister of Finance
- e. Patricio Rojas, Minister of Interior.

2. The following three cabinet ministers have evinced the same deep concern over the situation, but have not been invited to join the inner group (because of their relatively minor utility) and therefore not privy to any action plans:

- a. Andres Donoso, Minister of Housing
- b. Eduardo Leon, Minister of Labor
- c. Ramon Valdivieso, Minister of Health.

3. Ministers of Mines Alejandro Hales and Maximo Pacheco appear resigned to Allende's advent, but doubt that he will last. Pacheco's wife (a relative of Alessandri's) "is working on him." Minister of Agriculture Hugo Trivelli is "completely lost as usual." Gabriel Valdes is trying to save his political skin, keeping links open to Allende with

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<sup>1</sup> Summary: This backchannel message described conversations between Korry and Chilean Minister of Economy Carlos Figueroa and Minister of Defense Sergio Ossa. They discussed opposition within the outgoing Frei administration to the incoming Allende administration, as well as the role of the military in the transition, and Frei's position toward his successor.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Secret; Sensitive; Eyes Only. The message was transmitted from Broe to Haig.

whom, however, he has not aligned himself openly yet. Minister of Justice Gustavo Lagos is an avowed follower of Allende's.

4. According to Figueroa, both he and his colleague Zaldivar are prepared to resign, but are doubtful about Frei's willingness to use their resignation as excuse to precipitate a constitutional crisis. Should they resign, the collegiate principle would apply and all other members of the cabinet would put in their resignation. Both are concerned lest their resignation be considered an act of cowardice and of abandonment of Frei. (In this context, Figueroa emphasized Frei's well known propensity for letting others make the painful decisions). What would happen if Frei invites the military to fill the vacant cabinet posts and the military decline? Then Figueroa and Zaldivar would look like the proverbial rats abandoning the ship and the full blame would fall on them. Figueroa doubts whether his and Zaldivar's resignation would, by itself, trigger national crisis. It may take one or two months before the Chilean people feel the full impact of inflation and unemployment. Hence, their departure from public office would dramatize a situation whose effects have not as yet made themselves felt. Some businessmen are already trying to make their peace with Allende.

5. The inner group has been receiving the economic analytical support of Cauas, Molina and Massad, none of whom are in on the secret. Massad is on record in the GOC's "Economic Committee" as refusing to lend himself to inflationary solutions of the type advocated by Allende's economic liaison man, Vuskovic, who has been pushing a formula of virtually unlimited credit and recourse to the printing press in order to make up the currency shortages.

6. Figueroa denied any knowledge of direct talks between Frei and the leadership of the three armed services. He further doubted that the military had been apprised of the fact that Frei considers a parliamentary solution as no longer feasible. Figueroa did not challenge the logic of the Ambassador's observation that, inasmuch as several foreign ambassadors had been so advised, there was no compelling reason for keeping General Schneider, CINC Army, in the dark. The Ambassador therefore urged Figueroa to prevail on Frei to have a private talk with Schneider and then with the rest of the military to put them in the picture.

7. Figueroa was interested in learning the Ambassador's views about the state of mind among the junior ranks of the officer corps. He was told that some junior officers were reportedly fed to the teeth and that there was obvious danger of rash acts on their part, or of ultra-rightists, such as an attempt against the life of Frei.

8. Figueroa urged the Ambassador to get word to the military promptly that, with Allende waiting in the wings, relations between the United States and Chile were bound to undergo drastic change and

that any flow of military equipment was bound to end. Figueroa further agreed that the cancellation of further official visits by Chilean military to the United States would have a salutary effect. The Ambassador, in turn suggested that Zaldivar's impending address on the economic situation of Chile make general mention of the laws of the United States which would have to be invoked in case of Allende's election and program implementation and similarly allude to the fact that the West German Government has already proceeded to cut off certain types of aid. Figueroa agreed to pass on this suggestion, mentioning in passing that the Japanese had cancelled an agreement to grant certain credits for military purchases and that the impact of this move upon the military, who live in a dream world, had been considerable. Word should be gotten to the military that they will not be able to purchase spare parts.

9. Figueroa expressed doubt that the thought of leaving Chile had as yet entered Frei's mind. He had no cavil with the Ambassador's observation that this might be a good time to think about that eventuality, unless Frei had resigned himself to personally handing the sash of office to Allende. Hopefully, the Ambassador remarked, Frei would remember that it was he and not Radomiro Tomic who handed over Chile to a Communist regime. Either Frei believed in Allende's accession as a realistic prospect or he did not. In the latter case, there was obviously only one avenue open.

10. Figueroa asked the Ambassador's opinion as to what, if anything, could be done once Allende was in power. The Ambassador's reply was "nothing." If confronted with a choice to ease Chile's economic plight under an Allende regime, or hasten economic collapse thereby forcing Allende to adopt the harsh features of a police state earlier than planned, the Ambassador would not hesitate to opt for and see to it that, economically speaking, Chile would go to hell faster.

11. Figueroa quoted the PCCh as holding out the promise of prompt Soviet help. The Ambassador voiced doubts about the validity of that boast, but pointed out to Figueroa that any additional drain on Soviet resources would obviously redound to the global benefit of the United States. Figueroa opined that if the military were to put on a show of force in Santiago there would be no civil war and that the majority of the Chilean people preferred tranquility at any price.

## 24. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, September 22, 1970, 1615Z.

3824. For Chiefs of Mission only. Subj: Frei: Transacting the Future (Part I of II Parts).

1. There are now 33 days left before the Oct. 24th Congressional runoff that will decide Chile's future if there are no intervening surprises. In the 17 days since the Marxist Allende won a plurality, little on the surface has changed. The country is calm; the armed forces are acting the part of sturdy guardian of the Constitution; the economy is damaged but a great deal of business goes on as usual; Frei plays his aloof public role of President of all Chileans.

2. Beneath this surface calm, there has been a significant amount of movement on both sides, by those who wish to establish a Marxist-Leninist state and by those opposed to it; and equally important there is kind of dialogue between these two protagonists. What follows is the view of one observer who has handicapped his perception by limiting his Mission's contacts to only those who seek us out; there are no longer many of those but we believe we are well-informed.

3. Frei remains the central figure. His moves determine the pace, the direction and the form of a situation that has far more flux than 99.99 pct of the Chileans know. His style is that of all politicians—of transaction. Transaction signifies mobility, maneuverability and manipulation. The three materials that the President is trying to mould into some coherent form are the public, the army and the parties.

4. With the public, Frei is seeking, rather successfully, to safeguard his popularity and their confidence. He wants tranquillity in the streets while he pursues his political goals; he wants to avoid any perturbing, and more importantly, any unexpected developments that could upset his manner of doing things. He wants to maintain an aura of government control of the situation, of the seriousness of his ministers, of the correctness of their actions in handling the deepening problems of

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<sup>1</sup> Summary: In this telegram, Korry discussed the post-election political climate in Chile. He focused his analysis on Chilean President Eduardo Frei and Minister of Defense Sergio Ossa, and centered his discussion of the military's role in politics on General Viaux.

Source: National Archives, RG 59, Central Files 1970–73, POL 15 CHILE. Secret; Immediate; Limdis; Noform. Repeated to USCINCSO, Asunción, Bogotá, Brasília, Buenos Aires, Caracas, Guatemala, Kingston, La Paz, Lima, Managua, Mexico City, Montevideo, Panama, Port au Prince, Port of Spain, Quito, Rio de Janeiro, San Jose, San Salvador, Santo Domingo, and Tegucigalpa. The message is Part I of two parts. The second part was sent as telegram 3828 from Santiago, September 22. (Ibid.)

the economy. For example, if he were to precipitate closings of factories and enterprises by deliberately squeezing credit, he would be very vulnerable to the Allende accusation of showing panic for political purposes and he would run the undoubted risk of provoking reactions for which he is not yet prepared.

5. With the armed forces, Frei has been using the Minister of Defense, his trusted intimate, Sergio Ossa while avoiding any direct or frank communication. Having established before the election the so-called Schneider doctrine (named after the Army CINC) of strict constitutionalism, the President is corseted by the tight application that Schneider gives to his profound belief in the apolitical role of the Chilean military. Schneider emphasized his doctrine in his Sept. 19th Independence Day message to the army while Frei's declaration that day had much more subtlety and ambiguity (Santiago 3807). Schneider wants no options that would invite armed forces to undo what the politicians have wrought in Chile; Frei detests closed doors as much as unequivocal decisions.

6. Hence the task of "educating" the armed forces has been assigned to Ossa in the first instance. Because Frei was sincerely fearful of an Allende electoral triumph, Ossa's main task in the past 11 months that he has held his post, has been to gain the confidence of the officer corps, to size up each general and admiral, and to forge a semblance of unity among a military scarred by the fallout of last October's army sit-down strike, by partisan Presidential preferences and by career and service competitiveness. Ossa, too, has been "rather successful" in these tasks. In the 17 days since the election, he has been trying to thread the ribbon between Schneider's constitutionalism and Frei's consternation over the prospects of an Allende Presidency. Ossa has been planting doubts about the survivability of democracy in Chile, about the future status of the armed forces, about the links between Chile and the non-Communist world. He has been postulating alternatives that are designed to make the armed forces reflect and to provoke them into consideration of alternatives.

7. The declaration last week by General Viaux, the leader of last year's strike, included the hand of Ossa (read Frei) as well as those rightists who wish to prevent Allende from assuming power by a typical Latin golpe. It has the effect of uniting the armed forces and of reinforcing the notion of a special role for the military in political context. Since then, the high command has also reached another significant if still not determinant conclusion—that it would be prepared to confront a popular uprising—the civil war threat pinned to the Marxist standard—in defense of the constitution. Still more recently, the armed forces have had a whiff of the possibility of a cabinet shuffle in which the military might have to assume a number of ministerial posts under

Frei and which, just might by chance, convert Schneider from the dominant immobilizing force in the military to just another cabinet minister. Whether these are more of Frei's Swiss soundings or part of a skillful scheme is not yet certain.

8. The action that would spark the shuffling of military into the government deck would be a report to the nation this week by the Minister of Finance, Andres Zaldivar. He and his close associate Minister of Economy Carlos Figueroa, have ostensibly been preparing the past few days a "technical" report on the state of the economy for the President. They have been aided by teams of specialists on each sector of the economy. All participating in this "study" are bound by only one glue—their total opposition to Allende. The motivation for the Zaldivar report would be the truly damaging effects of the post-electoral reaction to the Allende plurality—the enormous public liquidity that resulted from massive govt support to banks, savings and loan associations and to businesses, the reluctance of consumers to buy or to save, the downturn in production, the closing of some businesses and the flight of technical and managerial talents.

9. If such a message is to be delivered to the nation, Frei must calculate the effects very finely indeed. He does not wish to provoke a panic; he does not wish to expose himself too much politically to the charge of political motivation; he does not wish to affect the public's, the parties' and the military's awareness of alternatives; he does wish to ripen the situation a little, but not too much, to increase his overall leverage. The critical questions he must answer—and I believe he is formulating his judgments today—is whether he can justify the sobering economic report and whether that report would justify the resignations of Zaldivar and of Figueroa. Both these gentlemen are ready to resign if Frei gives the green light; the military is ready to assume portfolios that would flow from the collective resignation of the entire cabinet.

10. An indispensable ingredient in this package would be the inclusion of Schneider in the new cabinet. His displacement would permit the naming to the army CINC slot of a general less disposed to "constitutionalism" and more determined in his opposition to Allende. The next in line to Schneider would be Chief of Staff Gen. Prats, who would meet these qualifications but there are other candidates under consideration. The service chiefs in considering this possibility have stated they wished to keep Ossa as Min Defense and Zaldivar and Figueroa as "technicians" in fields in which they confess their total ignorance. Unlike Peru, the Chilean military does not have to assume a quasi-revolutionary role of great reformers since the politicians have a monopoly on that field. Thus the military might not assume more than a few portfolios, if this scenario were to be Frei's choice; Interior, Labor, Health, Public Works would be probable designations. I cannot repress

my profound hope that Frei would name Schneider as the new Foreign Minister in place of Gabriel Valdes, the man recommended to Allende by Fidel Castro as the best possible Foreign Minister in his new govt. Although Schneider is far more qualified for the post than Valdes, I doubt if Frei can ever bring himself to break with his lifetime friend and entertainer. Frei is meeting with Schneider alone today for the first time since the election and we shall know the drift soon. (End Part I)

Korry

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**25. Backchannel Message From the Ambassador to Chile (Korry) to the Under Secretary of State for Political Affairs (Johnson) and the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Santiago, September 24, 1970.

1. Zaldivar economic report to nation last night excellently prepared and designed to worsen bad situation. (I sent Santiago 3882 unclassified so that Washington can, if it so decides, give widest distribution to U.S. press and more importantly business and banking community.)

2. Frei has ruled out cabinet resignations for the time being. Pretext is that if military entered government they would probably only do nothing more than assure a constitutional process that would elect Allende.

3. Frei met with Army CINC Schneider alone (see TDCS-DB-315/05028-70), yesterday and did exactly what Minister of Defense Ossa had said to me Sunday he would get Frei to do:

- a. Disabuse Schneider of any hope in the congressional formula;
- b. Inform Schneider it was military or nothing;
- c. Tell Schneider that Marxist government would probably provoke end to U.S. military aid;
- d. Frei would give similar briefing to other military.

4. Schneider interpreted Frei to mean support for his constitutionalist doctrine. He has convoked "Junta de Generales" to explain situa-

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<sup>1</sup> Summary: Korry reported on the political transition and post-election economic deterioration in Chile.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, 1970. Secret; Sensitive; Eyes Only.



tion today. There will probably be opposing point of view articulated. But I would guess that military will not break with prevalent view that politicians got country into mess and should get U.S. out of it, not vice-versa.

5. Edmundo Perez Zujovich, the Frei intimate in charge of the stop-Allende movement in the PDC junta, informed his key party workers yesterday morning that he was disengaging totally from their work. His pretext was that they had used his name and/or had sought money from the U.S. Embassy and that Frei and he were furious with their indiscretions with foreigners and rightists. (I had asked Perez if he had sent these emissaries to the embassy and had suggested he desist since they were so indiscreet and since we would not have any dealings with them in any event.) This halt to the stop-Allende party movement is widely known, but I am uncertain whether the Perez pretext will not be deformed into the accusation that we were offering money.

6. The first negotiating session between Allende and the PDC leadership took place yesterday afternoon. Meeting publicly described as cordial. PDC promised to release today its presentations but excellent source tells me Allende begged and received commitment that PDC would not include in public release certain PDC requests for constitutional guarantees; Allende explained that PCCh and hard-line Socialists upset with whole matter of guarantees and wish to give only "clarifications." Allende told PDC he would "have to massage" his allies and that he would do everything possible to assure PDC vote for him in Congress.

7. Frei told excellent source yesterday that he had to abandon congressional formula because that "scoundrel Tomic" had not only handed over PDC to Allende but had briefed Allende on every one of the PDC congressmen; Frei said Allende now had more dirt and leverage than he (Frei).

8. Excellent source (but without providing details) said he knew as unassailable fact that Frei last night met with Allende in the home of Gabriel Valdes. Source added personal opinion that Frei was arranging his own exit from a situation he views with increasing pessimism.

9. Allende will probably announce his cabinet tomorrow. One Popular Unity bigwig (Alfonso David Lavon, Secretary General of API Party) said there would be three each Communists, Socialists and Radicals and two each API, MAPU and Social Democrat. Said Minister of Interior would be Silva Simma, very respectable Radical and Mason and head of Soviet-Chilean Friendship Society but Under Secretary would be Communist. Added that Allende's first choice for Foreign Minister would be Valdes but did not know if latter would accept. A woman Socialist would be in newly created Ministry of Family.

10. [*less than 1 line not declassified*] told me last night after leaving late afternoon lengthy cabinet meeting that had edited Zaldivar's report that those such as himself who wished to stop Allende were not getting leadership from Frei. He knew Frei was anti-Allende, but Frei always found a reason for not taking decisive action. Frei did not like any of the alternatives. Frei wished to be unblemished. Frei hoped the Army would move but would give no order or specific encouragement. Frei would not provoke a crisis by himself resigning or leaving the country. Frei would probably seek to make the best of the worst by having PDC negotiate as much as it could from Allende.

11. [*less than 1 line not declassified*] the one factor that could change the entire situation would be a faster downturn in the economy. If that could be provoked, it would affect military outlook and even PDC's, particularly if such downturn occurred before the PDC junta and reached maximum velocity before October 24th. He offered following specific suggestions:

a. Get U.S. banks to cease renewing credits to Chile or Chilean organizations and no new credits. (He said some U.S. banks still doing business as usual.)

b. Get U.S. companies here to foot-drag to maximum possible. They could without taking provocative action hold off on orders, on deliveries of spare parts, on extending credits and so on. He recognized that British doing the reverse at full speed with French and Italians not far behind. But he said they count for relatively little. (FYI: General Tire Company here, a big employer, is negotiating with Allende.)

c. Pass the word that at least some of the building and loan associations are near bankruptcy [*less than 1 line not declassified*]. With a little push one of the biggest (Calicanto) and one of the smallest (Sasa Chilena) would shut their doors and start a real run.

d. Do the best possible to get a few businesses to close their doors in the next three weeks.

e. Spread the word that rationing is probable. He quoted public declaration of Communist controlled Confederation of Trade Unions (CUT) stating that workers would eat under Allende because they would get "bonos" (stamps). Run on food stocks would be useful and would increase demand for bank notes with Central Bank already in very short supply of notes. He warned against any emphasis on inflation since that would provoke run on durable goods and sop up public liquidity when opposite goal is desired.

f. He said there would be considerable unemployment in Santiago by mid-October since [*less than 1 line not declassified*] private construction slump only partially sopped by public works (perhaps ten of 55,000 expected unemployed in private sector).

g. He noted that Alessandri's own paper company had yesterday submitted request for government approval of \$9,000,000 (M) expansion [1 line not declassified]. He noted First National City Bank intends to grant \$2,500,000 of this as loan. (I told him that Alessandri and his supporters increasingly furious with Frei and regard the Rube Goldberg contraption as a Frei doublecross that has hurt Alessandri's prestige without having any real intent behind it. I added that Socialists, with whom Alessandri had always had good relations were also massaging the old man as well as seeking to entice rightists with promises of managerial jobs.)

h. Try to have business downturn affect provinces since for the time being only Santiago area really feeling pinch.

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**26. Backchannel Message From the Ambassador to Chile (Korry) to the Under Secretary of State for Political Affairs (Johnson), the President's Assistant for National Security Affairs (Kissinger), and the Chief of Station in Santiago ([name not declassified])<sup>1</sup>**

Santiago, September 26, 1970.

1. Minister of Defense Ossa informed me last night of his and Frei's actions to inform the military of the true situation in Chile and of their conclusion that unless there is a continuing worsening of the economic situation the election of Allende is certain.

2. Ossa reported that talk between Frei and Schneider, after explaining why the country would inevitably be Communist, why the PDC could not be mustered into opposition, why the armed forces would lose their U.S. military connections, why Chile's neighbors would seek to advantage themselves from the weakened defense posture, and why Chile's finances and business are so affected, Frei noted

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<sup>1</sup> Summary: Korry reported on his discussions with Minister of Defense Sergio Ossa concerning the upcoming transition from Eduardo Frei to Salvador Allende and the surrounding political intrigue. The conversation centered on the role that the deteriorating Chilean economy would play in shaping Allende's Presidency and a possible military intervention to prevent Allende from taking power.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1970. Secret; Sensitive; Eyes Only. Although the message is dated September 26, it was not transmitted to the White House Situation Room until September 28. As it refers to events occurring on the evening of September 26 as "last night," it may have been sent on September 27 and misdated. The Chief of Station was in Washington for consultations.

that Schneider had faithfully carried out the constitutionalist doctrine that Frei and Ossa had requested him to follow. In response to Schneider's questions, Frei said he would not ask Schneider to change that doctrine because even though he believed the military could block Allende, he would not request it since it would be a form of cowardice on his part. He could not ask the military to do what he himself would not do. He could not ask the military to do his work for him.

3. Ossa said that General Prats later reported Schneider had repeated very faithfully the Frei conversation to a junta of generals. Schneider was also meeting yesterday with the service chiefs of the army and air force. Ossa said that the head of the carabineros, General Huerta, upon learning of these conversations had requested through Ossa an immediate meeting with Frei and it was being arranged.

4. Ossa said in pursuance to my suggestions of last Sunday, he had also met separately with Navy CINC Admiral Porta, Air Force CINC Guerraty and Army Chief of Staff General Prats. To each he had explained why there was no hope of a political solution, why the military was the last resort and why they would not get so much as a nut or bolt from the U.S. or have any other military connections with the U.S. Ossa had told them he was authorized by me to state this last point, explaining that the U.S. was not taking any action against Chile per se but that the laws of the U.S. had universal application in certain circumstances. The Allende program, if implemented, as Ossa told them he thought was certain, would signify the application of those laws.

5. Ossa said that Guerraty had not even questioned this analysis since, as he said, he had been convinced of it from the start. However, Porta was thunder-struck by the citation of my name behind the "not even a nut or bolt" judgment. When he remonstrated, Ossa told him it was only logical since the U.S. was not intervening in the current crisis and had not intervened in the elections to protect itself from its certain enemies.

6. DAO reports to me that the head of Chilean marines informed him today that Porta went to see Allende yesterday to say he was extremely concerned by the vulnerability of the Chilean navy to the U.S. cutoff and that he wanted assurances that Allende would not carry out policies that would provoke such a reaction. Allende reportedly ducked an answer and merely sought to placate Porta by telling him his government would maintain the high levels of military arms and professionalism. I might repeat that Porta with an English wife and a profound admiration for the British is also influenced by what the British ambassador is saying to him and to others. After all, the leading British companies have taken full-page ads to announce their confidence in what is clearly meant as endorsement for Allende.

7. Ossa said that Frei yesterday evening upon being advised of the interview that appeared yesterday afternoon in Socialist *Ultima Hora* (in which Alessandri quoted as saying he recognizes Allende) telephoned to the old man. Alessandri cried he had been betrayed and that he was “trying to get hold of her”—an apparent reference to the anonymous interviewer. In any event the incident gave Frei an opportunity to try to keep Alessandri in line and I have taken other measures in that direction.

8. Ossa said Frei had also stage-managed the removal of Perez-Zujovic from the PDC parliamentary operation since the latter’s name had been a red flag to so many key PDCers, particularly deputy and ex-Interior Minister Bernardo Leighton. Frei had been told that Allende would go through the masquerade of “negotiations” with the PDC leadership over “conditions” and then announce them a few days prior to the meeting of the PDC Junta (October 3). Ossa added that the Frei forces had lost the fight to delay the Junta until October 10th. Although Frei was very dispirited, Ossa said the president was aiding Ossa in his efforts to gain at least 200 of the 500 PDC delegates to the Junta in an anti-Allende vote October 24th.

9. Ossa said unless the economic situation worsened, the army surely would not move, the junta would not respond to his massaging and the Congress October 24 would be a crushing defeat for Frei’s forces. He urged that I do whatever I could to help create the proper bearish climate. He also urged that we cut or hold in suspense until after the inauguration all courses for the Chilean military and if possible all military deliveries. I told him I had been over-ruled by Washington on this matter.

10. Later that evening I met with Flavian Levine, the much respected (universally in Chile and the U.S.) head of the Chilean National Steel Company (CAP), the biggest by far Chilean industrial enterprise, for which he has worked, indeed created with U.S. private and EXIM support, for 25 years. Levine is very trustworthy and his information is interesting. (He supported Frei in 1964 and Alessandri would have probably offered him the Ministry of Finance since he was an ardent supporter and trusted intimate in the campaign.)

11. Levine had seen Allende at the latter’s request earlier in the day. Allende had urged that he stay on as head of CAP adding that his job was assured as long as he wished. Allende said Castro had given him three very valuable advices that he would follow:

- a. Persuade the technicians to stay in the country.
- b. Keep copper in the dollar sales market. Do not count on other areas for better conditions.
- c. Do not act too revolutionary since you are a revolutionary and there is no reason to prove too much to others what you know you are.

Allende had added that Castro had explained why it would be better for him (Fidel) not to come to Allende's inauguration because of the impact it might have abroad and had assured Allende he would come later when it was more convenient to the Chilean.

12. Allende clearly indicated he was considering very seriously offering the post of Foreign Minister in his government to Felipe Herrera, head of the Inter-American Development Bank who promptly recognized Allende as president 48 hours after the election and who will be here in early October. Levine said he was certain Herrera would accept some post in the Allende government if he were not vetoed by Communists or hard line Socialists.

13. Max Nolff, one of the five members of the Popular Unity Economic Planning Committee and specialist on mining, told Levine that both U.S. iron and copper would be immediately nationalized. He asked Levine to have CAP take over Bethlehem here per their contract but Levine explained to me that Bethlehem's contract only provides for the CAP buyout in the event of Bethlehem's request. Levine said that CAP's own very big ore expansion program had come to a halt because the Japanese had immediately cabled after the elections to postpone until November any decision on their commitment to sign a ten year purchase of ore contract and that without such a contract the EX-IM could not finance the expansion. Japs had also expressed doubt if they could sign with Allende. Moreover CAP was out of cash, losing \$8 millions per month and that it was being kept afloat by the Central Bank which would give it 50 million Escudos this month so as to meet obligations. Sales had dropped by 30 per cent. U.S. banks had reduced supplier credits from 12 to 10 millions. He would not be able to meet his maturities in the U.S. in 90 days if the situation continued. He accepted my advice not to go to the U.S. (to EXIM and others) next week but to delay at least another week. I promised to cable EXIM.

14. Levine's wife who is very close friend of Carlos Altamirano quoted latter as stating this week that once Allende elected, leaders of MIR would leave for work in other Latin American countries.

15. Levine said that he had received that day a call from Gabriel Valdes asking officially to be reinstated after the inauguration as CAP's general counsel. Levine explained Valdes had been officially on leave. Moreover a year ago, he had called Valdes to warn that with the prospects of Alessandri's victory, if Valdes wished to return to the firm, he had better make his intentions known in writing. At that time Valdes scoffed at the idea, stating it would be too much of a come-down to return. Yesterday he told Levine that Allende had approved the idea and he wished to return. Levine was non-committal since he said it would depend on CAP's new board of directors.

16. Levine added that he could not possibly run CAP if five to ten of his key men left since CAP was the most complex single enterprise in Chile. He added that four of these key men had definitely decided to leave by November 4th and some others might follow.

17. Both Ossa and Levine lamented in the strongest manner the statements of Dungan and of Linowitz and their tremendous impact on the PDC in particular. Levine, like Ossa, said that if the deal between Allende and the PDC is shortly announced and if the Allende cabinet includes the kind of reassuring names we all expect, then business will return to normalcy quite quickly and the combination of defeatism and adaptability that is taking hold will smooth Allende's tasks.

18. All of which is to say that the economic lever (Anaconda et al) is the last card; there are no others up my sleeve or anyone else's. And if that card is to be played, it must be done with maximum effect swiftly. The Department cannot continue to consider carefully each decision so that by the time it is taken it is completely out of tune with the realities here. The Department could also make an art of what is a natural function in Washington—the leakage of news without attribution. What PDC technicians are being told by the U.P. about the difficulties they will face in leaving Chile while at the same time being wooed at Castro's urging, how the U.P. is planning to nationalize all productive industries (including British) and all banks (including French), how the Japanese have postponed their CAP ten-year order and a host of other details we have been furnishing to show instability and Communist take-over must be utilized in the world press promptly. Certainly Jack Anderson, the columnist, would delight in reporting that Herrera is seeking to get loans through for the Communist-controlled technical university here and to gain respectability for Allende so he can leave his problems at the bank and get a job in the Allende government.

19. [*less than 1 line not declassified*] pleaded with me tonight to get someone to influence his government to postpone all EX-IM type loans on credits, including export insurance. He cannot understand why the Department has taken no action whatsoever in Europe and he specifically mentioned Bonn, Paris, London, Madrid, the low countries. He said that although Chile was minor league compared to Mid-East and other problems, the steady erosion of U.S. positions was having the most serious effect on our real friends. He said if we did not supply leadership, no one else would and he was so distraught by the information from his own Foreign Ministry of the complete silence of the Department that he urged me to organize the assassination of Allende.

20. I recognize that the Department regards me as "incorrigible" to use the remarks echoed back here by recent visitors to our capital so I will say it for the last time: If we want to stop Allende we have to be far more swift and purposeful than the Department has been until now. If

we cannot be, then we should have a clear message on how to fulfill the Department's long held goal of getting along with Allende.

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## 27. Research Study Prepared in the Bureau of Intelligence and Research<sup>1</sup>

RSGS–3

Washington, October 1, 1970.

### CHILE: IS ALLENDE THE PRELUDE TO A COMMUNIST VICTORY?

While the outlook for the survival of Chilean democracy does not seem favorable, this paper examines a number of elements present in the situation that do not point to an imminent or even inevitable Communist victory.

#### *ABSTRACT*

Allende's likely accession to the Chilean Presidency will pose serious problems for US interests both in Chile and throughout the Hemisphere. However, these problems would be vastly increased were the Communists to control the leftist coalition that would govern Chile under these circumstances. Just what are the chances that an Allende Presidency will lead to a communist take-over?

While the outlook for the survival of Chilean democracy does not seem favorable, there are a number of elements present in the situation that do not point to an imminent or even inevitable Communist victory. In particular, the rise of a Soviet-type regime in Chile under the leadership of the Chilean Communist Party seems far-fetched, partly for the following reasons: a) the checkered history of Communists in coalitions in the post-World War II period, b) the long-standing fractious relationship between Chilean Communists and Socialists, and c) the erosion of Soviet authority in the Communist movement leading to ambiguities concerning the nature of a Marxist-Leninist state.

Communists in coalitions in the post-World War II period were generally unsuccessful in seizing power in the absence of direct Soviet

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<sup>1</sup> Summary: This study examined what problems would result from Allende's Presidency and whether a Communist take-over of the Chilean Government was possible.

Source: National Archives, RG 59, Central Files 1970–73, POL 15 CHILE. Confidential; No Foreign Dissem; Controlled Dissem. The study was produced in the Office of General and Strategic Research on September 30.



military pressure and in cases where they encountered massive internal political resistance. Hence indigenous as well as environmental factors contributed to the fall of Czechoslovakia in 1948 while imposing a policy of "hopeful waiting" on the large Communist parties in France and Italy.

In this context, Chile's experience in 1946–47 is not so different from that of many Western European countries during the early post-World War II period. For Chile too had its brief second fling at popular frontism under President Videla before he ousted the Communists from office and outlawed their party.

The question remains whether the Chilean Communists might not use the currently more favorable situation in a quick move to seize power. This eventuality cannot be excluded, but there are some indications that the Communists themselves are not persuaded of the successful outcome of such a venture in the light of their relatively small popular following (15.7% of the vote in the 1969 parliamentary elections), their uncertain control over their often more militant but also more undisciplined Socialist coalition partners, and in the face of still sizeable and distrustful opposition parties as well as a watchful military. In short, Chilean Communists are likely to test the ground carefully before embarking upon the next step in what for them can only be a gradual ascent to power. In taking this stance the party reflects not only its close identification with the Soviet line but also its aversion to any adventurism. While this cautionary approach has brought Chilean Communists into repeated conflicts with assorted Chilean leftists of more extreme persuasion, it takes into account the Communist leadership's appreciation of the fact that the party's physical distance from the Soviet Union leaves its fortune and fate in the short run pretty much in its own hands.

In consolidating a communist victory in Chile, the Chilean Communist Party also will have to neutralize and eventually control its principal coalition partner, the Chilean Socialists. This task may prove difficult inasmuch as the ostensibly militant Marxist Socialists represent a rather different brand of leftism that is really an amalgam of strident nationalism and populism. As a jumble of the most disparate elements, the Chilean Socialist Party has shown remarkable resilience in its 37 years of existence in spite of an unending series of splits and reunifications. Furthermore, its currently more muted expressions of resentment towards the Communists, largely an outgrowth of its electoral alliance with them, should not obscure the fact that, ideologically speaking, the Chilean Socialist Party has more in common with the leaders of the Third World, who follow a policy of non-alignment and anti-imperialism.

As eclectic and often erratic Marxists, the Chilean Socialists have in turn welcomed Peronism, Titoism, Castroism, and Maoism. Their choices of symbols and currents have often been not only at odds with those of the Chilean Communists but also shaped by an unending competition with the latter for claiming the only truly left position in the Chilean political spectrum. However, these ideological commitments have not prevented the Socialists for many years from seeing merit in collaborating with communists for practical political purposes. This underlies their present collaboration with the Chilean Communist Party when, beginning in 1952, their then still violently anti-Communist leader Allende became a leading exponent of collaboration.

While this collaboration has now lasted over 15 years to the mutual benefit of both parties, it has not served to diminish Socialist distrust of and hostility towards their Communist coalition partners. Nevertheless, Socialists share with Communists a deep hostility against the "Colossus from the North". If anything, the Socialist opposition to "Yankee imperialism" is more vehement because it is the product of an extreme nationalistic resentment of the US role in Chile which, in their estimation, constitutes the principal obstacle to social change.

In discussing whether Chile, under Allende, will become a Marxist-Leninist state, it is important to note that there is no textbook definition for such a state. The extent to which states, professing to adhere to Marxism-Leninism, follow Soviet practice is due more to complex reasons of power politics, historical circumstances, and a host of other unique factors than to doctrinal necessity. In fact, the multipolar character of contemporary communism has given rise to states like China, Yugoslavia, Cuba, and the short-lived experiment in Hungary in 1956 and Czechoslovakia in 1968, all of which were self-declared adherents of Marxism-Leninism, yet have come to differ in their interpretation of doctrine from the Soviets and are no longer willing to subordinate their interests to those of the Soviet Union.

The belief systems of communists and socialists alone cannot determine whether a Chilean-style constellation, professing to adhere to the principles of Marxism-Leninism, can be transformed into a one-party dictatorship of either the Soviet type, or, more usual for Latin America, into an authoritarian nationalist-populist regime. Domestic factors, external influence, and the perception of these elements by key actors involved in the struggle for power will govern the speed at which any putative communist take-over is likely to take place. All one can suggest here is that communists have had clear sailing only when the opposition was under direct Soviet pressure.

In the last analysis, prospects for the continuation of a competitive political system in Chile, in the event Allende takes over, are likely to

be determined more by practical circumstances than by the ideological preconceptions of either Communists or Socialists. As for the Communists, they are likely to be cautious for doctrinal as well as for practical reasons. The more visceral Socialists have a more ambivalent attitude towards the system which makes them bombastic revolutionary rhetoricians on the one hand and opportunistic participants in it on the other.

Whether socialist bombast is now likely to engender just enough tinder to spark a coup, or will be tempered by more pragmatic considerations is hard to predict. At any rate, the fluidity of the situation and the uneasy relationship between the two principal leftist alliance partners are factors militating against a communist take-over in Chile.

[Omitted here is the body of the paper.]

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**28. Memorandum From the Acting Deputy Assistant Secretary of Defense for Inter-American Affairs (Leddy) to the Assistant Secretary of Defense for International Security Affairs (Nutter)<sup>1</sup>**

Washington, undated.

**SUBJECT**

The Impact of a Marxist Government in Chile on US Security Interests

*Introduction.*

An authoritarian Marxist government in Chile will have adverse implications for US security interests in Latin America. These implications may be divided into two interrelated groupings: (1) politico-military factors that could affect the position of the United States within the Latin American region and as a world power; and (2) the exclusion of US military activities from Chile, and the military activities which might be carried out by Chile, or its Communist allies in Chile. This

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<sup>1</sup> Summary: This memorandum examined the effect a Marxist government in Chile would have on the security interests of the United States. It highlighted potential intensification of Latin American political unrest, the threat raised by a possible Cuba-Chile Communist connection and growing nationalism in Latin America, and the concern that the Soviets could gain a military and ideological foothold in the Western Hemisphere.

Source: Ford Library, National Security Adviser, Staff Secretary, Convenience Files, Box 8, "Chile." Secret; Sensitive.

memorandum discusses the major implications to U.S. security interests within both groupings.

*Summary.*

The following are implications for US security interests resulting from an Allende government in Chile:

- Disruption or derogation of the inter-American security system.
- Intensification of the growing anti-US nationalism in Latin America.
- Establishment of a “Chile-Cuba Axis,” with a consequent erosion of U.S. hemispheric policy of isolating Cuba from the political and economic life of the region.
- Diminution of US prestige and influence in the rest of the world.
- Establishment of Chile as an ideological focal point for unifying the disparate Communist factions in South America and for the support and export of “revolutionaries.”
- Incremental erosion of US military influence in South America, supplanted by the Soviets through their liberal arms transfer policies.
- Extirpation of US military influence and access in Chile.
- Adverse complication of US hemispheric military and naval operations in the event of major hostilities with the USSR.
- Creation of a threat to hemispheric security by expanding Soviet military and naval presence in Chile.

*Major Politico-Military Implications.*

The major politico-military implications of a Marxist government in Chile are:

- The effect on mutual security organizations.
- Its impetus to anti-US nationalism.
- The effect of a “Chile-Cuba Axis” on US-Cuba policy.
- Support of hemispheric subversion.
- Erosion of US military influence.

*Security Organizations*

United States security is tied to Latin America in a series of multi-lateral and bilateral security agreements of varying specificity which make up the inter-American security system. Although it may be argued that these security bonds are not meaningful in today’s context, they nonetheless provide the essential and often useful framework of US political and security policy in Latin America. This is of special importance in terms of the US status within the world arena. Most countries of the world consider Latin America in general (less Cuba) as something of a special preserve of the US. In the East-West confronta-

tion, Latin America has been a sphere of US influence. Should this area turn overtly hostile, US prestige and influence in the world at large would suffer, affecting US security as well as political interests.

The two major planks of this framework are the Rio Pact (Inter-American Treaty of Reciprocal Assistance) and the OAS. The Rio Pact, designed for hemispheric security, is specific in its provision that "an armed attack by any State against an American State shall be considered an attack against all the American States," although the nature of the response is left to the individual State. The OAS can provide important politico-military support to United States actions to counter direct threats from outside the hemisphere, as in the Cuban Missile Crisis of 1962. It also plays a useful role in intra-hemispheric disputes, although its effectiveness is sharply limited by a general reluctance among member states to grant "interventionist" powers. Of lesser practical importance is the Inter-American Defense Board (IADB), which because of its lack of an organizational tie to the OAS has no meaningful outlet for its product. It is, however, useful as a device for exchanging and promoting ideas among the inter-American military.

It is against this structure that Allende's efforts would early be directed. He has publicly proclaimed that his government would denounce "all treaties or agreements . . . which limit the sovereignty of Chile. . . ." The platform of Popular Unity (Allende's coalition) calls for Chile to "denounce" the OAS and seek a "truly representative" organization. This raises the possibility of eventual Chilean withdrawal from the OAS or of such violent efforts to "restructure" it that it would no longer be viable. Under such circumstances, the OAS could find itself in a crisis; some governments would be influenced to follow the Chilean efforts to weaken the OAS and to work through some exclusively Latin American organization. While Allende's references to the Rio Pact have not been as specific, his ultimate goals in this regard are expected to be the same as for the OAS. In the case of the IADB, the Cuban experience is instructive. It was necessary for the Board to vote to exclude Cuba from its classified transactions in April 1961, as prejudicial to the mission of the Board. In any event, the significance of an Allende effort to disrupt or dismantle the longstanding formal framework for inter-American security cooperation would be enhanced by its occurrence at a time when these traditional security arrangements are growing less satisfying to Latin America.

#### *Impetus to Anti-US Nationalism*

Another threat to US security interests of major importance that would be increased by a Marxist government in Chile is the growing nationalism in Latin America, a nationalism which frequently has anti-US overtones. Radical attitudes or movements are gaining ground

within the establishment of Latin American political life, including the military. There is a considerable sector of radical thought, both on the left and right, that gains strength from the continued inability of Latin America to achieve parity and prosperity in the modern world; both wings are articulate sources of a steady stream of anti-Americanism. This is nothing new. What is new is the threat they will present to US interests when taken in conjunction with a Soviet presence and a Soviet willingness to offer itself, if only partially, as an alternative to Latin dependence on the US. Allende, after provoking the termination of Chile's economic and security relationships with the US, would turn increasingly toward the Soviets. This would inspire leftist elements throughout the hemisphere, and the result would be a significant increase in pressure on the region's more moderate governments, with an inevitably adverse effect on US interests.

#### *Chile-Cuba Axis*

There are indications of the formation of a Chile-Cuba "axis" in hemispheric affairs. Although the military effect of such coordination would be slight, the support of Castro by one of the major continental Latin countries could serve to undermine the major aspect of US Cuban policy: the isolation of Cuba from the political and economic activity of the hemisphere. Significant erosion of this policy would embolden Castro to further adventurism, could reduce the cost to the Soviets of supporting Cuba, and would weaken our political support in a confrontation with the USSR over any future military activities in Cuba.

#### *Support of Hemispheric Subversion*

At present, despite the existence of rural insurgency in a few countries, and of considerable urban agitation in most countries, neither guerrilla movements nor urban terrorism pose serious threats to the immediate future of any national government. This results not only from the capability of the various countries to contain the insurgency threat at its present level, but also from the factionalism and weakness of the ideological motivations of the Latin American radical movements. The relatively weak subversive organizations have been unable to make much headway against the great apathy and inertia of Latin American society, particularly in the rural areas. Should the disparate Communist factions ever join forces, however, the insurgency problem could reach major proportions with a grave danger to US interests.

A Communist base in Chile from which "revolution" could be exported could well provide the focal point for unifying these disparate Communist factions. Initially, an Allende government might not go overtly beyond the Popular Unity's platform expression of "solidarity" with the "liberation" struggles and with attempts to build socialism. Allende and the Communists are aware of the risks of solidifying hos-

tile hemispheric opinion should Chilean support for insurgencies in other countries become too blatantly obvious. On the other hand, there is evidence that Allende and his Communist supporters (both Chilean and international) will move rapidly and ruthlessly to consolidate their advantages. This hard line tendency will be encouraged by their conviction of US acceptance of events in Chile. Whatever the initial public actions of his government, Allende's talk of a Cuba-Chile "axis" from which to "launch" revolution foreshadows Chile's becoming a haven and a training ground, with Soviet assistance, for "revolutionaries." Individual Chileans have already been found in Bolivia's main guerrilla group. With a strong continental base, adequate financing, common ideological motivation and a prestigious "people's democracy" as the model, the insurgency movement in South America, over the long range, would take on a more respectable mantle of a bona fide political "revolutionary" movement as is the present case in Chile. By fanning and exploiting the growing Latin American sentiment for reducing the hemisphere's dependence on the US, the Communists would probably seek to gain power through popular coalitions pledged to extirpate US influence and contact.

#### *Erosion of US Military Influence*

Probably the most insidious danger to US military security interests over the long range from a Marxist government in Chile allied with the Soviet Union is the potential for indirect and incremental erosion of US military influence and access to the region.

With knowledge of the dissatisfaction of the Latin American military over restrictive US military assistance and sales policies, and a desire to exploit the growing Latin American nationalistic proclivity to reduce its dependence on the US, the Soviets would probably offer to equip all or part of the Chilean armed forces with modern weapon systems at a supportable cost. The primary purpose of such a move would be to set up a model which others might wish to imitate. The Soviets followed the same pattern in the Middle East with much success and while the circumstances are different, the desires of the military in both areas are the same—modern and effective armed forces.

Because of Allende's expected policy of dealing cautiously with the Chilean military, at least in the early stages, a decision to seek Soviet military assistance may be delayed, especially if modern and significant Western equipment were also available. Eventually, however, it can be expected that Allende's "solidarity" with the socialist countries will result in reliance on Communist military equipment. And herein lies a potential for a serious erosion of US military influence in the region.

While the long tradition of using Western warships, aircraft, tanks, artillery, and other equipment among the various Latin American

armed forces would have some weight, a tempting offer of more modern and comprehensive Communist equipment as replacements would probably be impossible to resist. This would be particularly true if the political climate evolved over time in a manner that made less objectionable an involvement with a “socialist” nation. To the extent that such a Soviet military assistance program would succeed, and some success could be expected, US military influence and access would be proportionately reduced in Latin America.

*Major Military Implications.*

The major implications of an Allende government in terms of US military security are:

- The probable exclusion of a US military presence from Chile.
- The possible use of Chilean bases and facilities by Soviet military forces and the threat such use could pose for US defenses, lines of communications to Latin America, and access to strategic materials.
- The possible long range impact on US access to bases and facilities in the rest of Latin America.

*US Presence*

Allende’s Popular Unity platform calls for Chile to “denounce all treaties or agreements . . . and specifically the treaties of reciprocal assistance, pacts of material aid, and other pacts which Chile has signed with the United States.” While Allende may be cautious, in deference to his own military, in fulfilling the pledge, there seems little doubt that the current US military presence in Chile will eventually be ordered withdrawn:

[1 paragraph (4 lines) not declassified]

—MILGP. Allende could permit the MILGP, in some form, to remain during the early period of his Administration as part of a policy of restraint toward his own military and until his position in the Presidency is consolidated. It is likely that activities in other sectors of US-Chilean relations (e.g., nationalization of US investments) may bring into play US laws that will so exacerbate our relationships with the Chilean military as to force withdrawal of the MILGP. Plans for a possible withdrawal have been prepared. A relatively easy way for the Marxists to overcome Chilean military objections to severing military ties with the US would be the acceptance of large-scale dramatic Soviet military assistance. The Soviet capability and willingness to use military assistance to promote political interests have been amply demonstrated in many places, most recently in Libya.

—NASA. While not strictly military, NASA operates a tracking station in Chile that is useful in military space applications. As far as is known, Allende has not directly referred to NASA activities, although



the presence of the station in Chile is by an agreement with the US which the Popular Front has pledged to denounce.

—*Antarctic Activities.* At the present time, US naval personnel destined for Antarctica are staged through Chile. The sensitivity of this activity was briefly demonstrated in a publicized misunderstanding in Chile over visas for these personnel during September 1970. Chilean unwillingness to cooperate would complicate support of these operations and would require alternative solutions. The US Navy is conducting a contingency study of this matter now.

—*Wartime Operations.* Of greater importance than the peacetime activities described in the preceding paragraphs would be the impact of a hostile or uncooperative Chile in the event of major hostilities with the USSR. Major US naval vessels (all the larger aircraft carriers) and many commercial vessels are now too large to use the Panama Canal and must use the passages controlled by or adjacent to Chile for inter-oceanic transit. The US has been able to depend on the use of Chilean facilities as necessary, and on the probable cooperation of the efficient Chilean Navy, in major hostilities. If the required facilities would have to be seized and defended from a hostile Chile, probably deleterious effects on cooperation by other Latin nations, and a certain diversion of US military forces, would result. This implication is discussed in more detail in subsequent paragraphs.

#### *Soviet Presence*

A Soviet military presence in Chile could take many forms, including a significant Soviet naval build-up operating from Chilean bases and more extensive, possibly unlimited, use of Chile's unique geographical location in support of the Soviet space and FOBS program.

A *direct* strategic threat to the continental US from a Soviet ground or air force presence in Chile appears rather remote because of the great distance between Chile and the US, and the Soviet capability to launch such attacks from its existing bases. The presence of Soviet tactical ground and air forces in Chile would deter possible intervention by other Latin powers such as Brazil and Argentina, would present a military threat to other continental OAS members, and would increase the difficulty of the US seizure of required Chilean facilities in the event of US-USSR hostilities.

An expanding Soviet naval presence in Chile, on the other hand, could pose an eventual threat to US security of real significance. Despite the general ability of the US to supply its strategic materials from alternate sources in time of war, the USSR would probably attempt to interfere with Latin American trade routes. Since it is not likely that the USSR would, at present force levels, deploy large numbers of nuclear

submarines from more decisive areas of confrontation to Latin American waters, the use of Chilean support bases would greatly increase the effectiveness of the more numerous conventional submarines. For either type submarine, the availability of bases in Chile would provide significant deployment and support advantages. US naval movement between the Atlantic and Pacific oceans would be jeopardized by the Soviet ability to interdict the passages around the Horn. Also, in a conflict where the Soviets undertook an anti-shipping campaign, it is not likely that the Panama Canal would escape attack.

To defend against this potential threat, the US would have to eliminate the Soviet forces in Chile, divert ASW forces to Latin American waters, or build up friendly Latin American navies to the point where the threat could be contained. The Latin American navies now have virtually no capability against a sophisticated submarine threat, and construction of an adequate ASW force is beyond their present resources. If the US were to underwrite the substantial costs involved in developing such a capability, there could be no real assurance that those forces would be available when the US felt they were needed.

### *Conclusions.*

In conclusion, the security problems created by a Marxist Chile would be extremely difficult to manage and would pose a serious threat to US interests not only in Chile, but eventually throughout South America. The conjunction of a major Marxist state, rising radical nationalism, and a Soviet willingness and ability to offer itself as an alternative to South American dependence on the US gives the threat major new proportions. Although the US has paid lip-service to its security interests in South America in the past, it has never accorded those interests a significant priority of effort. In the face of the present and developing threat and the potential future significance of South America, it is necessary that we re-examine this priority and its consequent policies. While it is difficult to judge exactly what role South America will play in the future security balance, by the year 2000 the population of Latin America is expected to reach a total of 700 million. If the scientific and economic growth of the region even approaches the population growth, the major countries of South America could be important to the US as free world leaders—or as major antagonists.

**Raymond G. Leddy**

## 29. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, October 26, 1970, 1630Z.

4512. Subj: Allende and the US.

1. Since returning from Washington consultations, there have been a number of significant developments and emerging trends here that have an important bearing on our immediate and longer-term policies and postures.

2. Insofar as the immediate is concerned:

A. It is evident that the anticipated Latin American reaction to Allende's election is that Chile continues to be a democratic friendly state until events prove the contrary. Delegations to the inauguration will be cabinet level; congratulatory messages will be sent promptly by most heads of state; Ambassadors will make calls on Allende this week. It is interesting to note that the first diplomat to call on the President elect within minutes of the congressional vote Oct 24th was the Colombian who then told a nationwide TV and radio audience in gushing terms of his friendship and admiration for Allende.

B. The Western Europeans will send minimal delegations of one or two persons, rounded out by their representation in Santiago. Most will not rpt not send congratulatory messages until inauguration. Some (French already and German soon) will call on Allende; others (British) will today write congratulatory personal letters. Several will announce shortly new loans (Germans for \$1.5 million for third phase of Puerto Montt port development, British for 4 million sterling and French recently announced automotive expansion plans of several millions).

C. Romanians and Yugoslavs taking lead among Eastern Europeans. Although Soviet President sent congratulatory message, my impression is that Moscow will keep to low-key pitch for the moment.

D. Allende responded as promptly as Frei to my warning (Santiago 4468) re inflammatory nature of his followers charges against US (CIA and Pentagon) involvement in Schneider assassination and in coup plotting. In his first press conference, he assiduously avoided any

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<sup>1</sup> Summary: In this telegram Korry discussed the hemispheric and European reaction to the new Allende regime. In the short term, nations in both Latin America and Europe would not react either positively or negatively unless Allende made significant efforts to alter the system in place. Given the cautious approach Marxist administrations tended to utilize initially in national politics, Korry predicted that Chile would have to be closely monitored in the long term to keep Allende's more virulent anti-United States, anti-capitalist biases under control.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Secret; Immediate; Nodis.

mention of foreign elements re Schneider and he went further by stating Chilean monopolists were the key domestic problem, not foreign companies. (Gen Valenzuela had put Communist papers on notice 48 hours earlier in response my warning as MinState Troncoso called to tell me yesterday and to say Allende would also take similar action.)

3. As for longer-term:

A. Western Europeans are unanimous in their view that while Communists intend to move slowly and cautiously in attempting to attain control of Chile Allende should not rpt not be written off. Even German Amb has reversed his line. He now says that while state control system is inevitably doomed to failure, West should avoid any overt hostility that speeds radicalization of society and makes US or West scapegoat for it. He goes farther by suggesting it is possible to divide Allende from Communists. British has retreated in interim so that his view is same as Germans; Italian has also lost some of his innocence and more or less in tune with German.

B. Soviets have changed too in that they are playing down the possibility of Soviet meaningful trade and aid to Allende. Instead they are urging he maintain best possible rels with West.

C. US companies are in the majority busily involved in pre-negotiation talks with Allende reps. While they have no illusions about long-term prospects, they are without exception interested in getting the best possible deal for their stock-holders. They (as I) are convinced Allende will, barring US provocation, meet his international debts, will pay acceptable compensation in acceptable form, will seek continued US and Western investment, will want for at least year or two significant US management.

D. Allende is giving very serious reconsideration to his electoral declarations re prompt recognition of all still unrecognized "socialist" states. It is likely, unless he were to become convinced that the West was implacably hostile, that he will go slow. (There are some indications that Allende is already convinced the US will be unalterably "hostile".)

4. I remain as convinced as ever that Allende has not changed skins—that he is an unreconstructed socialist with an anti-US, anti-capitalist bias whose long-term goal is a state controlled economy of no significant difference than that which the Communists want and that which will involuntarily help Communist domination. What has occurred is that the realities of the Chilean economy and the hard facts of Chilean dependence on Western (largely US) capital, markets and technology, are seen quite differently from the Presidential chair than from a candidate's platform.

5. I am persuaded as ever too that the tensions within his governing coalition have been exacerbated by the deteriorating economic

situation and the constraints it places on Allende's tactical options. These tensions can be made more abrasive and they, in turn, will give the opposition, if Frei chooses to play that role openly as I anticipate he will do, an opportunity to exploit the situation to a greater degree than expected on election night. While the Communists are going forward with all their plans to consolidate their hold over the workers, they have been forced to retreat on plans for the fast take-over of the media; they can be compelled to slow the execution of some of their other essential goals.

6. Dr. Kissinger in his recent briefing of New England editors said in another context: "We deliberately kept our options open . . . to do enough to discourage irresponsibility but not so much as to give the sense of irreversibility to what was going on, to restrain outside forces that had already intervened, but not to a point where we were triggering a whole set of other outside forces when it wasn't necessary."

7. I think this prescription should apply to the Chilean case. There is no point in triggering reactions that are unnecessary or provoke outside forces, be they friendly, as in the case of OAS and Latin America, or unfriendly. I believe that the economic situation will have considerable influence on events in the next year and that we can keep our options open there. But in order to have such options our public posture must be above hostility. Therefore I specifically recommend:

A. The President send a message of good wishes to Allende on inauguration, the terms of which might be based on our knowledge of others (including Bonn's, London's or Rome's).

B. The Dept Spokesman state at an early opportunity that the US looks forward to normal relations and a continuation of the traditional ties with Chile.

**Korry**

30. **Memorandum From the National Security Council Staff Secretary (Davis) to the Deputy Secretary of Defense (Packard), the Under Secretary of State (Irwin), the Chairman of the Joint Chiefs of Staff (Moorer), and Director of Central Intelligence Helms<sup>1</sup>**

Washington, October 28, 1970.

SUBJECT

Options Paper on Chile (NSSM 97)

Attached is an Options Paper on Chile prepared by the State Department in conjunction with the Defense Department and CIA. This paper will be considered at the Senior Review Group meeting on Thursday, October 28, at 10:15.

**Jeanne W. Davis**  
*Staff Secretary*

**Attachment<sup>2</sup>**

Washington, October 16, 1970.

*OPTIONS PAPER FOR NSC*

*CHILE*

*I. Assumptions*

*A. Regarding Events Within Chile*

1. The Allende government will seek to establish in Chile as soon as feasible an authoritarian system following Marxist principles. To

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<sup>1</sup> Summary: The attached options paper was prepared in the Department of State, in conjunction with the Department of Defense and the CIA, for the October 28 Senior Review Group meeting. The paper presented information on those domestic, international, and economic factors influencing Chilean politics and presented options for U.S. policy: maintain a restrained position toward Chile, or risk giving Allende a rallying point to unite the Chilean people.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-48, Senior Review Group, Chile (NSSM 97), 10/17/70–10/29/70. Secret. The paper was distributed to the members of the Senior Review Group by Davis. The memorandum was initially sent to Davis and Vaky from Armistead I. Selden, Jr., the Principal Deputy Assistant Secretary of Defense for International Security Affairs. A covert annex to the options paper is in *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973, Document 166. The SRG meeting was held October 29. The minutes are *ibid.*, Document 169.

<sup>2</sup> Secret; Nodis.

that end it will move (a) to bring all significant economic activity under state operation including nationalization of basic industries; (b) to gain control over the security and armed forces; and (c) to dominate public information media. Allende is a Marxist, and will be faithful to his Marxist goals, but in his tactics may be a pragmatist who, for as long as it suits his purposes, might tolerate less than radical solutions. The well-organized Communist Party of Chile with its new legitimacy will be in a key position to influence the direction of an Allende government.

2. The Allende government will, at least in its first two years, encounter some political opposition from anti-Communist forces including the military, and will suffer from internal tensions, especially between Socialists and orthodox Communists, as well as between opportunists and ideologues within the UP. It will work deliberately but purposefully to eliminate that opposition and those tensions. Opposition within the military will act as both an incentive and a deterrent to Allende's attempting to establish absolute control over the military and security forces through key appointments, retirements, and other legal measures. The pace at which Allende will proceed to obtain this control will be dictated by opportunity and circumstances, but assuredly will be as rapid as possible without inciting a dangerous reaction from the military.

3. The Allende government will encounter serious economic problems which could exacerbate tensions within the governing coalition and increase the potential of anti-government forces. The Allende government will confront these problems cautiously but with determination and without changing its ultimate goal.

4. An early test of Allende's acceptance will be the nation-wide municipal elections scheduled for April 1971. Allende will use this occasion to seek to consolidate his power.

#### *B. Regarding Chile's External Posture*

1. The Allende government will, despite possibly reassuring gestures, have a profound anti-American bias and will work to extirpate U.S. influence from the country and in order to do so may find it useful politically at some time to confront the United States. The Allende government may be expected to work against U.S. interests in the hemisphere and the rest of the world.

2. The Allende government will remain in the OAS, but will seek to use it as a forum for advancing its interests principally at the expense of the United States.

3. The Allende government will seek to maintain normal relations with the other Latin American governments and to influence other countries of Latin America to emulate the Chilean example. At the

same time, Chile will probably become a haven for Latin American subversives and a staging ground for subversive movements in other countries despite Allende's desire to maintain normal relations within the hemisphere. The Chilean Communist Party will exploit its new-found respectability to strengthen its ties and influence with its collaborators in the hemisphere.

4. The Allende government will establish diplomatic relations and resume full trading ties with Cuba, although it may proceed cautiously to these ends.

5. The Allende government will most likely eventually carry out its expressed intention to recognize and establish diplomatic relations with all other "Socialist" countries including North Vietnam, Communist China, North Korea, and East Germany.

6. A Marxist-Allende government in power would represent a potential danger to Western Hemisphere security, to the extent that it develops military ties with Communist powers, and is actively hostile to inter-American security organizations. Full realization of these potentials could threaten U.S. security interests specifically.

7. The Allende government will have close relations with the Soviet Union but will seek to avoid dependence on it.

8. At least at the outset, the Allende government will wish to maintain its international credibility as a responsible debtor, as a trusted borrower, and as a sovereign nation that fulfills its international obligations independent of any great power. It is unlikely, however, that it can complete its announced program of nationalization with "fair compensation" to U.S. investors.

#### *C. Regarding Attitudes in the United States*

The U.S. Congress and knowledgeable sectors of the public will follow with interest the political course which Chile takes internally and its attitudes and actions with regard to the United States. The realism, finesse and effectiveness of the U.S. posture toward Chile will receive equivalent interest.

To date, coast to coast editorial comment has generally supported the Nixon administration's handling of developments in Chile. As the actions of the Allende government become more overtly hostile to U.S. interests, however, we may expect adverse reaction by some sectors of the U.S. public, press, and Congress to the "establishment of another communist government in the hemisphere," with consequent pressures on U.S. policy.

#### *D. Regarding Attitudes of Other Countries*

1. Allende's assumption of power will provoke little overt hostility, at least initially, from Latin American or Western European gov-



ernments, and these governments will publicly accept it in regional and multilateral organizations. To date, the results of our consultations with the other American Republics indicate concern on their part over developments in Chile but general endorsement of adopting a “wait and see” attitude on their and our parts. There will, however, be substantial official but privately expressed mistrust of and hostility toward the policies of that government as they develop along their expected lines.

## II. U.S. Objectives

(1) The prevention of establishment by the Allende government of an authoritarian Marxist regime, prevention of the regime’s falling under Communist control, and prevention of its influencing the rest of Latin America to follow it either as a model or through its external policies; (2) to act as a counterpoise to Soviet influence; (3) to protect U.S. economic interests, and (4) to protect U.S. security interests.

## III. Options

The United States should maintain a restrained, deliberate attitude toward Chile. In this manner we would maintain and exercise our influence in Chile, and have considerable flexibility and initiative while exploiting opportunities for pursuing our objectives.

Although events in Chile will be determined principally by internal Chilean forces and therefore U.S. influence can have only a marginal effect, the skillful exercise of our influence could be an important factor in complicating Allende’s task, both by exacerbating the friction between the moderate and radical elements in Allende’s coalition and by bolstering those forces opposed to the establishment in Chile of a Marxist-Leninist regime. The negative use of our influence—e.g., taking measures from the outset that manifest U.S. hostility toward the Allende government—would serve Allende’s purpose of rallying the Chilean people around him in the face of the “foreign devil.” On the other hand, failure to take *any* steps to achieve our objectives would leave the initiative in his hands, discourage opposition to Allende in Chile, weaken our hemisphere leadership, and create serious problems with public and Congressional opinion in the United States.

The principal targets of our courses of action with Chile would be the Allende government, the Chilean security and military forces, the non-Marxist political forces, and the Chilean public. Additional targets would be other Latin American countries and the OAS.

### A. Option A

*Maintain an outwardly correct posture, refrain from initiatives which the Allende government could turn to its own political advantage, and act quietly to limit the Allende government’s freedom of action.*

This option would be posited on the beliefs that (a) while the Allende government will vigorously pursue its Marxist goals, the economic and political difficulties facing it will place significant obstacles in its path toward achieving those goals in the foreseeable future, and (b) overt hostile actions initiated by the United States would work to his political advantage. While we may not be able to avoid a confrontation, this option would deprive the Allende government to the extent possible of the important political benefit of putting on us the onus for any confrontation. In this manner we would limit the Allende government's opportunities to consolidate its position internally as well as in the hemisphere through mobilization of emotional nationalism and "latin-americanism" against the United States.

At the same time we would continue to make our concerns over developments in Chile effectively felt through quiet diplomacy and carefully measured actions which would weaken the Allende government's position and support its opposition without giving the government popular political issues to exploit.

1. *Courses of Action*

a. *Regarding the Allende Government*

(1) Maintain correct official relations with the Allende government in accord with established diplomatic practice.

(2) Send a routine Presidential message of congratulation to Allende upon his inauguration. (The U.S. has not failed to do so in Latin America in recent years upon the election or inauguration of a President.)

(3) Maintain the minimum official presence required to attain our objectives, headed by an Ambassador.

(a) Suspend replacements for the Peace Corps until the Allende government makes known its position on continuation of the program.

(b) Continue the NASA tracking station unless the Allende government requests its removal.

(c) Continue other scientific operations deemed in the U.S. interest, e.g., the Telolo radio-astronomy observatory, seasonal Antarctic activities involving transit and/or staging, where termination would be costly or inconvenient and not required by the Allende government.

(d) Wind down AID programs and staff to a compact presence concentrating on people-to-people relations (e.g., PL 480 Title II humanitarian programs, Special Development Fund impact projects); on those few programs of technical assistance of interest to the United States (e.g., health); and on participant training activities.

(e) Continue disbursements on the approximately \$30 million now in the AID pipeline as circumstances warrant.

(f) Sign no new loans and make no more commitments.

(4) Retain Chile in Eximbank's Group D (worst risk) category, requiring all decisions to be made in Washington and raising fees on guarantees. Exporters would be serviced on the merits of each case.

(5) Examine each Chilean request to international financial institutions on its merits and in the context of the political situation at the time.

(6) In the event of expropriation of U.S.-owned property, seek prompt, adequate and effective compensation, insuring that our judgments on the application of related U.S. laws are based on careful assessments of all factors bearing on our interests in each case.

(7) Apply the same criteria to negotiation on the Chilean external debt that we apply to debt with others.

(8) Not encourage private investment in Chile.

*b. Regarding the Chilean Security Forces*

(1) Maintain effective relations with the Chilean military, letting them know that we want to cooperate but that our ability to do so depends on Chilean Government actions.

(2) Continue military matériel and training assistance on a selective basis unless the Allende government moves to terminate the U.S. Military Mission agreement.

*c. Regarding Non-Marxist Political Forces*

(1) Publicize the weaknesses of the communist system.

(2) Discreetly encourage selected politicians and political groups to oppose the Allende government measures leading to a Marxist and authoritarian state.

*d. Regarding the Chilean Public*

(1) Continue people-to-people type activities such as PL 480 Title II, the Special Development Fund impact projects, and educational exchange.

(2) Publicize the weakness of the communist system.

*e. Regarding the OAS and other LA Countries*

(1) Quietly maintain consultations.

(2) Refrain from actions which will tend to unite the other LA countries with the Allende government.

(3) Review and reassess the internal security situation in countries neighboring Chile with a view to augmenting MAP and Public Safety assistance.

*B. Option B*

*Demonstrate Disapproval and Limit Allende's Freedom of Action.*

This option would be posited on the belief that a satisfactory *modus vivendi* is impossible, that confrontations are inevitable, that it is in the

U.S. interest to act in a deliberate way which avoids over-reaction and maintains flexibility, but that it is also in the U.S. interest to make U.S. opposition to the emergence of a Communist government in South America clear to Chile, the rest of Latin America, the USSR, and the world.

1. *Courses of Action*

a. *Regarding the Allende Government*

(1) On the diplomatic level, deal with the Allende government in a manner consonant with established diplomatic practice.

(2) Early in the Allende administration, declare at a very high level that we would view with grave concern adoption of policies, alliances or courses of action by the Allende government that transformed a friendly country into a state hostile to the United States or that violated or denigrated the honored principles upon which cooperation and peace in the hemisphere are based.

(3) Express this view in statements by appropriate Administration officials and members of Congress, possibly in a Congressional Resolution, and in diplomatic contacts.

(4) Insist on full compensation for any U.S.-owned property nationalized by Chile.

(5) Invoke as soon as applicable appropriate provisions of the Foreign Assistance Act e.g. (paraphrased):

—620(3)(b): No assistance to country dominated by international Communist movement.

—620(3)(c)(A): Suspend assistance to country that nationalizes, expropriates or seizes property owned by U.S. citizens, and fails within six months to agree to adequate compensation.

—620(3)(f): No assistance to any Communist country without Presidential waiver.

—107(b): No economic assistance to countries trading with Cuba or North Vietnam.

(6) If the Allende government does not adequately compensate for expropriated U.S.-owned properties:

—Do not support rescheduling of Chilean debt.

—Veto Chilean requests for loans in IBRD, IDB, Eximbank because of Chilean expropriations and economic policies.

—Discourage U.S., third country, and multilateral private investment in Chile.

(7) Encourage U.S. labor organizations to take active role in opposing Communist Chilean government.

(8) Discourage tourism and travel to Chile, indicating that because of anti-U.S. hostility we could not lend assistance in case of trouble. Provide no assistance to Chilean airlines, equipment or routes.

b. *Regarding the Chilean Security Forces*

(1) Maintain effective relations with the Chilean military, letting them know that we want to cooperate but that our ability to do so depends on Chilean government actions.

(2) Inform Allende that we plan no change in military cooperation, but that U.S. public and Congressional reactions will be dictated by his government's actions.

(3) Based on Allende's response to this position, and on his subsequent actions, take the following steps:

—*Military Assistance Program*: Continue monitoring of training, MAP pipeline deliveries, and Foreign Military Sales pending Allende reaffirmation of:

—The Mutual Defense Assistance Agreement of 1952,

—The Military Mission Agreement of 1964.

If he reaffirms, continue the programs on a minimum basis; if he does not reaffirm, terminate.

—*Military Group*: Continue military mission operations if the Military Mission Agreement is reaffirmed within a reasonable time; be prepared to withdraw the missions unilaterally if this is not forthcoming.

—*AFTAC*: Review AFTAC withdrawal decision in the light of Chilean reaction to date and seek clarification with Allende of Chilean attitude.

—*Maintain Surveillance of Chilean Ships Transiting the Panama Canal* (boarding guards, etc.).

—*Impress on NATO Allies their need to support our Western Hemisphere security interests.*

—*Ship Leases/Loans*: Inform Chilean military that we will have to recall the nine U.S. vessels (two destroyers, two submarines, five support ships) on lease/loan if U.S. security interests are affected by Chilean-Soviet military ties.

—*Dramatically increase security cooperation with other South American countries*:

—Offer to sell F-4's to Argentina on favorable terms,

—Provide selective MAP matériel for Argentina and Brazil,

—Support the Argentine position in Beagle Channel controversy if not settled.

—Increase internal security assistance (MAP and Public Safety) to Uruguay, Paraguay, and possibly Bolivia, based on the threat of Chilean-exported subversion.

c. *Regarding the Non-Marxist Political Forces*

(1) Give articulate support, publicly and privately, to democratic elements in Chile opposed to Allende regime by all appropriate means.

(2) In contacts with non-Marxist politicians, emphasize our desire to continue cooperation but that our ability to do so depends on Chilean government actions.

(3) Publicize on a continuing basis the restrictions to personal freedom and weaknesses of the Allende regime.

*d. Regarding Chilean Public*

(1) Publicize on a continuing basis the restrictions to personal freedoms and weaknesses of a Communist regime.

(2) For the short term, continue the Title II, PL 480 program and utilization of the “Ambassador’s” special development fund.

*e. OAS and Other Latin American Countries*

(1) Maintain consultations.

(2) Encourage major South American nations to effective opposition to a Communist Chile threat.

(3) Inform the Chilean military of our support for their actions as staunch defenders of a democratic Chile and suggest to the governments of Argentina, Brazil and Paraguay that they also convey their support to the Chilean military.

(4) Utilize OAS to oppose Chilean violations of OAS charter and resolutions.

(5) Consider exclusion of Chile from classified proceedings of IADB and in hemispheric military conferences and exercises.

A CIA Annex to this paper was discussed at a 40 Committee meeting immediately following the SRG meeting of October 29, 1970. The CIA Annex was returned to Frank Chapin for retention.

31. Central Intelligence Agency Intelligence Information Cable<sup>1</sup>

Washington, October 30, 1970, 0026Z.

## COUNTRY

Chile/Brazil/Latin America

## DOI

18 to 24 October 1970

## SUBJECT

Offer of Salvador Allende, Chilean President-Elect, To Assist and Train Latin American Revolutionary Organizations

## ACQ

Chile, Santiago (28 October 1970)

## SOURCE

[2½ lines not declassified]

TDCS DB-315/05814-70. 1. Salvador Allende, President-elect of Chile, told leaders of the Chilean National Liberation Army (ELN) and representatives of the Brazilian National Liberating Action (ALN) at a clandestine meeting that Chile will become a center of assistance and training for Latin American revolutionary organizations seeking to liberate their countries through armed struggle once his administration is firmly in power. The brief midnight meeting with Allende was held during the week of 18 to 24 October in the home of an ELN leader in order that the ALN representatives could deliver a congratulatory letter to Allende from Brazilian revolutionary organizations.

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<sup>1</sup> Summary: This cable, titled "Offer of Salvador Allende, Chilean President-Elect, To Assist and Train Latin American Revolutionary Organizations," reported on a clandestine meeting between Chilean President Salvador Allende and members of the Chilean National Liberation Army and the Brazilian National Liberating Action during which Allende told leaders of both organizations that Chile would become a center for the assistance and training of Latin American revolutionary organizations.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Secret; Priority; No Foreign Dissem; Controlled Dissem; No Dissem Abroad; Background Use Only. A copy was sent to U. Alexis Johnson, David Packard, Thomas Moorer, John Mitchell, William Rogers, John Irwin II, Charles Meyer, Melvin Laird, and Raymond Leddy, and to the Embassies in Santiago, La Paz, and Rio de Janeiro. At the top of the page, Kissinger wrote, "David [Halperin], Give summary to Pres. HK." Also written at the top in an unknown hand is "Allende reportedly has told reps of Latin American revolutionary movements that Chile will aid armed struggle movements." A copy of this cable was sent to President Nixon under cover of a November 6 memorandum from Kissinger. The memorandum is in *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 174.

2. (Headquarters comment: In January 1970 articles appeared in "Granma," organ of the Cuban Communist Party, and "Ultima Hora," the newspaper of the Socialist Party of Chile (PS), reporting the formation in Santiago of a committee of support for the Bolivian people and the National Liberation Army (ELN). The articles stated that the group, headed by Senator Carlos Altamirano of the PS, was to provide support to and express solidarity with the Bolivian revolutionaries. Other Socialist leaders were named officers of the committee. "Granma," of 14 January 1970, stated that Allende would be one of the Chilean ELN's six directors. Allende's promises of clandestine support for Latin American revolutionary organizations as reported herein differ from his overt public statements, which pledge a "democratic government within the stipulations of our current constitution" and "unreserved respect for the people's right to self-determination and defense of the principle of noninterference." He did not specify the time frame during which he intends to undertake this activity, but he will doubtless gauge this very carefully in view of the relatively moderate public image he is attempting to project towards foreign governments and investors.)

3. Allende said that the future government of Chile will support the revolutionary organizations by providing guerrilla training installations, political and insurgency training, financial support, and refuge for revolutionaries from other countries. He cautioned that the Chilean Government will have to protect its international reputation and, therefore, will have to provide this support in a clandestine fashion to avoid becoming isolated and blockaded like Cuba.

4. In the congratulatory letter to Allende the Brazilian ALN, Popular Revolutionary Vanguard (VPR), Tiradentes Revolutionary Movement (MRT) and the Revolutionary Movement Eight (MR-8) asked Allende for his support of a consolidated Brazilian revolutionary front described as being in the final stage of formation and already engaged in coordinated urban guerrilla revolutionary activities. The letter was signed by Joaquim Camara Ferreira, Captain Carlos Lamarca, and Jesse and Adriano Luna. (Headquarters comment: Camara Ferreira, leader of the ALN, suffered a heart attack and died while resisting arrest on 23 October 1970. Lamarca, a former Army Captain, heads the VPR.)

5. Allende told the revolutionaries that the Chilean ELN has his high personal regard and will be the channel through which the future Chilean Government will provide all necessary aid to Latin American revolutionary organizations.

6. (Source comment: The ELN has nothing to do with the Chilean Movement of the Revolutionary Left (MIR). A large part of the ELN membership comes from the youth of the Chilean Socialist Party. The ELN was created to support the Bolivian revolution generally, and the Bolivian ELN in particular.)



7. In addition to the above addressees the following persons are being furnished copies of this report:

[Omitted here is the list of officers in footnote 1.]

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### 32. Intelligence Note Prepared in the Bureau of Intelligence and Research<sup>1</sup>

RSEN-76

Washington, October 30, 1970.

#### USSR-CHILE: SOVIETS STILL PLAY ALLENDE IN LOW KEY

Moscow's friendly but not effusive public response to Congressional confirmation of Allende as President-elect seems to indicate a continuing go-slow approach in Soviet reaction to Chilean developments.<sup>2</sup> Naming a Vice President of the Presidium of the Supreme Soviet (one of 15 such Vice Presidents), Georgiy Dzotsenidze, to head the Soviet delegation to Allende's inauguration indicates Moscow's desire to make an appropriate gesture of support toward the new President. However, Dzotsenidze is a second-echelon official lacking top party credentials, and he ranks lower in the Soviet hierarchy than the chief Soviet delegate to the Chilean Communist Party's two most recent congresses.

*Moscow Plays It Cool.* Soviet media continue to play the theme that Allende's election is a victory for all left-wing parties and "progressive" forces, downplaying the event as a socialist or communist triumph. *Pravda* has pictured the *Unidad Popular* (UP) program as a reasonable commitment to "profound transformations" and the development of "independent policies," without being too specific or attempting unduly to alarm Chile's "capitalists" and/or the US. Podgorny's brief, low-key congratulatory message to Allende made a *pro forma* appeal for "an ever wider development" of Soviet-Chilean relations, but was otherwise noncommittal.

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<sup>1</sup> Summary: This note, titled "USSR-Chile: Soviets Still Play Allende in Low Key," examined Moscow's friendly but aloof response to the election of Allende and argued that the Soviet Union was likely to increase efforts to reach out to Chile, especially in the event of an economic crisis.

Source: National Archives, RG 59, Central Files 1970-73, POL 15-1 CHILE. Secret; No Foreign Dissem. Prepared in the Office of USSR and Eastern Europe Affairs.

<sup>2</sup> See Intelligence Note RSEN-66, "Initial Soviet Reaction to Chilean Presidential Election," September 11, 1970 (CONFIDENTIAL). [Footnote is in the original.]

*No Precipitate Commitments.* Some reports indicate Soviet reluctance to become substantially involved with the Allende government, at least in the early stages of its existence. A Soviet diplomat in Santiago reportedly cautioned that Allende should delay recognizing Castro until he can do so in concert with other Latin American countries, perhaps Peru and Bolivia, thereby avoiding unnecessary early difficulties for the UP administration. There are indications that the USSR does not want Chile to become dependent on trade with communist countries. Six months prior to the Chilean election two Soviet diplomats in Santiago reportedly said the USSR could not logistically support an Allende government, and expressed the view that the policies of such a government would be completely different from those of Havana.

Heavily committed to Cuba, as well as to Arab and Indochinese clients, and possibly constrained by its own domestic economic problems, the USSR is not anxious to underwrite Marxist experimentation in Chile. Moreover, Moscow seems to have concluded that it is still too early to predict the potential for success or failure of the UP program or of Allende's ability to survive. In these circumstances, Moscow apparently is advising the Chilean Communist Party to urge a gradualist UP approach, at least during the early months of the new administration. Specifically, the Soviets appear anxious that Washington not be unduly provoked by the Allende government as Chile begins the "transformation" process.

*But Can Moscow Stay Out for Long?* It will be some time before any pattern develops in Chile's new relationships with communist countries; therefore current speculation on their nature must be tentative. If, in implementing his program, Allende runs into serious economic difficulties and the West in his view is unresponsive, Moscow may receive appeals from the Chilean Government for substantial economic support. Much as Moscow might prefer to see "Marxism" installed in Chile without a heavy increment of Soviet material assistance, it alone of the world's communist powers (with the barely possible exception of China) has the potential to render such aid. While the circumstances under which Chile might request substantial Soviet assistance are unpredictable, Moscow might find it very difficult to refuse Chilean overtures given its commitment to advancing world "socialism."

33. Paper Prepared in the Department of State<sup>1</sup>

Washington, November 3, 1970.

## OPTIONS PAPER FOR NSC

## CHILE

## I. Assumptions

## A. Regarding Events Within Chile

1. The Allende government will seek to establish in Chile as soon as feasible an authoritarian system following Marxist principles. To that end it will move (a) to bring all significant economic activity under state operation including nationalization of basic industries; (b) to gain control over the security and armed forces; and (c) to dominate public information media. Allende is a Marxist, and will be faithful to his Marxist goals, but in his tactics may be a pragmatist who, for as long as it suits his purposes, might tolerate less than radical solutions. The well-organized Communist Party of Chile with its new legitimacy will be in a key position to influence the direction of an Allende government.

2. The Allende government will, at least in its first two years, encounter some political opposition from anti-Communist forces including the military, and will suffer from internal tensions, especially between Socialists and orthodox Communists, as well as between opportunists and ideologues within the UP. It will work deliberately but purposefully to eliminate that opposition and those tensions. Opposition within the military will act as both an incentive and a deterrent to Allende's attempting to establish absolute control over the military and security forces through key appointments, retirements, and other legal measures. The pace at which Allende will proceed to obtain this control will be dictated by opportunity and circumstances, but assuredly will be as rapid as possible without inciting a dangerous reaction from the military.

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<sup>1</sup> Summary: The attached paper, a revision of Document 30, outlined the objectives and policy options that the U.S. Government might take in its relations with the Allende government and argued that the United States should maintain a restrained and deliberate attitude toward Chile.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-48, Senior Review Group, Chile (NSSM 97), 10/17/70–10/29/70. Secret; Sensitive. The paper was prepared in the Department of State in collaboration with the Department of Defense and the CIA. The paper with a revised first page was distributed to the members of the NSC on November 3 for the November 6 meeting. The memorandum of conversation of the NSC meeting is in *Foreign Relations, 1969–1976*, volume XXI, Chile, 1969–1973, Document 173.

3. The Allende government will encounter serious economic problems which could exacerbate tensions within the governing coalition and increase the potential of anti-government forces. The Allende government will confront these problems cautiously but with determination and without changing its ultimate goal.

4. An early test of Allende's acceptance will be the nation-wide municipal elections scheduled for April 1971. Allende will use this occasion to seek to consolidate his power.

*B. Regarding Chile's External Posture*

1. The Allende government will, despite possibly reassuring gestures, have a profound anti-American bias and will work to extirpate U.S. influence from the country and in order to do so may find it useful politically at some time to confront the United States. The Allende government may be expected to work against U.S. interests in the hemisphere and the rest of the world.

2. The Allende government will remain in the OAS, but will seek to use it as a forum for advancing its interests principally at the expense of the United States.

3. The Allende government will seek to maintain normal relations with the other Latin American governments and to influence other countries of Latin America to emulate the Chilean example. At the same time, Chile will probably become a haven for Latin American subversives and a staging ground for subversive movements in other countries despite Allende's desire to maintain normal relations within the hemisphere. The Chilean Communist Party will exploit its new-found respectability to strengthen its ties and influence with its collaborators in the hemisphere.

4. The Allende government will establish diplomatic relations and resume full trading ties with Cuba, although it may proceed cautiously to these ends.

5. The Allende government will most likely eventually carry out its expressed intention to recognize and establish diplomatic relations with all other "Socialist" countries including North Vietnam, Communist China, North Korea, and East Germany.

6. A Marxist-Allende government in power would represent a potential danger to Western Hemisphere security, to the extent that it develops military ties with Communist powers, and is actively hostile to inter-American security organizations. Full realization of these potentials could threaten U.S. security interests specifically.

7. The Allende government will have close relations with the Soviet Union but will seek to avoid dependence on it.

8. At least at the outset, the Allende government will wish to maintain its international credibility as a responsible debtor, as a trusted

borrower, and as a sovereign nation that fulfills its international obligations independent of any great power. It is unlikely, however, that it can complete its announced program of nationalization with “fair compensation” to U.S. investors.

### *C. Regarding Attitudes in the United States*

The U.S. Congress and knowledgeable sectors of the public will follow with interest the political course which Chile takes internally and its attitudes and actions with regard to the United States. The realism, finesse and effectiveness of the U.S. posture toward Chile will receive equivalent interest.

To date, coast to coast editorial comment has generally supported the manner in which the United States has handled developments in Chile. As the actions of the Allende government become more overtly hostile to U.S. interests, however, we may expect adverse reaction by some sectors of the U.S. public, press, and Congress to the “establishment of another communist government in the hemisphere,” with consequent pressures on U.S. policy.

### *D. Regarding Attitudes of Other Countries*

1. Allende’s assumption of power will provoke little overt hostility, at least initially, from Latin American or Western European governments, and these governments will publicly accept it in regional and multilateral organizations. To date, the results of our consultations with the other American Republics indicate concern on their part over developments in Chile but general endorsement of adopting a “wait and see” attitude on their and our parts. There will, however, be substantial official but privately expressed mistrust of and hostility toward the policies of that government as they develop along their expected lines.

## *II. U.S. Objectives*

The Department of State recommends that U.S. objectives with respect to Chile be set after full discussion by the National Security Council of the feasible means available to the U.S. for significantly influencing the course of events in Chile.

The Department of Defense recommends that the following be considered as the U.S. objectives toward Chile: (1) The prevention of establishment by the Allende government of an authoritarian Marxist regime, prevention of the regime’s falling under Communist control, and prevention of its influencing the rest of Latin America to follow it either as a model or through its external policies; (2) to act as a counterpoise to Soviet influence; (3) to protect U.S. economic interests, and (4) to protect U.S. security interests.

### III. Options

The United States should maintain a restrained, deliberate attitude toward Chile. In this manner we would maintain and exercise our influence in Chile, and have considerable flexibility and initiative while exploiting opportunities for pursuing our objectives.

Although events in Chile will be determined principally by internal Chilean forces and therefore U.S. influence can have only a marginal effect, the skillful exercise of our influence could be an important factor in complicating Allende's task, both by exacerbating the friction between the moderate and radical elements in Allende's coalition and by bolstering those forces opposed to the establishment in Chile of a Marxist-Leninist regime. The negative use of our influence—e.g., taking measures from the outset that manifest U.S. hostility toward the Allende government—would serve Allende's purpose of rallying the Chilean people around him in the face of the "foreign devil." On the other hand, failure to take *any* steps to achieve our objectives would leave the initiative in his hands, discourage opposition to Allende in Chile, weaken our hemisphere leadership, and create serious problems with public and Congressional opinion in the United States.

The principal targets of our courses of action with Chile would be the Allende government, the Chilean security and military forces, the non-Marxist political forces, and the Chilean public. Additional targets would be other Latin American countries and the OAS.

#### *Option A*

*Treat Chile as we do Communist Nations that Seek Independence of the USSR*

This option would be posited upon the belief that: (1) U.S. capabilities short of the use of armed force are insufficient in themselves to prevent the Allende government from maintaining itself at least over the short run; (2) for the foreseeable future the main course of events in Chile will be determined primarily by the Allende government and its reactions to internal pressures; (3) those internal pressures favorable to our interests can best be fostered and encouraged by maintaining as much U.S. presence and influence with the Chilean people as is possible; (4) thus we should not take the initiative in actions that would isolate us from Chile nor should we take the initiative in actions that would tend to force Chile into dependency on the Soviet Union; (5) we will be in the strongest position within Chile and the hemisphere if it is clear that sanctions that we take against Chile are in reaction to what the Allende government *does* rather than to what we fear it *may* do; (6) conversely to the degree that it is interpreted that the U.S. has taken the initiative in actions isolating itself from and creating a condition of

hostility with Chile, Allende's domestic and international position will be strengthened.

This option looks, therefore, to the longer run when, as we have experienced elsewhere in communist countries, internal developments in Chile may produce policies less hostile to our interests than the short-run "revolutionary" period is likely to do. Such a development should provide us with new opportunities for influencing the course of events in Chile.

### 1. *Courses of Action*

#### (a) *Regarding the Allende Government*

1. Maintain correct official relations with the Allende government in accord with established diplomatic practice.

2. Maintain the minimum official presence required to attain our objectives, headed by an Ambassador.

3. Keep the Allende government uncertain as to our attitude by refraining from public statements. Diplomatic actions in Chile would be limited to responding to situations as they emerge in Chile.

4. With respect to all other U.S. official activities relating to Chile, signal our reaction to any steps that may be taken by the Allende government that adversely affect U.S. interests in Chile by reducing or cancelling our programs, keeping in mind, however, our long-run objective of seeking to avoid a situation in which our influence would be entirely closed out.

5. Continue close consultation with Latin American governments regarding developments in Chile to ensure that our actions are understood and to ascertain whether we are moving in the directions generally consonant with the views of our friends in the hemisphere.

### *Option B*

*Maintain an outwardly correct posture, refrain from initiatives which the Allende government could turn to its own political advantage, and act quietly to limit the Allende government's freedom of action.*

This option would be posited on the beliefs that (a) while the Allende government will vigorously pursue its Marxist goals, the economic and political difficulties facing it will place significant obstacles in its path toward achieving those goals in the foreseeable future, and (b) overt hostile actions initiated by the United States would work to his political advantage. While we may not be able to avoid a confrontation, this option would deprive the Allende government to the extent possible of the important political benefit of putting on us the onus for any confrontation. In this manner we would limit the Allende government's opportunities to consolidate its position internally as well as

in the hemisphere through mobilization of emotional nationalism and “latin-americanism” against the United States.

At the same time we would continue to make our concerns over developments in Chile effectively felt through quiet diplomacy and carefully measured actions which would weaken the Allende government’s position and support its opposition without giving the government popular political issues to exploit.

This option differs from the previous option in that it is limited to proposing U.S. policy toward Chile for the initial and short term. Under this option, U.S. policy would be reviewed in the light of developments affecting Chile to determine which, if any, of the other policy options was called for.

1. *Courses of Action*

(a) *Regarding the Allende Government*

1. Maintain correct official relations with the Allende government in accord with established diplomatic practice.

2. Maintain the minimum official presence required to attain our objectives, headed by an Ambassador.

(a) Suspend replacements for the Peace Corps until the Allende government makes known its position on continuation of the program.

(b) Continue the NASA tracking station unless the Allende government requests its removal.

(c) Continue other scientific operations deemed in the U.S. interest, e.g., the Telolo radio-astronomy observatory, seasonal Antarctic activities involving transit and/or staging, where termination would be costly or inconvenient and not required by the Allende government.

(d) Wind down AID programs and staff to a compact presence concentrating on people-to-people relations (e.g., PL 480 Title II humanitarian programs, Special Development Fund impact projects); on those few programs of technical assistance of interest to the United States (e.g., health); and on participant training activities.

(e) Continue disbursements on the approximately \$30 million now in the AID pipeline as circumstances warrant.

(f) Sign no new loans and make no more commitments.

3. Retain Chile in Eximbank’s Group D (worst risk) category, requiring all decisions to be made in Washington and raising fees on guarantees. Exporters would be serviced on the merits of each case.

4. Examine each Chilean request to international financial institutions on its merits and in the context of the political situation at the time.

5. In the event of expropriation of U.S.-owned property, seek prompt, adequate and effective compensation, insuring that our judg-



ments on the application of related U.S. laws are based on careful assessments of all factors bearing on our interests in each case.

6. Apply the same criteria to negotiation on the Chilean external debt that we apply to debt with others.

7. Not encourage private investment in Chile.

(b) *Regarding the Chilean Security Forces*

1. Maintain effective relations with the Chilean military, letting them know that we want to cooperate but that our ability to do so depends on Chilean Government actions.

2. Continue military matériel and training assistance on a selective basis unless the Allende government moves to terminate the U.S. Military Mission agreement.

(c) *Regarding Non-Marxist Political Forces*

1. Publicize the weaknesses of the communist system.

2. Discreetly encourage selected politicians and political groups to oppose the Allende government measures leading to a Marxist and authoritarian state.

(d) *Regarding the Chilean Public*

1. Continue people-to-people type activities such as PL 480 Title II, the Special Development Fund impact projects, and educational exchange.

2. Publicize the weakness of the communist system.

(e) *Regarding the OAS and other LA Countries*

1. Quietly maintain consultations.

2. Refrain from actions which will tend to unite the other LA countries with the Allende Government.

*Option C*

*Maintain an outwardly correct posture, but making clear our opposition to the emergence of a Communist government in South America; act positively to retain the initiative vis-à-vis the Allende government.*

This option would be posited on the belief that a satisfactory *modus vivendi* is ultimately impossible; that confrontations are, sooner or later, inevitable; that it is in the U.S. interest to act in a deliberate, positive way that avoids over-reaction and maintains flexibility; that most importantly we work to retain the initiative while denying flexibility to Allende; that it is also in the U.S. interest to make U.S. opposition to a Communist government in South America clear to Chile, the rest of Latin America, the USSR, and the world. This option is to be considered in the framework of the introductory paragraphs to this section (III. OPTIONS). It is based on the occurrence of the probable developments in Chile (I. Assumptions). It differs from other options in that it pro-

vides for a public position by the U.S., and also holds the initiative on the actions to be taken with the Allende government, the Chilean security forces and political forces, the Chilean public and the OAS.

*This option does not recommend that the U.S. take the full range of the courses of action immediately after Allende's inauguration, nor without provocation on his part. It does recommend that U.S. initiative be geared to the situation as it develops in Chile.*

1. Courses of Action

a. Regarding the Allende Government

(1) On the diplomatic level, deal with the Allende government in a manner consonant with established diplomatic practice.

(2) Early in the Allende administration, declare at a very high level that we would view with grave concern adoption of policies, alliances or courses of action by the Allende government that transformed a friendly country into a state hostile to the United States or that violated or denigrated the honored principles upon which cooperation and peace in the hemisphere are based.

(3) Express this view in statements by appropriate Administration officials and members of Congress, possibly in a Congressional Resolution, and in diplomatic contacts.

(4) If U.S.-owned property is nationalized by Chile, insist on adequate compensation. If the Allende government does not adequately compensate for expropriated U.S.-owned properties:

—Do not support rescheduling of Chilean debt.

—Veto Chilean requests for loans in IBRD, IDB, Eximbank because of Chilean expropriations and economic policies.

—Discourage U.S., third country, and multilateral private investment in Chile.

(5) Invoke as soon as *applicable* appropriate provisions of the Foreign Assistance Act, e.g. (paraphrased):

—620(3)(b): No assistance to country dominated by international Communist movement.

—620(3)(c)(A): Suspend assistance to country that nationalizes, expropriates or seizes property owned by U.S. citizens, and fails within six months to agree to adequate compensation.

—620(3)(f): No assistance to any Communist country without Presidential waiver.

—107(b): No economic assistance to countries trading with Cuba or North Vietnam.

(6) Encourage U.S. labor organizations to take active role in effort to prevent Communist control of Chilean labor movement and the Chilean government, and to oppose them if this eventuates.

(7) If anti-U.S. hostility is evident, discourage tourism and travel to Chile, on the grounds that we could not lend assistance in case of trouble.

(8) If Chile enters into commercial air traffic with Cuba, provide no assistance to Chilean airlines, no new equipment or routes.

*b. Regarding the Chilean Security Forces*

(1) Maintain effective relations with the Chilean military, letting them know that we want to cooperate but that our ability to do so depends on Chilean government actions.

(2) Inform Allende that we plan no change in military cooperation, but that U.S. public and Congressional reactions will be dictated by his government's actions.

(3) Based on Allende's response to this position, and on his subsequent actions, take the following steps:

—*Military Assistance Program*: Continue monitoring of training; MAP pipeline deliveries, and Foreign Military Sales pending Allende reaffirmation of:

—The Mutual Defense Assistance Agreement of 1952,

—The Military Mission Agreement of 1964.

If he reaffirms, continue the programs on a minimum basis; if he does not reaffirm, terminate.

—*Military Group*: Continue military mission operations if the Military Mission Agreement is reaffirmed within a reasonable time; be prepared to withdraw the missions unilaterally if this is not forthcoming.

—*If Chile enters into trade with Cuba*, maintain surveillance of Chilean Ships Transiting the Panama Canal (boarding guards, etc.).

—*Impress on NATO Allies* their need to support our Western Hemisphere security interests.

—*Ship Leases/Loans*: If U.S. security interests are affected by Chilean-Soviet military ties, inform Chilean military that we will have to recall the nine U.S. vessels (two destroyers, two submarines, five support ships) on lease/loan.

—*If Chile develops security ties with the USSR*, dramatically increase security cooperation with other South American countries:

—Offer to sell F-4's to Argentina on favorable terms,

—Provide selective MAP material for Argentina and Brazil,

—Support the Argentine position in Beagle Channel controversy if not settled.

—Increase internal security assistance (MAP and Public Safety) to Uruguay, Paraguay, and possibly Bolivia, based on the threat of Chilean-exported subversion.

c. *Regarding the Non-Marxist Political Forces*

(1) Give articulate support, publicly and privately, to democratic elements in Chile opposed to Allende regime by all appropriate means.

(2) In contacts with non-Marxist politicians, emphasize our desire to continue cooperation but that our ability to do so depends on Chilean government actions.

(3) Publicize on a continuing basis the restrictions to personal freedom and weaknesses of the Allende regime.

d. *Regarding Chilean Public*

(1) Publicize on a continuing basis the restrictions to personal freedoms and weaknesses of a Communist regime.

(2) For the short term, continue the Title II, PL 480 program and utilization of the "Ambassador's" special development fund.

e. *OAS and Other Latin American Countries*

(1) Maintain consultations.

(2) Encourage major South American nations to effective opposition to a Communist Chile threat.

(3) Inform the Chilean military of our support for their actions as staunch defenders of a democratic Chile and suggest to the governments of Argentina, Brazil and Paraguay that they also convey their support to the Chilean military.

(4) Utilize OAS to oppose Chilean violations of OAS charter and resolutions.

(5) Consider exclusion of Chile from classified proceedings of IADB and in hemispheric military conferences and exercises.

*Option D*

*Maintain an outwardly correct but adversary posture, make clear our opposition to the emergence of a Communist government in South America; adopt without delay economic, political and diplomatic measures designed to prevent Allende from consolidating his position; act positively to retain the initiative vis-à-vis the Allende government.*

This option would be posited on the belief that a satisfactory *modus vivendi* is impossible; that confrontations are inevitable; that it is necessary to act without delay to deny the Communists/Socialists the chance to consolidate their power; that we must retain the initiative while denying flexibility to Allende; that it is in the U.S. interest to make U.S. opposition to a Communist government in South America clear to Chile, the rest of Latin America, the USSR, and the world.

*This option reflects the reported evaluation of the situation by ex-President Frei (Santiago 4637) that Chile is dead, without any future except as a fully Marxist state, and that the only miracle that might save it would be the incapacity of the government to handle the economic situation.*

# 1. *Courses of Action*

## a. *Regarding the Allende Government*

(1) On the diplomatic level, deal with the Allende government in a manner consonant with established diplomatic practice.

(2) At the beginning of the Allende administration, declare at a very high level that we would view with grave concern adoption of policies, alliances or courses of action by the Allende government that transformed a friendly country into a state hostile to the United States or that violated or denigrated the honored principles upon which cooperation and peace in the hemisphere are based.

(3) Express this view in statements by appropriate Administration officials and members of Congress, possibly in a Congressional Resolution, and in diplomatic contacts.

(4) If U.S.-owned property is nationalized by Chile, insist on adequate compensation.

(5) Do not support rescheduling of Chilean debt.

(6) Veto Chilean requests for loans in IBRD, IDB, Exim-bank because of Chilean expropriations and economic policies.

(7) Discourage U.S., third country, and multilateral private investment in Chile.

(8) Invoke appropriate provisions of the Foreign Assistance Act e.g. (paraphrased):

—620(3)(b): No assistance to country dominated by international Communist movement.

—620(3)(c)(A): Suspend assistance to country that nationalizes, expropriates or seizes property owned by U.S. citizens, and fails within six months to agree to adequate compensation.

—620(3)(f): No assistance to any Communist country without Presidential waiver.

—107(b): No economic assistance to countries trading with Cuba or North Vietnam.

(9) Terminate assistance to Chilean airlines, including equipment and U.S. entry privileges.

(10) Encourage U.S. labor organizations to take active role in effort to prevent Communist control of Chilean labor movement and the Chilean government, and to oppose them if this eventuates.

(11) Discourage tourism and travel to Chile, on the grounds that we could not lend assistance in case of trouble.

## b. *Regarding the Chilean Security Forces*

(1) Maintain effective relations with the Chilean military, to maximum extent possible, letting them know that we want to cooperate but that our ability to do so depends on Chilean government actions.

(2) *Military Assistance Program*: Continue monitoring of training; MAP pipeline deliveries, and Foreign Military Sales pending Allende reaffirmation of:

—The Mutual Defense Assistance Agreement of 1952,

—The Military Mission Agreement of 1964.

If he reaffirms, continue the programs on a minimum basis; if he does not reaffirm, terminate.

(3) *Military Group*: Phase-down, but continue military mission operations if the Military Mission Agreement is reaffirmed within a reasonable time; be prepared to withdraw the missions unilaterally if this is not forthcoming.

(4) *If Chile enters into trade with Cuba*, maintain surveillance of Chilean Ships Transiting the Panama Canal (boarding guards, etc.).

(5) *Impress on NATO Allies* their need to support our Western Hemisphere security interests.

(6) *Ship Leases/Loans*: Recall the nine U.S. vessels (two destroyers, two submarines, five support ships) on lease/loan.

(7) *If Chile develops security ties with USSR*, dramatically increase security cooperation with other South American countries:

—Offer to sell F-4's to Argentina on favorable terms,

—Provide selective MAP matériel for Argentina and Brazil,

—Support the Argentine position in Beagle Channel controversy if not settled.

—Increase internal security assistance (MAP and Public Safety) to Uruguay, Paraguay, and possibly Bolivia, based on threat of Chilean-exported subversion.

*c. Regarding the Non-Marxist Political Forces*

(1) Give articulate support, publicly and privately, to democratic elements in Chile opposed to Allende regime by all appropriate means.

(2) In contacts with non-Marxist politicians, emphasize our desire to continue cooperation but that our ability to do so depends on Chilean government actions.

(3) Publicize on a continuing basis the restrictions to personal freedom and weaknesses of the Allende regime.

*d. Regarding Chilean Public*

(1) Publicize on a continuing basis the restrictions to personal freedoms and weaknesses of a Communist regime.

(2) For the short term, continue the Title II, PL 480 program and utilization of the "Ambassador's" special development fund.

*e. OAS and Other Latin American Countries*

(1) Maintain consultations.

(2) Encourage major South American nations to effective opposition to a Communist Chile threat.

(3) Inform the Chilean military of our support for their actions as staunch defenders of a democratic Chile and suggest to the governments of Argentina, Brazil and Paraguay that they also convey their support to the Chilean military.

(4) Utilize OAS to oppose Chilean violations of OAS charter and resolutions.

(5) Consider exclusion of Chile from classified proceedings of IADB and in hemispheric military conferences and exercises.

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**34. Analytical Summary by Viron P. Vaky of the National Security Council Staff<sup>1</sup>**

Washington, November 3, 1970.

ANALYTICAL SUMMARY OF OPTIONS PAPER  
FOR NSC DISCUSSION

NSSM 97—Chile

*I. Assumptions*

The paper assumes that the Allende Government will:

—seek to establish an authoritarian socialist state in Chile; have an anti-US bias and work against us to eliminate our influence in Chile and in the Hemisphere;

—establish linkages with the USSR, Cuba and other socialist countries, although trying to avoid dependence on the Soviets;

—face domestic opposition, internal tensions within the Marxist coalition, and economic difficulties, at least in the first two years. The paper assumes Allende will work diligently and purposefully to overcome these obstacles;

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<sup>1</sup>Summary: This analytical summary of the options paper prepared for the November 6 NSC meeting (Document 33) examined the U.S. assumptions and objectives presented and provided a detailed evaluation of the various strategies introduced in the paper.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-29, NSC Meeting, Chile, 11/6/70. Secret; Sensitive.

—move carefully and be pragmatic. Allende may not radicalize fast. He will, at the outset at least, wish to maintain his international credibility as a responsible debtor and borrower, and as a responsible sovereign power.

The paper further assumes that:

—US domestic sectors will watch the Chilean situation carefully; so far, our handling of the situation has been supported. However, if Chile becomes overtly hostile, some adverse reaction can be expected from the public, press and Congress.

—Other Latin American and European nations will not be overtly hostile; they will accept the Allende Government in regional and multi-lateral organizations, and generally adopt a “wait and see” attitude, though there will be private mistrust.

## *II. US Objectives*

The State Department recommends that no objectives be set until after NSC discussion of the feasible means available to the US for influencing events in Chile.

DOD recommends the following objectives: (1) the prevention of establishment by the Allende Government of an authoritarian Marxist regime, prevention of the regime’s falling under communist control, and prevention of its influencing the rest of Latin America to follow it either as a model or through its external policies (2) to act as a counterpoise to Soviet influence, (3) to protect US economic interests, and (4) to protect US security interests.

## *III. Options*

The paper suggests that there are four possible strategies which could be considered:

*Option A—Treat Chile as we do communist nations that seek independence from the USSR (Modus vivendi)*

The *basic premises and judgments* of this option are:

—There is nothing that we can do short of armed force to bring Allende down.

—The course of events in Chile will be determined primarily by Allende and internal factors.

—Internal pressures favorable to our interests can best be fostered by maintaining as much US presence and influence in Chile as possible. Therefore, we should not take initiatives which would isolate us from Chile or force Chile into dependency on USSR.

—We should react to what Allende does rather than what we fear he may do; to the extent we initiate hostile policies, we will strengthen Allende’s position.



The *objective* of keeping a presence and relationship in Chile is the anticipation that over the long run things may mellow or opportunities may present themselves for constructive influence to be exerted.

*Tactically* we would maintain correct relations; we would not reduce or terminate programs or personnel except in reaction to steps by Allende. We would avoid public pronouncements and try to keep Allende uncertain about our attitude. We would maintain close consultation with other Latin American governments.

The *keynote of this option* is maintenance of a presence and contact as the central purpose of our policy rather than exerting pressure to force change or collapse.

*Option B—Maintain outwardly correct posture, refrain from initiatives which Allende could turn to his own political advantage, and act quietly to limit his freedom of action.*

The *basic premises and judgments* of this option are:

—The Allende Government will face significant economic and political difficulties which will be obstacles in its path toward achieving its Marxist goals.

—Overt hostile actions initiated by the US would work to Allende's political advantage both in Chile and in Latin America.

The *objective* of this option is to limit the Allende government's opportunities to consolidate itself but without giving it popular political issues to exploit. It would be an initial short-term policy which would be reviewed in light of developments to determine if other options are called for.

*Tactically*, we would maintain correct relations and would maintain the minimum official presence required to attain our objectives. We would suspend replacements for the Peace Corps unless Allende asked for a continuation of the program, continue NASA and other scientific operations unless Allende asked for their removal; we would continue disbursements on the \$30 million pipeline, but sign no new loans and generally wind down AID programs and staff, concentrating mostly on people-to-people programs. We would retain Chile in Ex-Im Bank's worst risk category, not encourage private investment, but examine Chilean loan requests in international institutions on their merits. We would continue military assistance on a selective basis unless Allende requests termination, discreetly encourage selected political opponents of the Allende Government, and while maintaining consultations with other Latin American governments refrain from acts which would unite them with Chile.

The *keynote of this option* would be flexibility.

*Option C—Maintain an outwardly correct posture but make clear our opposition to the emergence of a communist government in South America; act*

*positively to maintain the initiative vis-à-vis the Allende Government.* (Cold, correct public posture and non-overt pressure)

*The basic premises and judgments* of this option are:

—A satisfactory *modus vivendi* is impossible and confrontations are inevitable.

—That it is in our interest to avoid overt reaction and maintain flexibility but most importantly to retain the initiative while denying flexibility to Allende.

—It is also in the US interest to make our opposition to a communist government in South America known.

*The objective* of this option is to hold the initiative and gear it to the situation as it develops in Chile.

*Tactically* we would maintain correct diplomatic relations, but make clear publicly that we would view with grave concern the transformation of Chile into a state hostile to the US. If US-owned property is nationalized, we would react by opposing rescheduling of Chilean debt, opposing Chilean loans in international agencies, discouraging private investment, and applying appropriate provisions of the Foreign Assistance Act. We would maintain military assistance and Missions if Allende reaffirms agreements, but we would be prepared to terminate if necessary. We would recall US vessels currently on loan to Chile if military ties were established with the USSR, and would provide increased military assistance to Chile's neighbors. We would support elements opposed to Allende in Chile, and encourage other Latin American nations to oppose a communist Chile threat.

*The keynote of this option* is to let Allende pick the public fight and to counter punch. We would exert pressure and stimulate opposition, but would try to do so in ways that avoid giving Allende an excuse to blame us.

#### *Option D—Overtly Hostile Policy*

*The basic premises and judgments* of this option are:

—No satisfactory *modus vivendi* with Allende is possible; confrontations are inevitable.

—It is necessary to act now to deny the Communists/Socialists the chance to consolidate their power.

—That we must retain the initiative while denying flexibility to Allende.

—It is essential to make clear to Chile, the rest of Latin America and the USSR our opposition to a Communist government in South America.

*The objective* of this option would be to seek his eventual overthrow or at least his failure, and even if that was not achieved to isolate him.

*Tactically*, we would be outwardly correct on the diplomatic level, but would declare and publicize our concern and opposition to the Allende Government. We would exert pressures to isolate and hamper him and to encourage opposition to him within Chile. We would on our own initiative take punitive measures—terminate economic aid; reduce our official presence; use our influence to deprive Chile of financial resources in private and international lending agencies; encourage major South American nations to oppose Chile, including use of OAS; try to maintain effective relations with Chilean military, but be prepared to terminate MAP and withdraw Missions if Allende does not reaffirm agreements; provide increased military aid to Chile's neighbors if it develops security ties to USSR.

The *keynote* of this option is assumption that confrontation is inevitable and we should not wait; we would punch first so as not to give him time to consolidate.

#### IV. Analysis of Options

*There is a fundamental difference between the last option and the first three.* Option A concedes Allende's continued existence and concludes that we really have no choice but to relate to that situation. The next three, on the other hand, assume a basically adversary aim—and capacity—to contain or change the situation and flow of events although they vary as to method, intensity and tactical objectives.

The basic difference highlights the importance of our basic perception about the nature of the Allende regime and its prospects. *The validity of Option A necessarily depends on the validity of its implicit judgments and premises—viz.,* we really cannot do anything about the situation, the likelihood is that Allende will not succeed, and an adversary posture will only redound to his benefit.

If these judgments are correct, then this option has the merit of giving us the best chance of maintaining a US presence in Chile and of preserving our flexibility and our options to “play for the breaks.” This strategy would also provide Allende the least excuse for seeking Soviet support and presence, and would avoid the danger of our being accused of “pushing” Chile into Russia's hands. It would also raise the least controversy and concern in the rest of the world and hemisphere.

*The problem with Option A* is that it is not clear that its basic premises are correct. The NSSM 97 paper concluded that the likelihood is that Allende *can* overcome his weaknesses and opposition and achieve his goals if he has time and room for maneuver. Allende's demonstrated “game plan” so far, in fact, is clearly aimed at gaining time to consolidate himself and to avoiding the pressures our hostility might provide. Therefore, the question is at least raised whether Option A's strategy would not play into Allende's hands, and forego whatever

chance there may be for us to intensify his problems in the crucial formative first year. To the extent that Allende accepted our relationship, we might actually help entrench him.

This strategy would also leave the strategic initiative in Allende's hands. If he *wants* to adopt an anti-US course, the courses of action outlined in Option A will not prevent or deter him. The argument might also be made that this kind of posture may be interpreted as impotence and indifference by the USSR and other hemisphere nations respectively.

Finally, there is the question of whether we can consistently carry out this strategy. Our capacity to sidestep confrontation is limited, given mandatory legislative sanctions we would have to apply in the event of certain actions, and, therefore, we may not be able to avoid an adversary posture.

### *The Adversary Posture*

As noted, the next three options have a basically different perception of the situation—viz., that Allende will follow an anti-US policy, has a basic anti-US bias, and will not find it in his interest to modify his goals just to get along with us; that the likelihood is that he *will* succeed in consolidating his power and achieving his goals if left to his own game plan; that it *is* possible for us to sharpen and intensify his problems and weaknesses; that confrontation is inevitable sooner or later; and that, therefore, only some kind of adversary posture promises to best contain or limit the adverse impact on our interests of an Allende government.

The basic question raised by these judgments is: *What can we realistically hope to achieve by an adversary posture?*

Experience has demonstrated that we have virtually no capacity to engineer Allende's *overthrow* in the present situation. The last three options therefore, posit as their minimum goal the creation of pressures and circumstances which might cause or force Allende to fail or to modify his goals and as a maximum the creation of circumstances which might lead to his collapse or overthrow more easily later. A correlative objective is to contain the adverse impact of Allende's policies on our interests in the rest of the hemisphere.

The variations in the three options result from their different responses to these tactical issues:

- which strategy or posture will maximize our chances for achieving our objectives at the least political cost;

- how overt does our adversary posture have to be, and what are the liabilities if it is;

- should we initiate hostile measures or just “counter-punch”?

The *value of Option D* is that it is straightforward and unambiguous. It leaves no one in doubt as to our position, and avoids the risk that we will be perceived as indifferent or as supporting Allende. It would permit us to concentrate maximum pressure.

The principal disadvantage is that overt hostility initiated by us is the least effective way to project pressure. The punitive public image of this strategy gives Allende the best chance to blunt the impact of our actions by exploiting nationalism and latent fear of "US intervention" to rally domestic support in Chile and international sympathy. He can use the "foreign devil" argument as an excuse for his mistakes and a reason for taking even more radical measures. In short, this strategy is somewhat a counterpart of Option A in that it also risks helping Allende entrench himself.

The proposed courses of action would also almost surely divide the hemisphere and create opposition and suspicion of us in a number of countries. We would undercut the credibility of our claim to respect self-determination and the democratic process. Because the overt style threatens to blunt the impact of our pressure we may incur the disadvantages of public hostility and still fail to have significant impact—the worst of all worlds.

The *value of Option B* is that it minimizes the liabilities of overt hostility with more certainty, and provides greater flexibility to meet situations as they develop—we are in better position to harden or soften our actions as circumstances may warrant.

The *disadvantage* is that this strategy is essentially ambiguous and may be internally contradictory. The mixture of measures to hamper him on the one hand and to keep a flexible posture on the other threaten to undercut each other. Thus, we would appear to take measures in some instances to hamper Allende—e.g., covert pressures, reducing bilateral aid—while taking some measures in different instances—maintaining selective US programs—whose effect is to strengthen him and give him legitimacy. One could argue that this option is essentially a compromise, and that the accumulated nuances do not make clear whether it is really an adversary posture or a variation of Option A.

The *value of Option C* is that it promises precisely to avoid the dangers of overt hostility by maintaining a correct public posture, undertaking hostile measures publicly only in reaction to Allende (the "counter-punch"), but mounting approximately the same non-overt pressures and efforts to intensify internal problems. By thus avoiding giving Allende an excuse to use us as a credible whipping boy, it promises to maximize the effectiveness of such pressures. Moreover, by being cold and correct we maintain a relationship but with minimum award of legitimacy or respectability to Allende.

*Its disadvantage* is that Allende may still gain some domestic political benefit from the sheer coldness of our public posture, claiming that that is initiated hostility. We would still have difficulty gaining unanimous Latin American and European support or cooperation for our policies, and our public stand of hostility to Communism would be a letter more ambiguous than in the case of Option D. To maintain a correct relationship, moreover, we may have to forego some kinds of pressure in given instances.

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### 35. Briefing by Director of Central Intelligence Helms<sup>1</sup>

Washington, November 5, 1970.

#### CHILE

I. Mr. President, Salvador Allende, the Chilean Marxist, has now taken office as President in that country with virtually no significant opposition to hold him in check, and with a cabinet dominated by the Communists and his own even more extreme Socialist Party.

II. Allende was a narrow winner in the three-way presidential elections on September 4, when his Popular Unity coalition got him 36.6 percent of the vote.

A. The orthodox pro-Moscow Communist Party of Chile put together the Popular Unity coalition, chose Allende as the candidate, and provided the organizational base for his election.

B. Allende himself belongs to the Socialist Party. This is a Marxist, nationalist party with a strong faction committed to violent revolution, rather than the parliamentary road to power favored by the Moscow-line Chilean Communist Party.

1. The Socialists, in fact, earlier this year appeared to be ready to jettison Allende. He has been the perennial Marxist candidate, but the extreme left wing of the Socialist Party mistrusts him. This radical wing

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<sup>1</sup> Summary: In this briefing prepared for the November 6 NSC meeting, Helms argued that although there had been some opposition to his incipient government before Allende's November 4 inauguration, once he took power there was "virtually no significant opposition." Helms maintained that Allende's regime would be a hard-line leftist regime.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-29, NSC Meeting, Chile, 11/6/70. Secret; No Foreign Dissem.

feels that he has not been a firm supporter of violent revolution, but has favored alliances with the Communists with a view to parliamentary victory.

2. The leftwingers—who could gain control of the Socialist Party in coming months—feel that Allende, under Communist tutelage, would move cautiously to turn Chile into a Communist state. In contrast, they believe that the current situation is favorable for a massive, radical, and violent consolidation of power.

III. Chilean election law provides that when no presidential candidate receives a majority, the president will be chosen in a run-off by both houses of Congress meeting jointly.

A. The forces which might have opposed Allende in that Congressional vote on October 24 were not only fragmented, but were left leaderless before the Congress met.

1. Radomiro Tomic, the candidate of outgoing President Eduardo Frei's Christian Democrats, recognized Allende on the heels of the popular vote as president-elect, because of his plurality.

2. In a special Christian Democratic congress, Tomic and other left-wing leaders overrode moderate elements and voted to support Allende.

3. Conservative former president Jorge Alessandri, who had trailed by only 40,000 in the popular vote, at first planned to make a strong fight in the run-off. But on October 9—after the Christian Democratic caucus decided to support Allende—Alessandri asked his followers not to vote for him.

IV. The Allende forces, even before the run-off, were moving quickly and forcefully to ensure his inauguration and to consolidate control.

A. Methods ranging from soothing persuasion to terrorist threats were used effectively to make his presidency appear palatable—and inevitable.

1. His supporters exerted major influence on the information media, either maneuvering their way in, or simply declaring their authority in the name of the forthcoming regime.

2. Allende and his close associates contacted many important Chileans in political, economic, and such professional fields as education, to reassure them that cooperation would pay.

3. Grass-roots support for Allende was whipped up by some 8,000 Popular Unity Committees in factories and neighborhoods, organized originally as campaign forces for Allende's popular election. These groups, largely controlled by the Communist Party, will apparently be kept in being and expanded to provide local propaganda, control, and intelligence.

B. On October 24, 195 of the 200 legislators in the full Congress showed up. (Allende himself did not vote, and four others were ill.)

1. Allende got 153 votes—74 of them from the Christian Democrats. Their 19 senators and 55 national deputies followed party orders to vote for Allende.

2. Alessandri got 35 votes from the National Party.

3. Seven members of the Congress abstained.

V. Even before the election, there had been speculation that as a last resort the Chilean military would not permit a Marxist government to take office.

A. Many high-ranking officers had expressed opposition to Allende, and a few had told United States officials that as a Marxist, he would not be allowed to become president if he should win.

B. When Allende won his plurality, a number of high officers—including troop commanders and the head of the Air Force—were casting about for ways, means, and support to prevent a Marxist government.

1. This group included General Vicente Huerta, commandant of the *carabineros*, who has now been replaced.

2. A number of them still expressed optimism that Allende would be defeated in the Congressional run-off.

C. To sum up the situation between the election on September 4 and the inauguration on November 3, there *were* some important elements in both the military and political establishments which perceived that Allende should not be allowed to bring a Marxist regime into office. Also present, there was an array of power factors which—if it had been united and totally committed to a plan—could have prevented Allende's assumption of the presidency.

1. As the situation developed, however, the faction which controlled the Christian Democratic Party was determined to reach an accommodation with Allende, and would *not* consider an *ad hoc* political alliance with the National Party to stop him.

2. The military, for its part, was committed to support the constitutionally-elected president, both by its non-political tradition, and through the firm conviction and explicit policy of the Army commander-in-chief, General René Schneider.

3. Those diverse groups of military and political leaders who *did* wish to prevent an Allende presidency at no time acted in concert nor demonstrated the courage to move.

D. This immobilism can be attributed in a considerable degree to the existing climate of public opinion. The Chilean people had been softened up and conditioned for six years to accept revolutionary lan-



guage, not only coming from the Communists and Socialists, but generated by the ruling Christian Democrats themselves.

1. The Chilean government had permitted the Soviets and the local Marxists to carry on their political action and propaganda activities without hindrance.

2. As a result, the Chileans viewed the coming of Allende with apprehension and unease, but *not* with the repugnance and gut concern which could have led to action.

E. Essentially, each element in the power structure—the political and the military—looked to the other to provide the leadership, but *no* leader with the clout to bring it off was willing to step forward at the crucial moment.

1. Among the military, the negative attitude of Army commander Schneider was a blocking factor, whether it stemmed from dedication to the constitution, or a reported preference for Allende. It influenced General Carlos Prats, who became Army commander when Schneider was assassinated. In early stages, some officers had considered Prats the best potential leader against Allende.

F. Retired Army General Roberto Viaux, who had led an earlier abortive military revolt to improve the position and perquisites of the military, was actively seeking support for a coup attempt.

G. Most of the senior active officers, however, feared the risks involved in the communication and coordination essential for choosing a leader and ensuring support from their fellow officers and troops.

1. As the deadline for action approached, the cooperation of troop commanders in the Santiago area—considered a necessity—was not assured. Divisions among leading officers became more evident, for example by the calls which several admirals paid on Allende.

H. Schneider's assassination unified the military, but the shock of it unified them *against* any likelihood of a coup to keep Allende from office. In addition, the assassination provided an excuse for some to take no action.

VI. Allende announced his cabinet a few days before his takeover.

A. Allende himself—and probably the Communists—would prefer for the time being to project a non-radical image.

B. Let us make no mistake, however: This is a hard-line, militant cabinet. It reflects the determination of the Socialists to assert their more radical policy from the start. The Communists have countered by holding out for the key economic and patronage ministries. In satisfying both, Allende has wound up with a cabinet clearly dominated by these two parties at the expense of the other members of the coalition.

VII. Allende's attainment of the presidency with only about one third of the country's vote climaxes a highly successful political career of nearly 35 years.

A. The man knows how to achieve his ends. He knows the political forces of the country inside and out. He has a thorough familiarity with the governmental and economic structures he plans to revolutionize, in the course of building the socialism he claims will solve Chile's many serious problems.

1. He is tenacious and singleminded, but he knows how to dissemble his determination with a flair for maneuvering, a quick wit, and an instinct for when to reassure and when to challenge.

2. He has also demonstrated in the past that he is adept at remaining in command of a quarreling coalition by playing off rival forces against each other—a balancing act he will have to rely on to set his own pace for change when the Socialists want to proceed full tilt with the proclamation of a Marxist Chile, while the Communists call for a more deliberate construction of the foundations.

B. We do not expect an immediate flood of radical constitutional revisions to consolidate his political and economic control. The constitution already gives the president broad powers of executive decree—recently enlarged by the Frei government. With the next congressional elections set for 1973, he has ample time to obtain the legislation he may need without triggering opposition by hasty and alarming demands.

C. We expect that his first economic moves will be aimed at control of the major mining, industrial and financial enterprises that he considers essential to his plans.

1. These assets, combined with the substantial foreign exchange reserves he inherits from the outgoing government, will put his regime in good financial shape at the outset.

2. Recent high copper prices and extensive recent U.S. investment in expanded copper production in Chile are additional bonuses for the new regime, although world copper prices have been dropping, and there are indications that supply is approaching demand.

3. He and his main economic advisers are concerned, however, about the deterioration of the internal economy since his election.

D. He has described inflation as the most urgent problem of the moment.

E. His program for socialism will be facilitated by the already preponderant role of the Chilean government in nearly every field of economic activity. The private enterprise system has already been distorted by 30 years of rapid inflation and government intervention.

VIII. In the international economic field, we expect that Allende, at the start at least, will move with caution and with considerable regard for the realities. He has asserted his interest in foreign capital and technology as long as "the benefits are mutual."

A. Understandably, foreign investors will be wary of a professedly Marxist regime, and new foreign credits will be harder to come by.

B. Allende and his representatives have reiterated in public and in private their hopes of retaining Chile's traditional hard currency markets in Western Europe, Japan, and elsewhere for their copper, iron, and other exports, as well as plans for expanding into Communist markets.

1. We know that Fidel Castro has advised Allende to keep Chile's copper sales in hard currency.

C. U.S. private assets in Chile total about one and a half billion dollars, of which slightly less than half consists of Chilean government notes issued for nationalization, holdings of public bonds, and long- and short-term loans.

1. We estimate the book value of direct U.S. investment at \$800 million, although replacement would be considerably higher. More than half—\$480 million—is in mining and smelting.

2. As of September 10, U.S. investors had A.I.D. current investment insurance against expropriation amounting to \$293 million, and standby coverage for another \$355 million.

IX. As for foreign relations, many governments are skeptical of Allende's aims, but anxious to avoid an appearance of prejudging him.

A. The pleas he has made so far for international understanding would appear to be contradicted by the appointment of the radical Clodomiro Almeyda as Foreign Minister.

1. Almeyda is so far to the left that his admiration for the Chinese Communists and the Cubans in the past has placed him in opposition to Moscow.

B. Several Latin American governments, including in particular Argentina, are deeply concerned over the possible effect of the Allende government on political stability inside their own countries.

1. A reliable clandestine source reports that in late October Allende promised representatives of revolutionary guerrilla groups in Latin America that Chile would become a center of support for them as soon as he is firmly in control.

C. There is every indication and every reason to expect that—whatever Allende may say or intend—the forces around him will use every opportunity to exacerbate relations with the United States.

1. The personal emissary Allende sent to our Embassy in Santiago said there was little the new president could do to curb the constant attacks on the United States in the Chilean press.

E. As for the Soviet Union, Moscow is showing caution in dealing with the new government. In turn, the Chilean Socialists will want to avoid excessive dependence on Moscow, and the Chilean Commu-

nists—for the sake of their domestic appeal—will exercise restraint in promoting closer ties with Russia.

1. The USSR extended a credit of \$57 million to Chile in 1967, none of which has been used. Chilean economic problems, however, will inevitably create the opportunity for Moscow to use this for leverage with the new Marxist government.

## Cool and Correct: The U.S. Response to the Allende Administration, November 5, 1970–December 31, 1972

### 36. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, November 6, 1970, 1310Z.

4735. Subj: Post inauguration sitrep.

1. Following is personal assessment, delayed by press of inauguration activities, of Chilean situation. Since important policy decisions may be taken, it is forwarded at this time. It is based on talks this week with Allende, Frei, leading Communist, Christian Democratic, and Radical politicians, the chiefs of the armed forces and US businessmen.

2. There is universal agreement here that the threat to Chile and beyond is the degree and pace of Communist control. The new govt of Allende is notable because the Communists (unlike the Popular Front of 1938 here with which Allende made comparisons in his talk to Asst Secy Meyer) have deliberately chosen to assume primary responsibility for the economy. This time it is not leaving itself an out. By so doing, as outgoing MinFinance Zaldivar underlined, it has taken those jobs that will give the Communists the administrative handles necessary for its gradualist quest for domination.

3. Control of the Ministries of Economy, Finance, and Labor go far beyond the obvious. For example, the Finance portfolio includes the Internal Revenue Bureau which is a political instrument of tremendous potential; Economy includes all price control; the Labor Ministry, when combined with the Communist leadership of the Confederation of Trade Unions and Communist control of what will be a vastly expanded Public Works Ministry, will provide the PCCh with tremendous give-or-take leverage over unions as well as management in what mixed and private companies may remain.

4. The Communists have deliberately eschewed responsibility for security and defense matters. There the Socialists have taken the nominal control although the Communists are at the very minimum pro-

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<sup>1</sup> Summary: In this telegram, Korry discussed the situation in Chile since Allende's inauguration and Chilean military's need for matériel and tried to predict how Chile's economy would fare under Allende. The real threat to Chile, according to Korry, was that the pace of change outstripped the degree of Communist control.

Source: National Archives, RG 59, Central Files 1970-73, POL 2 CHILE. Secret; Immediate; Exdis.

tecting themselves with key slots, such as the Undersecretary of Interior. Already the military is very nervous about the implications for them and the country of this Marxist exclusivity in the most sensitive sector; the Marxists will control the US equivalent of all police forces, the FBI, border patrol, voting eligibility, and the Secret Service. If the armed forces knew that the Cubans had already sent security experts and that Allende's daughter Beatriz (who has particularly strong influence over her father) is about to marry the Cuban in charge of all CIA-type activities in Latin America they would be even more disquieted.

5. Equally significant is that Allende is obsessed with the notion that there is a plot to kill him. Frei and others have remarked on the acuteness of the new President's fear. Allende talks of people planning to drop bombs on his home from helicopters and of all manner of assassination plots; he insists on having every conceivable precaution, of the need to constantly change autos, to wear bullet-proof vests and the like. There is no question that he is deliberately being fed a conspiratorial theory in which the CIA and others are always involved so that he will be more pliable politically.

6. This obsession, in turn, may lead to the decision to convert the current investigation of the murder of General Schneider into a political weapon against many respectable opponents and very possibly show trials at some point. In any event the senseless Schneider assassination has provided the Marxists with a pressure instrument that is already being effectively employed against the national party to gain compliance and cooperation.

7. In these circumstances the armed forces wish above all to maintain normality with the US. Because of their fears that they will be cut off by the US and forced to buy elsewhere, possibly from the Communist bloc, they are extremely anxious to have proof now that the US will continue to sell spare parts and new equipment. While they are reacting negatively to the AFTAC phaseout, the simultaneous airlift of a US propeller shaft to the navy had positive impact. But the critical decisions lie ahead almost immediately.

8. The air force has made known for some time its desire to buy three C-130s from us and has talked about the purchase of F-5s. Now, the new Chilean AF CINC, Gen. Ruiz sent word to me 48 hours ago that he wishes to implement these purchases quickly so as to foreclose any possibility of other sources of supply. The official decree authorizing purchase of the three C-130s specifies no less than seven years credit whereas Lockheed so far has only offered five. We would have a similar problem if there were no USG intervention with the F-5s if the Chileans were to deal directly, as they want, with the commercial sellers. The army and the navy will have similar desires although the

former can acquire other equipment, as they have in the past, from Europe, and the latter has four units under construction in the UK. All told, the three services have been authorized to spend roughly \$85 million in purchases abroad for new equipment predicated on the assumption that the new govt will not seek to reverse their decisions and that the military's sources of revenue from the copper law will not be changed. The military, despite its lack of intervention to prevent Allende from taking office, will be one of the major elements in combination with the economic evolution, the role of political opposition and the behaviour of Allende in determining whether Chile will be an irreversible Communist state linked to Moscow or not.

9. By any measure, the economic situation will not be easy for the Marxist to handle. Despite the \$500 million cushion in foreign currency that the country will have at year's end, the kinds of profound social transformations that Allende has promised, the inflationary pressures, the expected drop in agricultural production, the disappointment of workers over the delays in acquiring new advantages and other factors will not make for easy economic management. Hence Allende and the Communists will move in such a way as to maintain access to international credit, loans, technology and technicians. The reaction to Allende's election has reinforced a go-slow tactic on the Marxists who in any case have a strategic motivation for wishing to avoid what the political genius of the Communist Party, Velodia Teitelboim, described to me as a "catastrophic" concept. Allende intends to make payment promptly of international debt obligations; there will be an effort to arrive at nationalization arrangements that will not be confiscatory, there will be dollar contract offers to foreign technicians and there will be a deliberative case by case rather than a blanket implementation of the state's take-over of remaining private industry and major services. Perhaps the most sensitive decision will be the previously-stated goal of nationalization of the banks, a move that would provide an important political instrument for the Communists in addition to the economic leverage; it would provide them with legal control over all bank deposits, credit lines and the like.

10. The Communist decision to assume command of the economy has already limited the options of the political opposition and served to divide it. The Christian Democratic forces loyal to Frei who are preparing to regain control of the party Nov 28 at the next party Junta (convention)—and I believe they will win this time—are encountering very knotty problems in acquiring the major radio station and newspaper they thought they could buy by now. The Alessandrista owners of Radio Cooperativa have raised the price five-fold in three weeks and the similarly-oriented proprietors of the daily *La Tercera* jumped their price several-fold. Both groups of empresarios are reacting to the new

govt's promises to permit them to operate their other businesses normally and to be treated preferentially in any nationalization if they do not take such "hostile" actions as selling their media properties to the Frei forces. The PDC may surmount these problems, but they are indicative of the times.

11. The PDC is, whatever our views of that party, the only effective potential opposition remaining in Chile. The National Party has been badly hurt by the Schneider killing, particularly when so many, as Silvia Alessandri noted this week to me, of those implicated were Alessandri militants and when one of the killers is a nephew of the very respectable Nacional Senator Bulnes whose self-description is "total runi". Alessandri himself maintains his unchanging scorn for the Nacionales and all parties and he recognizes, as do I, that at least half of the more than 1 million who voted for him are not potential recruits for the National Party but rather anti-Marxists who would prefer to be identified with the center or even the left. I agree with President Frei's observation that more than one-third and possibly one-half of Chile is middle-class by local definition and that the political opposition must be based on this arithmetic. This calculation does not rpt not mean that the National Party will or should disappear; it will probably continue to draw about 15 percent of the vote and if the PDC were to be regained by Frei, it would be a necessary foil to strengthen the centrist position of the outgoing President.

12. Chile by habit offers the incoming President at least 100 days of benevolent forbearance. Additionally, there will be the natural bandwagon propensity that will gain many adherents to the triumphant parties. Hence if Frei rewins his party, he will pursue a tactic of "loyal" opposition, of supporting measures for more schools, hospitals and houses but raising a hullabaloo if, for example, by legal or extra-legal means the freedom of parties to operate are infringed upon. Hence the PDC would oppose bank nationalization, would bring to public view the role of Cuban or other security experts and would seek to divide Allende from the Communists. Neither Frei nor anyone else has any illusions about the difficulties ahead; the outgoing President puts the odds of maintaining a democratic structure at somewhere around ten to one and describes this forecast as "perhaps optimistic". However in order to forge a broad-banded appeal that would include a large slice of the Alessandri clientele, it is an indispensable prerequisite that the PDC have some effective instruments of media expression and that it acquire them very soon.

13. The PDC is somewhat less divided now than a month ago. Tomic and Valdes and some others continue to believe that the party's target should be entrance into the government so that their weight would be felt. The Communists also would prefer this tactic so as to



eliminate any opposition but the very vulnerable right and so as to destroy Frei and his followers. Valdes believes he can be the 1976 President, as the Communists have encouraged him to think; he believes that the PDC can influence Allende from within the govt so as to prevent a Communist takeover. Whereas Tomic is discredited in the PDC, even with many of his most ardent followers, Valdes is much more credible and convincing as an outgoing Frei minister, as a member of Chile's aristocracy, as one who boasts of having "excellent" relations with Washington and the rest of the world and as one who projects a captivating personality. Valdes was proposed last night by the very influential elder statesman Bernardo Leighton to be the next PDC President.

14. As for the last major internal factor, Allende himself, it is difficult to do more than relate some of his characteristics. He is a heavy drinker; he chases women; he is extremely vain; he surrounds himself at long convivial lunches with sycophants; and then takes a daily siesta; he has rented a luxurious home with swimming pool and tennis court. He views himself as a strong leader; he has a reputation for living up to his word; he is a very weak Marxist theoretician but he believes in its basic tenets; he is a smart politician. To me, this catalogues up to an evident lack of day-to-day control over government and to an extraordinary opportunity for those who are as calculating, well-organized and talented as the Communists. Moreover it is the Communists who will provide the support for the go-slow approach to international relations that Allende favors by conviction and by proclivity. They will cater to his personal idiosyncrasies and to his doctrinal debilities to hold off the more extremist elements and to manipulate the ineffectual opportunists over whom they have considerable influence. It is noteworthy but not surprising that the Communists and Allende have avoided giving the other four parties any meaningful role in the govt and last night at the national stadium in his first major speech, Allende completely contradicted his new Minister of Agriculture (Chonchol of the MAPU Party) by stating Chile would seek to be self-sufficient in food. It was equally significant that the Communists completely dominated the staging of last night's show and displayed their pre-eminence without reticence.

15. Everyone here agrees too that the role of the US will be crucial to the plans of Allende. All opponents are of one mind in urging that the US not rpt not provide the justification for a quick radicalization of the situation. It is also the counsel of our friendly Communist Party. My own preference would be to maintain a public posture of restrained correctness, of encouraging the democratic opposition, of seeking to hold our military connections (so that the new purchases for the entire decade will be dependent on and vulnerable to US action at any time)

and to maintain a deliberately confusing flexibility of case by case treatment of other relationships. Particularly in terms of credit availability, of US presence, etc. I have rejected the across-the-board hostility theory on the grounds that it would not have a determinant impact on the economy here while it would serve to mobilize nationalist sentiment so as to strengthen the position of the Allende govt and thus facilitate its tasks.

Korry

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**37. Backchannel Message From the Ambassador to Chile (Korry) to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Santiago, November 8, 1970.

631. 1. Jan 19, 1970. First meeting on USG activities in Chilean elections was held in Dept of State.

Participants: Amb Korry, Deputy Asst Sec Crimmins, Coerr, Chapin and Gardner of State, Broe, [3 names not declassified]. (Agency has full minutes.)

Purpose was to discuss Amb/CAS proposal for 303 Committee for funds for anti-Marxist new Radical Party (PDR) and for modest propaganda mechanism. Crimmins made case in his and Meyer's name against US involvement. Korry replied concerns were natural and

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<sup>1</sup> Summary: Korry provided a detailed summary of U.S.-Chilean relations from January 1970 to September 1970.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 778, Country Files, Latin America, Chile, Korry File, 1971. Top Secret; Exclusively Eyes Only. The message was sent with a November 8 backchannel message from Korry to Kissinger that reads as follows: "I have sent summary that you requested. It is of course selective but it does include all messages I received from Washington pertinent to subject. I do not have, of course, any written material on any Senior Group or 40 Committee Washington meetings. Frankly I had hoped that this Presidential requirement would no longer be needed. I respect those who may have disagreed with my style or my opinions but to whom I also am greatly indebted." (Ibid.) The message was elicited by a November 7 backchannel message from Kissinger to Korry that reads, "As follow-up to your conversation with the President and me, President has requested through this channel your history of events leading up to present situation in Chile. Résumé should cover early pre-election period and include copies of pertinent exchanges to and from Santiago as discussed with the President and me." (Ibid., Box 423, Backchannel, Europe, Mideast, Latin America, 1970)

useful but that question was “are we going to have a popular front or Marxist govt in Latin America?”

Critical exchange came when Coerr asked Korry’s view of Allende victory. Amb replied Chilean military would accept victory, that PDC would be weakened. Part of it being attracted to support Allende against Communists and that there would be internal divisions within U.P. “Coerr commented an Allende victory not the same as a Communist victory in that case. Korry agreed but said that operationally one must treat an Allende victory as the same; it would be imprudent to act as if an Allende victory would be anything but another Castro govt or worse.”

Then Crimmins asked “what difference it would make if we did not become involved—seeing how sensitive involvement may be versus what we may gain. Ambassador noted it easy to do nothing but we may have to ask ourselves if Allende wins, especially by few votes, whether we might better have become involved.”

Meeting agreed then to accept modest Emb/CAS proposal with proviso it could not be used to support Alessandri.

2. March 27. Korry is informed of 303 Committee approval for a “limited program directed against Allende”. Door was left open to reconsider later support for a candidate.

3. March 16. Santiago 971 Limdis election perspectives sent by Korry. First para states: “Our preoccupation is with the concomitant—indeed greater—concern that Chile may emerge from its presidential elections on a course towards emulation of Castro’s regime. . . . It is essential that attention be focussed on our preeminent worry: —a democratic process putting into power a Marxist regime dedicated to the elimination of US interests and influence in the area. Unfortunately my reiteration for some two years has converted this concern into a humdrum banality elsewhere, thrust aside by more immediate challenges. But the same four stark points must be faced:” (Cable goes on to substantiate this preoccupation.)

4. April 10. Anaconda Board Chairman makes appeal to Asst Secy Meyer in Washington for massive US support with them of Alessandri. Gets no encouragement.

5. April 18. Santiago 2230 Nodis. Korry rebuts very strongly the Anaconda case arguing that the company’s judgment and discretion had been consistently disastrous, that Alessandri could find the needed funds, that he was far ahead in [*less than 1 line not declassified*] polls and that we should stay out of the race as long as we could to keep the PDC neutralized since it still held the govt.

6. June 12. Santiago 2210 Limdis, recalled that Korry’s working assumptions for two years had been the base strengths of the candidates

were 35–37 per cent for Alessandri, 32–34 per cent for Allende and 23–25 per cent for Tomic. Cable noted that Alessandri's early lead had been significantly trimmed and he was in the 36–37 per cent range, that Allende improved and solidified his base at 32–34 per cent and Tomic after gaining had reached a ceiling of 27–28 per cent. Summary paragraph ended: "The crucial question we originally posed, together with its implications for US interests in South America remains unchanged: the extent of the Allende appeal. One ever more apparent factor is that the common Alessandri–Tomic conviction that the gain of one is at the expense of the other is not valid. Allende benefits at least equally from the Alessandri decline." Cable analyzed foregoing and concluded with pointed remark about importance of women's vote.

7. June 18. Via CAS channel, Korry made request for [*dollar amount not declassified*]. Amb noted the foregoing cable and said that unless altered, these trends could well culminate in the election of Allende and as a consequence the inevitable imposition of a Leninist state in South America. An Allende Presidency would result either from his winning the first plurality in the Sept 4 balloting or finishing such a strong second that the Congress might in the runoff prefer his election in preference to that of Alessandri's."

Korry then reviewed Embassy's tactics including the "major effort to convince all here, in Washington and elsewhere of our total non-involvement in the campaign. Unless everyone believed it, no one would." Went on to say this had been successfully accomplished. Emb/CAS had also wooed Frei with the immediate post election period in mind, had concentrated on good contacts with the army by satisfying their urgent needs, had widely propagated view Allende was running very strong and had funded the Radical Party dissidence approved by 303 Committee March 27.

Korry justified his submission of new action program on grounds it was "the Marxists strengths not the weakness of their opponents with which we must deal. I say 'must' because of our unanimous conviction that the consequences of an impressive Allende polling would be very grave for Chile and South America, sufficiently serious to undermine totally the new Latin policy launched by the Oct 31 speech of President Nixon." Amb's and CAS program called for targetting of radicals, of women and of Frei.

Korry reported that a group of US businessmen here had launched a major drive for money to support an anti-Allende propaganda campaign (separate from any Anaconda effort) and had pledged [*dollar amount not declassified*] with [*dollar amount not declassified*] matching funds from a Chilean [*name not declassified*] group whose membership Amb also knew. Korry said a good deal more was needed to make this program successful in the remaining two months and he put the addi-

tional sum required as [*dollar amount not declassified*]. He also asked more for Radical Party dissidence and an allocation of [*dollar amount not declassified*] for Phase Two.

He concluded: "I do so in calm pursuit of unchanged goals and in cold calculation that less than [*dollar amount not declassified*] is a very small insurance policy to pay when Chile is so indebted" to various US institutions. He replied to the anticipated argument that we would be supporting Alessandri by stating it was irrelevant since Allende was our target and that there was now a minimal vulnerability to exposure. He appealed for a very quick decision and ended: "I suppose that one should always apologize for doing the right thing since nothing wounds people more, but it is not all the wicked who do the most harm in this world; it is the maladroit, the negligent and the credulous."

8. June 20. Via CAS channels Korry was questioned in message signed by Crimmins on (A) whether he held to recommendations in view of [*less than 1 line not declassified*] poll showing Allende with only some 28 per cent nationwide vs Alessandri's 35 per cent, (B) just who were the US private funding group and whether it was not connected with indiscreet Council for Latin America (C) role of Frei (D) clarification of Radical Party dissidence (E) another assessment of the risk factor for US. "As you know approval of the earlier much smaller program was conditioned on its not becoming a pro-Alessandri operation. Given increased dependence on [*name not declassified*] to what degree does proposed greatly augmented program increase use of our effort in behalf of Alessandri rather than against Allende with obvious disadvantages. We assume you would agree that as in modest (March 27) program we would suspend expanded program if it were to be used for Alessandri". He then recalled Santiago 2230 of April 28th (para 5 above) in which Korry had said that any significant sum arriving from the US would be as discreet as a moon launch. "While we recognize that you were talking then of a program of support for Alessandri, we would like your comment on relevance that comment to effects of expanded program."

9. June 21. Via CAS Korry replied to Crimmins questions noting his disdain for polls [*less than 1 line not declassified*] and insisted on Embassy's own well-tested reporting per previous elections. In re-analyzing the situation, Korry reported Embassy very concerned by recent evidence of shift of women from Alessandri directly to Allende, that it also concerned by the Tomic's brain-trust's desire to enter an Allende govt and that of course Korry recognized we would be helping Alessandri with new proposals. [*name not declassified*] support of Alessandri meant that willy-nilly there would be indirect US support for Alessandri even if we did nothing but anti-Allende work (under the modest March 27 program) since the internal transfer of resources [*less*

*than 1 line not declassified*] would free funds for Alessandri campaigning and since some of the mechanisms the Agency wishes to use for “women and Protestants are laboring for Alessandri. . . . We have no option but to use mechanisms that are effective at reaching voters. Some of those mechanisms happen to be committed to Alessandri.”

Korry concluded: “In sum your position is very much akin to that Moliere character who counselled: ‘You should always act in conformity with the majority and never make yourself conspicuous.’ To which I respond that I will neither make you conspicuous nor can I guaranty any majority. But I do believe it is prudent to seek some guaranty against a majority that would become very conspicuous indeed in Latin America—that of Allende. If he were to gain power, what would be our response to those who asked what did we do? I am seeking by political action all that I can conceive to get the Chileans to muster their own forces—and I think with some success. But when I examine those three areas that contain almost 55 per cent of the electorate—Santiago, Valparaiso and Concepcion Provinces—I see considerable Allende strength and potential. I conclude that our inputs while imperfect and modest could conceivably provide the margin of safety. I am aware that we have no iron clad assurances of enduring secrecy; I am also troubled by many of the doubts that provoked your cable and questions. But I would be derelict in my convictions if I were not to flag the danger and to offer a proposal to deal with it.”

10. July 3. Via CAS channel Meyer cabled Korry that 40 Committee had approved Phase I of “Korry proposal” and to defer Phase Two. Re Phase Two Korry was strongly cautioned not take any action or any sounding outside Emb despite the severe inhibitions this would signify for forward planning.

11. July 3. Via Roger Channel (State 106100) Meyer cabled Korry that “I want you to know that we in ARA and the Dept as a whole recommended against approval of both Phase I and Phase II of your proposal for political action.” He explained that they had given more weight to exposure potential “and less weight to the protective attractiveness of being able to say ‘we had done something’”. We also were influenced by the fact that we will be doing something which Chileans, who have ample resources and a great stake in the outcome, should themselves be doing. We also took account in this complex equation of the uncertain effectiveness of the effort; the probability that, from the standpoint of our interests in Chile all three candidates would be negative sooner or later and the certainty that exposure would destroy any prospect of mitigating Tomic or Allende post-election attitudes. In brief, we believed that the potential gains were outweighed by the potential costs.” Cable concluded by reiterating the prohibition against

any attempt to “condition” or to “set up” Frei or anyone else for phase two.

12. July 6. Roger Channel (Santiago 2526) Korry message to Meyer said that “because of the wide gap between your views and those expounded by me, I have instructed CAS to hold in abeyance the implementation of the 40 Committee decision pending further consultation. I have done so because of my conviction that for such a delicate operation to be executed most efficiently there must be a modicum of mutual confidence.” Korry’s proposals were not his exclusively but of all consulted in his Embassy. However he took the responsibility for them. “While I am the President’s representative, I also depend in the first instance on your support and understanding. Without such confidence, the self-assurance that makes for leadership is undermined to such a degree that an undertaking of the import of the kind we are discussing is indeed jeopardized at the outset”.

“What is extremely unsettling is the wide breach between us over objectives. Our view is that the election of Allende would be the triumph by democratic electoral means for the first time in history of a Communist govt. We have consistently set forth this view without challenge from Washington at any time heretofore. And by happenstance, our President on July first in his nationwide TV hour made the point twice unequivocally that no Communists had ever assumed power by democratic means. It would not be stretching matters, I submit, to say the President built much of his 50 minute argumentation on the general Asian subject around this fact. If at any time previously our central thesis that the election of Allende would signify the imposition in Chile of a Communist regime of either the Castro or Ulbricht variety had been challenged, we would have done our best to persuade you of the contrary but would have ceded to your judgment and to your decision. But because we assumed general agreement on this point and because we anticipated the President’s arguments as they applied here, we decided with great reluctance that the Allende chances of victory were so strong that we had to bite the main bullet. Hence we appear to differ over your view that ‘all three candidates would be negative sooner or later’ since we feel that the negative aspects of one transcend the other two and the election of one would have repercussions far beyond Chile, as President Nixon implicitly recognizes (in his TV hour).

“From this central difference flows a subordinate one of equal significance. Whereas you state the exposure would destroy any prospect of mitigating Tomic or Allende post-election attitudes we unanimously hold that there is literally nothing the US can do to mitigate Allende’s attitudes. This is not to say that we should deliberately seek to justify those attitudes by imprudences so that his govt could better justify its

actions. It is to say that Allende intends, as he said in a speech a few nights ago here, to cooperate fully with Castro to set in motion throughout Latin America a revolutionary tide. There is ample evidence as to the depth and sincerity of Allende's determination to effect this true revolution that would in the first instance be aimed at eliminating meaningful US public and private presence and influence."

Korry argued that there would be minimal exposure risk and that the "conditioning" of Frei was normal psychological action. His belief was that "Allende is at least a strong second if not first". As for the money, "we must deal with the real world which was quite different" than the assumption that money meant a properly organized and executed Alessandri campaign. "To say Tomic and Alessandri and their supporters 'should be doing' something will not make it happen. We waited long enough to confirm they will not do it and that the threat we feared had materialized."

"Having assumed that our President and all his advisors would wish to oppose an electoral triumph of a Communist candidate (which, whatever the label, he is) because it would be harmful to the interests of the U.S., we had, I sincerely believe, no choice than to 'have done something'. Indeed I would be derelict if I did not do something once I assume that to be the view of my President and my govt."

12. July 7. Roger Channel State 107632, Meyer reply to Korry expressing thanks for further amplification and suggesting he had erred on side of frankness and incompleteness in explaining Dept's position. "Most important is that ARA and Dept recognize 40 Committee decision as binding". After explaining Phase Two hesitations, Meyer said:

"There is no difference of opinion between us on the adverse consequences of an Allende victory or about the importance of an Allende defeat as an objective. The differences were principally about the degree of risk we should take in an attempt to achieve the objective, considering the adverse consequences to our position in Chile and elsewhere should we be caught out. In any case, do not interpret honest differences in judgment between us in terms of confidence. I know that you do not expect me to accept every recommendation on far-reaching issues that comes forth from any Embassy any more than I expect an Ambassador to suppress differences with Washington guidance that appear to him to be unsound from the standpoint of his concerns in his host country."

13. Aug 4. Roger Channel Santiago 2979 Korry followed up Washington consultation with Crimmins by reiterating difficulties in projecting for NSSM contingency paper based on Allende election and his need to have contact with key Chilean players to make assessment, particularly Frei. He asked for permission to see Frei after stating: "Churchill said that 'true genius resides in the capacity for evaluation



of uncertain, hazardous and conflicting information'. I would have to aspire to far more than genius to evaluate and to recommend while isolating myself from the most essential information and to offer appreciations uniquely based on the most hazardous of information.

"It will again be suggested that I am an 'activist' who proposes action for the sake of action. Let me dispose of this kind of type-casting in which the Dept invariably indulges and which is at the root of the troubles flushed out in some of the recent task forces. The report I did on Africa converted US policy from activism to restraint; the low profile arguments I made to the previous administration from here and which I have executed here are the antithesis of activism; the paper I did for UnderSec Richardson on the future relationships of the US with the LDCs was criticized for its retreat from helter-skelter activism; the recommendations I have been discussing for the sharp reduction in official US presence here is being opposed by bureaucrats who want to be active in everything. Neither low profile nor the careful matching of real US interests to US resource availability was intended to be passivism."

14. Aug 12. Roger Channel State 130820 Meyer reply to Santiago 2979. Meyer gives detailed explanation of preoccupations re Phase II. "Of course NSSM 97 can affect judgments about Phase II in the sense that conceivably we may determine that the threat to our interests is so great and our counter-strategy and policy so ineffective that the assumption of the risks and undertainties of Phase II is worth while. That remains to be seen." he noted how delicate and questionable Phase II would be and quoted Bill Broe as stating it would be a "security nightmare". After explaining the concerns for prudence he authorized contacts with Frei as outlined by Korrry.

15. Aug 13. Roger Channel Santiago 3141 Korrry to Meyer expressing thanks for clarification. Korrry stresses election results will determine what if anything US would do.

16. Aug 23. CAS channel from Dept to Korrry informing him that Senior Review Group had decided to withhold final decision on options paper until after elections. Requests detailed scenario on post-election phase II.

17. Late August (exact date unavailable) via CAS channel Amb replies to foregoing and comments on CAS program for Phase Two (sent simultaneously).

18. Sept 9. Santiago 3548 Nodis refers to his widely distributed Santiago 3537 Sept 8 cable entitled "No Hope for Chile" to which Korrry sets forth his own dissent and calls for action in support of "Rube Goldberg" contraption. He justifies this apparent two-facedness on grounds that he had to make large number of consumers believe (via Santiago 3537) US was doing normal business as usual. He reiterates his convic-

tion that “the future of Chile would be decided by only one man: Frei” and that it is worth a US effort to have Frei fulfill a constructive role in stopping Allende.

19. Sept 11. State 149384 Nodis from Secretary Rogers to Korry replies to above and other reporting. Secretary reiterates “that there has been no decision authorizing a program of political action to prevent Allende from being elected by Congress.” Secretary adds: “It is of the greatest importance that the process of collecting information not become or be interpreted as USG encouragement of, support for or commitment to courses of action we have not adopted. We cannot find ourselves involved in a very risky situation through inadvertence imprudence or emotion. If we come to accept all the risks and get involved, it must be only on the basis of a deliberate cold-blooded decision made in Washington and approved by higher authority.”

Secretary says confusion caused by Ambassador’s “two-levels technique” and shifting emphasis in analysis, and he asks that a lengthy number of points be clarified. He requests urgently a specific account of how Ambassador and his colleagues collecting information and notes his concern from Amb’s reporting, citing details “of his direct participation in urging Chileans to act without even the safeguards such as they are of intermediate elements.”

Secretary instructs Amb: “Until you are otherwise instructed, I want you to limit your activities and those of the Embassy strictly to collecting information and preparing the assessments you have been asked to submit. Above all I do not want you or the Embassy to be stimulating Chileans to action until you are notified that a decision to support such action has been taken here.”

20. Sept 11. Santiago 3642 Nodis Korry reply to Secretary providing specific answers. Ambassador comments:

“I wish to make it most clear that if the Frei forces are left totally to their own devices and resources, intellectual first and material second, or if they meet with the posture laid out in para 6 reftel it is my very considered opinion that (A) Allende will be elected (B) that the USG will be blamed by many and publicly by the most influential after his election for having taken that decision. I want to be equally straightforward in saying that if such are the desires of the USG I shall carry them out but with those clear assumptions in my own mind.

“I appreciate your sympathy. I would only note that the same hesitations and same concerns were expressed in the pre-electoral period. Nothing warranted them and our actions were carried out without a hitch of any kind that exposed the US except for one known to the Dept done without my knowledge. We are in a very fluid situation in which events overtake planning as the message to CAS Headquarters clearly states. An act of commission is no less an act. What one does not do is as

much an action as one does do. The question of whether Chile will be a Communist state or not is being decided now. I would hope and I would expect that a decision as to which the US would prefer and what it permits to be done about it will not await committee meetings whose decisions will once again be overtaken by events. In the interim I shall bear uppermost in mind your views."

21. Sept 12. White House channel (WH 01777) Dr. Kissinger informing Korry that President had "been impressed by your perceptive reporting during difficult days. He is most appreciative of your efforts."

22. Sept 12. White House channel (WH 01783 from Kissinger to Korry stating President had read Santiago 3642 (para 20 above) and requests feasible courses of action. "You are of course free to contact any persons you feel are necessary in order to collect required information."

23. (Sept 13 to present does not include any other pertinent material relevant to this subject.)

### 38. **Memorandum From Director of Central Intelligence Helms to President Nixon<sup>1</sup>**

Washington, November 12, 1970.

#### SUBJECT

Post Mortem on the Chilean Presidential Election

#### 1. *General*

a. On 3 November 1970, Dr. Salvador Allende became the first democratically-elected Marxist head of state in the history of Latin America—despite the opposition of the U.S. Government. As a result, U.S. prestige and interests in Latin America and, to some extent, elsewhere are being affected materially at a time when the U.S. can ill afford problems and in an area that has been traditionally accepted as the U.S. "backyard." The question arises, then, as to why more energetic

<sup>1</sup> Summary: Helms offered a post-mortem on the Chilean election and suggested that even with the risks inherent with greater U.S. involvement, the outcome might have been more favorable.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Secret.

measures were not taken by the U.S. Government to prevent Allende's election.

b. Allende's election cannot be charged to lack of early warning. The possibility of an Allende victory was apparent, indeed acknowledged, as far back as 1968; and, the adverse consequences of an Allende in power, much earlier. Ample attention was given this specter at all levels in the Department of State, CIA, and White House—individually and in special committee sessions—from mid-1968 until the date of the election. Availability of funds for covert action was never in question although the purpose to which they were devoted was the subject of considerable litigation.

c. The basic problem was that reservations, almost philosophic in depth at times, persisted in the Department of State from the outset and suffocated consideration of a clear-cut, all-out effort to prevent Allende's election:

—whether interference in the Chilean democratic process would be in the ultimate interest of the U.S. (after weighing prospects of influencing the outcome against the risks and consequences of disclosure), and,

—even conceding the wisdom of interference, whether the U.S. should actively support a chosen candidate rather than merely oppose and denigrate Allende.

Translated into stark political realities, the issue was that of Department of State being unwilling to consider supporting Jorge Alessandri, the conservative and independent candidate, for the Presidency of Chile to whatever extent necessary to assure his election over Allende. In the end, Allende's margin of victory over Alessandri was a thin 1.4% of the popular vote: slightly less than 40,000 ballots out of almost 3,000,000 cast.

## *2. Phase I: The Inception of the Covert Action Program (July 1968)*

a. The covert action program to deny Allende the presidency was initiated in 1968, some months before Allende had put together his extreme left coalition and sixteen months before Allende was nominated as the coalition's standard bearer. At the time, Chilean political dynamics suggested that:

—President Eduardo Frei's Christian Democratic Party was being rent by dissension and, thus, its presidential candidates would not be a strong contender;

—the 1970 presidential election would be a three man race with Allende (or another extreme leftist of his ilk) and Alessandri as the two top candidates; and,

—the Chilean Congress would decide the winner since none of the three candidates would be able to attain a majority of the popular vote.

A limited covert action program was authorized to influence the composition of the Chilean Congress in the March 1969 congressional elections. [number not declassified] moderate congressional candidates were chosen for support; [number not declassified] were elected. The key elements of a covert action mechanism suitable for election purposes was assembled and tested at that time: radio and press outlets for propaganda; agent channels into the extreme leftist coalition for intelligence; and, for political action, contacts with a dissident element of a party being wooed by the coalition. This mechanism was sustained in one guise or another until the 1970 presidential election was concluded.

b. The wrap-up report on this initial covert action program was presented to Dr. Kissinger's special committee in April 1969. The report's conclusions noted, among other things, that:

—the outcome of the recent Congressional elections indicated political polarization in Chile, and,

—“In the present political climate the Communist-Socialist front would stand perhaps an even chance of victory for the presidency” as would rightist Alessandri.

Dr. Kissinger raised the question of a U.S. Government role in the still-distant presidential elections, stating that support of Alessandri was already being urged from an outside quarter. It was decided that further consideration of such a role should be deferred until candidates were negotiated and formally declared, but pointing out an early decision would be desirable since careful preliminary work would be required for effective covert action.

### 3. *Phase II: Further Development of Covert Action Program (April 1969–March 1970)*

a. Final selection of the presidential contenders was not made until December 1969 when Allende was nominated as the candidate for a new extreme leftist coalition after a protracted period of bitter and difficult negotiation. In the seven month interlude following the Congressional elections, CIA preserved its covert action mechanism with a campaign to weaken Allende's coalition and to encourage prospective presidential candidates within the coalition other than Allende. This activity was pursued without any special authority and on CIA's initiative but with Ambassador Korry's approval. This so-called “spoiling” operation was discussed by CIA with Ambassador Korry in Washington in mid-September 1969. The Ambassador, while agreeing with its continuation, emphasized that the role of the U.S. Government in the forthcoming elections should be that of *not* supporting any candidate because, among other reasons, he felt that “we can't get anyone elected.” At a separate meeting the same day with Assistant Secretary of State Meyer and his key people, CIA proposed that a status report be

prepared for Dr. Kissinger's special committee outlining what was being done in the covert action field about the presidential election and, equally as important, what was not being done. What CIA wished to avoid, it was explained, was a sudden late request to support a specific candidate. Assistant Secretary of State Meyer was assured during this session that CIA had made no commitments to any parties or candidates with respect to the presidential election.

b. A series of discussions ensued with the Department of State on the proposed status report. The major complication involved a proposal from the CIA Station Chief in Chile to underwrite several more anti-Allende activities which, if approved, could result in side—or, even, more direct—political benefits accruing to Alessandri. Ultimately, key personnel from the Department of State, from CIA, Ambassador Korry, and the CIA Station Chief in Chile participated in a round table meeting in mid-January 1970 at which time the Department of State expressed its underlying concerns as a point of departure:

—The U.S. had been accused of being involved in a recent Chilean military uprising.

—There was a particular sensitivity in Chile now about the CIA.

—The Chileans assumed that the U.S. Government was pro-Alessandri and that any electoral intervention would redound to the benefit of Alessandri.

—From the beginning the Department had questioned the need for the U.S. Government to be involved in the election at all.

Ambassador Korry's position in defense of the proposal was essentially that anything serving to keep the Allende forces split was worthwhile despite the possibility of *some* political fall-out favoring Alessandri. The result was a proposal for minimal action: intensification of the existent "spoiling" operation with a firm caveat from the Department of State that strong pro-Alessandri overtones developing among any of the covert mechanisms would be cause for withdrawal of support forthwith. (This basic proposal was approved by Dr. Kissinger's special committee in March 1970. At the meeting, CIA noted that both Ambassador Korry and the CIA Station Chief in Chile were concerned about a recent Allende surge and a concomitant Alessandri loss of impetus and that, if this trend continued, support to a single candidate should be considered. In response, Department of State said it would not favor support to Alessandri.)

c. The Department of State did not waver in its position or attitude throughout the electoral campaign; as a consequence, the limits within which the covert action program functioned also remained the same throughout the campaign.

#### 4. Phase III: Final Stage of Covert Action Program (April–September 1970)

a. From April on, Allende's fortunes waxed and Alessandri's waned with the outcome uncertain up to the date of the election. In late

April, Ambassador Korry responded to the Department of State—regarding a U.S. businessman’s proposal of U.S. Government support of Alessandri—in these terms:

—“Thus I remain persuaded that it is to our benefit that we remain uninvolved in the campaign of any aspirants to the Chilean Presidency and to prolong the current total lack of any mention of the U.S. in the campaign.”

—“Alessandri could use more money without any question. . . . Alessandri’s camp includes the overwhelming majority of the high income group . . . in a position to make contributions. . . . Reasonable questions to ask are why they are not . . . and therefore why the U.S.G. should seek to substitute for their lack of commitment and of national interest.”

—“We have fewer and fewer tangible assets to employ to retain influence but if the U.S.G. were to commit itself to an anti-PDC electoral position, the short and long term consequences with respect to what is still the largest single political party in Chile and the government could have very serious consequences here.”

—“Conclusion: I would understand a theoretical case to help both Alessandri and Tomic to defeat the Castroist Allende and to demonstrate a hedging U.S. sympathy to each. I cannot see any theoretical advantage in helping one to fight the other with the indirect benefits to Allende particularly when such a commitment could not be ‘discreet’ and when such U.S.G. intervention would lead to the further indirect ‘commitment’ to bail out the new government whenever it got into trouble. . . .”

b. In mid-June, a substantial expansion of the anti-Allende covert action program was advocated by Ambassador Korry and the CIA Station Chief. Ambassador Korry reiterated, however, that his position remained “U.S. support of any candidate would be counter-productive”. Department of State representatives in discussions with CIA exhibited deep reservations about this proposition because:

—The risk was greatly heightened.

—The pro-Alessandri cast was disturbing.

—Later it would be difficult to prove to the Christian Democrats that this was not U.S. Government support of Alessandri should the Christian Democrats win the presidential election.

CIA supported the proposal for an expanded program and noted that it (CIA) viewed the prospects of an Allende government with considerable seriousness, perhaps more seriously than did the Department. The Department outlined its concerns to Ambassador Korry in a cable reading in part:

“As you know, approval of the earlier, much smaller program was conditioned on its not becoming a pro-Alessandri operation . . . to what degree does proposed greatly augmented program increase risk of use of our effort in behalf of Alessandri rather than against Allende, with obvious disadvantages. . . . We assume you would agree that, as in

modest program, we would suspend expanded program if it were to be used for Alessandri."

c. In late June 1970, Dr. Kissinger's special committee approved the expanded program. The principal Department of State representative present stated that he harbored philosophic reservations about funding election interventions and that Assistant Secretary of State Meyer and his principal deputy opposed authorizing the current request. Shortly thereafter, Assistant Secretary of State Meyer expressed the Department's viewpoint to Ambassador Korry in a message which opened with the statements:

"So that you will have full background, I want you to know that we in ARA and the Department as a whole recommended against approval . . . of your proposal for political action. . . . Among other considerations, we gave more weight to the exposure potential, and less weight to the protective attractiveness of being able to say 'we had done something'. . . . We will be doing something which Chileans, who have ample resources and a great stake in the outcome, should themselves be doing. We also took into account . . . the uncertain effectiveness of the effort: The probability that, from the standpoint of our interests in Chile, all three candidates would be negative sooner or later; and the certainty that exposure would destroy any prospect of mitigating Tomic or Allende post-election attitudes."

c. In the final two weeks of the campaign, CIA authorized a substantial infusion of funds for covert activities requested by the CIA Station Chief in Chile. CIA also arranged for some \$450,000 in funds from U.S. business interests to be passed to the Alessandri camp during this period. This action was taken without reference to the Department of State for obvious reasons.

##### 5. CIA's Covert Action Program (April–September 1970)

a. By early 1970, CIA had amassed an array of covert action mechanisms in anticipation of a heavy role in the presidential election. [2½ lines not declassified] Knowledge generated through these intelligence capabilities was used extensively in conducting the covert action campaign.

b. Some indication of the scope and intensity of the covert action program that was undertaken for the "spoiling" operation becomes apparent in the following summary of activities targetted into a country with a total population only slightly exceeding 9,000,000:

—Regular and frequent placements—such as news, spot campaign items, public interest programs—in [number not declassified] radio stations in Chile, [2 lines not declassified]. (Radio by far enjoys the largest media audience in Chile.)

—Regular and frequent placement of articles in [number not declassified] Chilean newspapers [less than 1 line not declassified] including the largest readership and most prestigious newspaper in Chile.



—A bi-weekly “inside information” type newsletter sent to [number not declassified] select politicians, professors, labor leaders, and economists considered among the influential political elite in Chile.

—Production and distribution of [1 line not declassified] different political posters and [number not declassified] different political handbills. [4½ lines not declassified]

—Production and mail distribution of [less than 1 line not declassified] different political brochures, directed primarily to academicians and labor leaders.

—Production, distribution, and sale [less than 1 line not declassified] of a political comic book. Finally, the Allende forces broke into the printing plant and stole the plates to preclude any further publication of the booklets.) [4 lines not declassified]

—Production and mail distribution of [number not declassified] political articles [2 lines not declassified]. (A sampling of these newspapers showed that this material was used on a regular basis, [1 line not declassified])

—Conduct of “black” operations [less than 1 line not declassified] ostensibly originating with party dissidents, targetted against the Communist and Socialist Parties. [5 lines not declassified]

## 6. Conclusion

The extent to which an Allende victory might have been avoided by a more *positive*, less circumscribed covert action program is not certain—particularly given all the imponderables of voter reactions, greater exposure, and increased risk. CIA might have been caught in an expanded program and, as a result, contributed decisively to an (as yet) uncertain Allende victory. Nonetheless, the odds for success of an expanded, positive program would have been reasonably favorable and worth the candle, particularly considering the problems and alternatives with which the U.S. Government has been faced by an Allende victory.

**39. Memorandum Prepared in the Central Intelligence Agency<sup>1</sup>**

Washington, November 18, 1970.

**SUBJECT**

Report on CIA Chilean Task Force Activities, 15 September to 3 November 1970

**1. General**

a. On 15 September 1970, CIA was directed to try to prevent Marxist Salvador Allende's ascent to the Chilean presidency on 3 November. This effort was to be independent of concurrent endeavors being undertaken through, or with the knowledge of, the 40 Committee, Department of State, and Ambassador Korrry.

b. Briefly, the situation at that time was the following:

—Allende had attained a plurality of only some 40,000 in the Chilean popular vote for president. Jorge Alessandri, a conservative and the runner-up, would face Allende in a Congressional run-off on 24 October. The run-off winner would be invested as president on 3 November.

—Allende's designation as president by Congress was very probable given all known factors in the Chilean political equation.

—Given the dismal prospects of a political formula being worked out to prevent Allende's designation as president by Congress, remaining alternatives centered around overcoming the apolitical, constitutional-oriented inertia of the Chilean military.

—U.S. Government intentions were highly suspect, particularly in Allende and certain government sectors. Suspicions extended to all Americans in Chile for whatever declared purpose. In addition, the Chilean military were being monitored quite closely by the Allende forces for warning signals of any interventionist proclivities.

**2. Special Organization**

a. A Chilean Task Force was assembled and functioning three days after CIA was assigned the mission. It was headed by [*less than 1 line not declassified*] and highly-qualified CIA [*less than 1 line not declassified*] recalled from their [*less than 1 line not declassified*] posts specifically for

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<sup>1</sup> Summary: This memorandum, titled "Report on CIA Chilean Task Force Activities, 15 September to 3 November 1970," examined the degree of success achieved by the various covert actions taken to prevent Allende's ascent to the Chilean Presidency between the Presidential election in September and November 3.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. III. Secret; Sensitive; Eyes Only. The memorandum is attached to an undated memorandum from Helms to Kissinger, in which Helms suggested "that it does have some current relevancy in terms of the kind of operational milieu Chile really is. For that reason, you may wish to pass it on to the President." A December 2 covering memorandum from Haig to Kissinger recommended that it be filed.

this purpose. A special communications channel was set up simultaneously to Santiago, Chile, and Buenos Aires, Argentina, to handle sensitive cable traffic for the Task Force.

b. [1 line not declassified] It consisted of four CIA officers with the appearance, language, and experience to sustain the fiction of various foreign nationalities. They were recalled from their overseas posts to Washington, briefed, and inserted individually into Chile [1 line not declassified] nationals. In Santiago, their only U.S. contact was a CIA officer who had resided in Santiago [1½ lines not declassified] established contact with Chilean intermediaries or principals interested in promoting a military coup.

c. By a special (and unique) arrangement requested by CIA, the U.S. Army Attaché in Santiago was placed under operational direction of the CIA Chief of Station there. His assistance and Chilean military contacts were invaluable in this program.

### 3. *The Dual Approach: Constitutional and Coup*

a. Prospects for inducing Congress to vote for Alessandri rather than Allende were never bright and, they all focused on inspiring a reluctant, indecisive President Frei to assume an out-of-character role: dynamic leadership within his own party, with the “persuadables” in Congress, and with the military. Frei was under no illusions about Chile’s fate under an Allende regime. “Chile has a very short future,” he said, “and after 4 November it will only have a past.”

b. Initially, Frei was willing to consider and even advocate a constitutional solution: the so-called Frei re-election gambit. The question was whether he would be willing to commit his prestige completely in following through on such a difficult political maneuver with the outcome, at best, unassured. The basic gambit consisted of marshalling enough Congressional votes to elect Alessandri over Allende with the understanding Alessandri would resign immediately after inauguration and pave the way for a special election in which Frei could legally become a candidate. As a preliminary step, Frei coordinated Alessandri’s post-election statement that if he were selected for the presidency by Congress, he (Alessandri) would resign. The thrust of CIA’s endeavors, then, was to use every plausible pressure combined with inducements to move Frei down this path. To this end, virtually overnight CIA mobilized an interlocking political action and propaganda campaign designed both to goad and entice Frei into following through on the re-election gambit.

c. At the same time, recognizing the fallibilities of Frei, CIA focused on provoking a military coup. This undertaking was segregated from that of the Frei re-election gambit with the intention that it be pur-

sued independently of Frei if necessary, but with his acquiescence if possible. [3½ lines not declassified]

#### 4. Propaganda Campaign

a. The propaganda campaign was tailored to generating concern about Chile's future in terms which would condition the thinking *and* actions of the three key elements in the Chilean political equation: Frei himself, the Chilean political elite, and the Chilean military (the latter two of which could well bring collateral influence to bear on Frei). Each of these elements had hastened to rationalize its acceptance of an Allende presidency. Their palliative was the built-in checks and balance of Chile's demonstrated reverence for democracy and constitutionality, sweetened by Allende's promise to honor these traditions.

b. After the 4 September popular vote, the world press had tended to treat the prospect of witnessing the first freely-elected Marxist head of state take office as a curious aberration of democracy rather than a politically significant event. Press interest and coverage was relatively light until the Allende forces fortuitously provided an attractive issue which could be exploited. By 15 September, it became apparent that Allende was conducting a rather blatant campaign to intimidate the Chilean information media through threats of assassination and violence, takeovers by so-called worker organizations, and ultimatums to the management of newspapers and radio stations. Allende's purpose was to smother any opposition to his election by Congress and to take advantage of that peculiarly Latin, and pronounced Chilean, propensity to jump on an accelerating bandwagon—ideals and the country's welfare to the contrary. A major target of Allende was "El Mercurio", the most prestigious newspaper in Chile and the major opposition voice to Allende up to that time. CIA mounted a propaganda campaign centered around "El Mercurio" and the issue of Allende brazenly taking his first step in "communizing" Chile by attacking freedom of the press and, worse, with the election still unsettled. Covert action resources were used to launch:

—Cables of support/protest from leading newspapers throughout Latin America to "El Mercurio".

—A protest statement from the International Press Association [3 lines not declassified] "Freedom of the press in Chile is being strangled by Communist and Marxist forces and their allies.")

—World press coverage of the International Press Association protest and on the details of the Communist efforts to seize control of the Chilean press.

—A program of journalists—actual agents and otherwise—traveling to Chile for on-the-scene reporting. (By 28 September, CIA had in place in, or enroute to, Chile 15 journalist agents from 10 different countries. This cadre was supplemented by 8 more journalists from 5

countries under the direction of high level agents who were, for the most part, in managerial capacities in the media field.)

As a result of the ensuing furore, Allende—sensitive to world opinion and attempting to project the image of a moderate, non-dogmatic socialist—decided to become more circumspect. By 25 September, heavy-handed intimidation of the press had virtually ceased.

c. Allende's show of strength had made its point however; the Chilean press, including "El Mercurio", never did regain its resiliency and remained thoroughly muted from thereon out. Lacking the usual forums for *spontaneous* generation and replay of propaganda inside Chile, CIA had to rely increasingly on its own resources:

- an underground press dependent upon direct mail distribution;
- placement of individual news items through agents against the resistance of a cowed management;
- financing of a new, albeit small, newspaper;
- subsidy of an anti-Allende political group and its radio programs, political advertisements, and political rallies; and,
- direct mailing of foreign news articles to President Frei, Mrs. Frei, selected military leaders, and the Chilean domestic press.

This effort did not, and could not, replace a Chilean press, fully operative and free of restraint. Virtually alone, it did keep the voice of public opposition alive inside Chile for coup purposes during the final weeks of this period.

d. The magnitude of the propaganda campaign mounted during this six week period in the Latin American and European media—aside from the U.S., the two "outside" areas with, by far, the greatest influence on Chile—is evident from the fact that only *partial* returns show 726 articles, broadcasts, editorials, and similar items as a direct result of agent activity. Just how many of these items were replayed is not known [2 lines not declassified]. Nor, has CIA any idea of the scope of the immeasurable multiplier effect—that is, how much its "induced" news focused media interest on the Chilean issues and stimulated additional coverage—except that, even by conservative standards, this contribution must have been both substantial and significant.

e. Special intelligence and "inside" briefings were given to U.S. journalists in deference to the international influence of the U.S. media. Particularly noteworthy in this connection was the *Time* cover story which owed a great deal to written materials and briefings provided by CIA. The *Time* correspondent in Chile who was providing much of the background material for the story apparently accepted Allende's protestations of moderation and constitutionality at face value. CIA briefings in Washington [1 line not declassified] changed the basic thrust of the story in the final stages according to another *Time* correspondent. It provoked Allende to complain on 13 October, "We are suffering the

most brutal and horrible pressure, both domestic and international,” singling out *Time* in particular as having “openly called” for an invasion of Chile.

### 5. *Political Action*

a. The political action program had only one purpose: to induce President Frei to prevent Allende’s election by the Congress on 24 October and, failing that, to support—by benevolent neutrality at the least and conspiratorial benediction at the most—a military coup which would prevent Allende from taking office on 3 November. Realistically, the task was one of attempting to recast Frei, as a political personality, in a role demanding decisiveness and “machismo” to a degree that, thus far, had eluded him. Pressures from those whose opinion and/or approval he valued—in combination with adequate propaganda orchestrations—represented the only hope of converting Frei.

b. [1 paragraph (4½ lines) not declassified]

—Allende as president would be an unparalleled disaster for Chile (Frei agreed).

—Frei had both the power and obligation to prevent this.

—[1 paragraph (5 lines) not declassified]

—In the event of a military coup, the successor government would enjoy U.S. support and quiet applause.

—In the event Frei’s re-election gambit succeeded, the U.S. Government would be prepared to provide substantial support for Frei’s presidential campaign.

[1 paragraph (5½ lines) not declassified]

c. In Europe and Latin America, prominent and influential members of the Christian Democratic movement as well as the Catholic Church were prompted to visit Frei or send personal messages to him urging that he save Chile. Some of these endeavors were the following:

—[1 paragraph (8 lines) not declassified]

—The West German Christian Democratic Party—which enjoyed special equities with Frei by virtue of generous support to the Christian Democrats in Chile over a range of many years—dispatched several top-level emissaries to Chile. They contacted Frei and other Christian Democratic leaders in Chile [less than 1 line not declassified].

—[3 paragraphs (10 lines) not declassified]

—[name not declassified] one of the international figures in Catholicism most respected by Frei, sent a personal message indicating that Frei and his party must oppose Marxism.

—[name not declassified] of the Italian Christian Democratic Party—which had good fraternal relations with Frei and his party—refused to intervene. (He said it was a hopeless situation and he saw no point in risking his reputation in a lost cause.)

Collateral efforts were made to influence Frei or those close to Frei, such as:

- Influential lay Catholics sent messages to or visited the Vatican.
- [2 lines not declassified] was dissuaded from ceding an Allende victory prior to his Congressional election actually taking place.
- Telegrams were sent Mrs. Frei from women's groups in other Latin American countries.
- Foreign press items were mailed directly to Frei, Mrs. Frei, and Christian Democratic Congressmen in Chile.
- Intelligence was surfaced indicating that, once in power, the Communists intended to denigrate Frei as the first step in the dissolution of his party.

d. In spite of everything, Frei never asserted himself. Indeed, he failed to attend or to influence otherwise the 3–4 October Congress of his party at which time it was decided by a substantial margin to make a deal with Allende. With that decision, the Frei re-election gambit died and constitutional alternatives had been exhausted. Subsequently, Frei did manage to confide to several top-ranking military officers that he would not oppose a coup, with a guarded implication he might even welcome one. Yet, when a coup opportunity and situation presented itself upon the assassination of Army Commander in Chief Schneider, Frei moved quickly away from it.

## 6. *Military Coup*

a. After early October—absent any evidence that Frei was responding, politically speaking, to artificial respiration—a military coup increasingly suggested itself as the only possible solution to the Allende problem. Anti-Allende currents did exist in the military and the Carabineros, but were immobilized by:

- the tradition of military respect for the Constitution;
- the public and private stance of General Schneider, Commander in Chief of the Army, who advocated strict adherence to the Constitution;
- fear of the reaction of non-commissioned officers who tended to harbor pro-Allende sympathies; and,
- a strong propensity to accept Allende blandishments to the effect that the military had little to fear from him.

Although individual officers among the top leadership of the military and Carabineros were pre-disposed to take action, they felt the Army was central to a successful coup, and, as long as General Schneider remained the head of the Army, the Army could not be counted upon. General Schneider's attitude could only be changed through the personal intervention and forceful advocacy of a coup by President Frei; something, it became obvious, the latter was most unlikely to bring himself to do.

b. [less than 1 line not declassified] had a wide range of excellent contacts among the military with whom he enjoyed unusually close, frank, and confidential relationships. [5 lines not declassified] As a general rule,

members of the “illegal” team initiated and picked up those contacts with the highest risk potential, that is, those individuals whose credentials, reliability, and security quotient were unproven and unknown.

c. Between 5 October and 20 October, the CIA Station [1 line not declassified]—made [number not declassified] contacts with key military and Carabinero officials. These contacts required a high degree of overt plausibility or clandestinity since, by that time, Allende was acutely aware that only the military remained between himself and the presidency, and, accordingly, monitored the activities of key military figures quite closely. Through direct contact, the [less than 1 line not declassified], the [less than 1 line not declassified], the [less than 1 line not declassified], the [less than 1 line not declassified], and the [1 line not declassified] advised of the U.S. Government desire to deny Allende the presidency and its willingness to support a coup attempt. The [less than 1 line not declassified] and the [less than 1 line not declassified] were made privy to the U.S. position through trusted high-level military intermediaries.

d. During this same period in October, the “illegals” established direct contact and conducted negotiations with the leadership of the two incipient coup “movements” involving the greatest risk:

—[name not declassified] claimed to have 4,000 men organized in the greater Santiago area. He requested arms and ammunition from his “illegal” contact. When it developed that [name not declassified] was somewhat eccentric and had little, if any, organization of the scope claimed, contact was dropped. [2 lines not declassified]

—All activities of retired Army General Viaux were being carefully scrutinized by both Allende and General Schneider during this period because—having led the unsuccessful Tacna regiment revolt in October 1969—he was a known dissident with some residue of influence in the Army. Viaux was contacted by several “illegals” at different points of negotiation with him. He requested a sizeable airdrop of arms and ammunition in the countryside (which was denied as unrealistic under the circumstances), substantial financial support [1½ lines not declassified] life insurance policies for his principals (up to \$250,000 in coverage was agreed upon), and paralyzing gas grenades (which were not immediately available). Finally, it became evident that Viaux did not have the organization or support to carry out a successful coup, but might trigger prematurely an action that would spoil the better chances of doing so from within the active duty military itself. Direct contact was suspended and an alternate channel of emergency communication was established.

e. Eventually, the best prospects for a successful coup were developed among the high-level military contacts. On 18 October, General Valenzuela, who was in command of the Santiago Garrison, advised that he, [3 lines not declassified] were prepared to sponsor a coup. The plan was to:



- kidnap General Schneider;
- have the command of the Army pass to the next in line, General Prats who at least was not dogmatically opposed to a coup [*less than 1 line not declassified*];
- most of Frei's cabinet would resign and be replaced by military and Carabinero members;
- Frei would renounce the presidency and leave the country; and,
- a military junta would be installed.

Indications were that Frei was aware of the main elements of this plan as were a few cabinet members. The only assistance requested by Valenzuela to set the plan in motion through Schneider's abduction was several sub-machineguns, ammunition, a few tear gas grenades, and gas masks (all of which were provided) plus \$50,000 for expenses (which was ready to be passed upon demand).

f. On 22 October, General Schneider was mortally wounded on his way to work. General Prats was appointed to command the Army in place of Schneider. Frei made a strong statement denouncing the assassination and declared a state of emergency; as a result thereof, General Valenzuela assumed control of the Santiago area. In effect, the military were in control of Chile and in an excellent position to follow through with a successful coup irrespective of Frei's actions or inactions. They did not—probably because of the strong reaction of Frei and the public to the Schneider affair and lack of any positive encouragement from Frei. Their rationale is not certain at this stage, nor, for that matter, is it certain who or what group was ultimately responsible for Schneider's assassination. The Valenzuela group claimed that it was not and that all matériel passed to it is still in its possession unused. In any event, the opportunity for a coup soon passed; and, Allende was easily elected by Congress on 24 October and quietly inaugurated on 3 November.

**40. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon<sup>1</sup>**

Washington, November 30, 1970.

**SUBJECT**

Helms' Postmortem on the Chilean Presidential Election

Attached at Tab B for your information is a memorandum which Dick Helms sent to me, unsolicited, on the background of why more energetic measures were not taken by the U.S. Government to prevent Allende's election in Chile. The report was drawn from all levels of CIA and is extremely interesting. A summary of the report is at Tab A, but I think you will find it worth reading in full.

Although Helms' report is somewhat selective—CIA had reservations itself about the feasibility and risks involved in expanding covert operations in Chile—its implications are significant. The report indicates that:

—As the election drew nearer, Ambassador Korry was prepared to support some expansion of the anti-Allende covert action program, but not in any way which would jeopardize our ties with the Christian Democratic Party which he saw as the only viable non-Communist political force in Chile.

—Throughout the pre-election period, the State Department had reservations about any expansion of the covert action program, and was completely opposed to considering any support for the conservative candidate, Alessandri.

—As a result, the State Department established a restrictive criterion that any covert anti-Allende operations must not involve support for Alessandri.

*The net effect of the State Department's position was that nothing could be done to stop Allende if it meant strengthening Alessandri.* In view of the fact that the election came down to a very close race between Allende and Alessandri, with the Christian Democrat Tomic trailing far behind, the State position against strengthening Alessandri neutralized us.

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<sup>1</sup> Summary: Kissinger summarized the differences between the Department of State and CIA approaches to the situation in Chile prior to the election.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. II. Secret; Sensitive; Eyes Only. Sent for information. On a blank sheet separating the memorandum from Tab A, Nixon wrote: "K (1) A very sad record—(2) State obviously blocked any meaningful positive move—(3) But the 40 Committee should have overruled State or have brought it to my attention (4) Let's watch the next one more closely!" Tab B is published as Document 38.

While it is not certain that a less circumscribed covert action program would have given the marginal victory to Alessandri, Helms feels the odds for success of an expanded program would have been reasonably favorable. An Alessandri victory might have presented some problems for us, but it clearly would not have been as threatening to our interests as Allende's victory; at a minimum, the serious problems we now face in dealing with a Marxist Government in Chile could have been postponed for perhaps six years.

## Tab A<sup>2</sup>

### SUMMARY OF HELMS' MEMORANDUM OF 12 NOVEMBER 1970

The possibility of an Allende victory was apparent as far back as 1968. *A limited covert action program was initiated in 1968, even before Allende had put together his coalition.* That program was designed to influence the composition of the Chilean Congress in the March Congressional elections, since it was apparent even then that the Chilean Congress probably would decide the Presidential election. The covert action mechanism used at that time was sustained until the 1970 Presidential election was concluded.

*In April 1969 the 40 Committee considered the question of a U.S. Government role in the still-distant Presidential election, and decided to defer further consideration until candidates were selected.* That did not occur until December 1969, when Allende was nominated as the candidate of a new leftist coalition. During the period prior to Allende's selection, CIA preserved its covert action mechanism with a "spoiling" operation aimed at weakening Allende's coalition and encouraging prospective candidates within the coalition other than Allende.

*In mid-January 1970, representatives of State and CIA met with Ambassador Korry and the CIA Station Chief to prepare a status report on the covert operations for the 40 Committee and to consider a proposal from the Station Chief to underwrite several more anti-Allende activities which, if approved, could have resulted in side political benefits accruing to Alessandri.* In this meeting *State expressed its concern that any intervention would redound to the benefit of Alessandri, and questioned the need for any involvement in the election at all.* The result was a proposal for minimal action; *intensification of the existent "spoiling" operation, with a firm caveat from State that support would be withdrawn from any covert mechanism which developed strong pro-Alessandri overtones.* State

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<sup>2</sup> Secret; Sensitive; Eyes Only.

reaffirmed this position in the 40 Committee meeting in March 1970 at which the proposal was approved.

In late April 1970, in commenting on a U.S. businessman's proposal for U.S. Government support for Alessandri, Ambassador Korry took the position that:

—We should remain uninvolved in the campaign of any candidate.

—He did not see why the USG should meet Alessandri's financial needs when many of his supporters were in a position to make contributions.

—Support for Alessandri would endanger our influence with the Christian Democratic Party, the largest single political party in Chile.

—He could not see any advantage in helping Alessandri fight Tomic with the indirect benefits going to Allende, particularly when such a commitment could not be discreet.

*In mid-June Korry supported an expansion of the anti-Allende covert action program, though still maintaining his position that support of any candidate would be counterproductive. State again reiterated its reservations, citing particularly the difficulty of proving to the Christian Democrats, in the event they won the election, that we had not supported Alessandri. In late June the 40 Committee approved the expanded program. At that time, the State representative stated that he "harbored philosophic reservations about funding election interventions and that Assistant Secretary of State Meyer and his principal deputy opposed authorizing the current request." Meyer sent a message to Korry after the meeting informing him that the Department had recommended against approval of the proposal, citing among other reasons "the problem that from the standpoint of our interests in Chile all three candidates would be negative sooner or later and the certainty that exposure would destroy any prospect of mitigating Allende post-election attitudes."*

In the final two weeks before the election, the CIA authorized a substantial infusion of funds for covert activities, and arranged for funds from U.S. business interests to be passed to the Alessandri camp. This action was taken without reference to the State Department.

**41. Memorandum for the 40 Committee<sup>1</sup>**

Washington, December 18, 1970.

SUBJECT

Chilean Media Under a Marxist Regime

1. Attached for your information is a paper entitled "Chilean Media under a Marxist Regime" which describes the influence of the Popular Unity (UP) coalition in Chilean media prior to and following the inauguration of Salvador Allende as President of Chile.

2. This paper, which was requested by the Chairman of the Committee, reflects the views of both our Station in Santiago and the local USIS office and the Embassy. The gist of the report is that Popular Unity political and economic pressures and a related decrease in advertising revenue are forcing a major portion of Chilean mass communications media towards receivership and ultimate UP control. However, note is taken in conclusion that some newspapers and radio stations directly associated with opposition political parties are continuing to wage an aggressive anti-Communist campaign and merit encouragement and support.

**Attachment<sup>2</sup>**

Washington, December 18, 1970.

SUBJECT

Chilean Media Under a Marxist Regime

1. The Chilean media complex includes over 190 daily newspapers (12 in Santiago); approximately 140 radio stations (29 in Santiago); a national, government-controlled TV network plus three university owned and operated channels; and magazine, textbook, and other publishing companies. This complex has been financed primarily by commercial advertising, which has decreased dramatically since Salvador

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<sup>1</sup> Summary: The paper attached to this memorandum, titled "Chilean Media Under a Marxist Regime," outlined the various types of media in Chile and the corresponding political connections of each. Although there were a number of opposition media outlets in Chile after Allende took power, the CIA report was pessimistic that the Allende regime would continue to allow an independent media to flourish.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1970. Secret; Eyes Only.

<sup>2</sup> Secret; Eyes Only.

Allende's election as President of Chile. Its ability to maintain any substantive freedom of expression under the new Marxist government appears dubious.

2. The Popular Unity (UP) coalition which backed Allende's successful bid for the Presidency controlled a substantial segment of this media complex even before the popular elections of 4 September 1970. Much of this Marxist influence among media began in the School of Journalism at the University of Chile, whose graduates control the Colegio de Periodistas (Journalists' Union). Another source of Marxist leverage was their control of various key radio unions, including the Radio Broadcasters' Union (estimated 80% controlled), Radio Journalists' Union (estimated 90% controlled) and the Radio Operators Union (estimated 80% controlled). Control of these key unions enabled the UP to exert pressure on vocal non-Marxists in the media field and to create UP media workers' committees at the working level in media owned by the anti-Marxist right. Prior to the election the UP Parties had direct control over some outlets, such as the Socialist Party's *Ultima Hora* and the Communist Party's *El Siglo*, and UP supporters directed the programming of media such as the University of Chile's television Channel 9 and Radio IEM, Catholic University's Channel 13 in Santiago and Channel 4 in Valparaiso, and State Technical University's Radio UTE. The UP could also count on the assistance of other ostensibly non-UP organs such as *Clarín*, the largest mass circulation daily. But the UP's greatest strength lay in the heavy concentration of UP supporters at the grass-roots level.

3. The UP electoral program included a vaguely defined promise to turn all media outlets into workers cooperatives. Immediately after the election, on 9 September, Allende stated that "ownership and direction of communications media should be turned over to workers in the media." Concurrently, the UP began a campaign to gain control of key opposition media organs in order to "prevent right-wing maneuvers to steal the elections." Journalists and newscasters who refused to support Allende were threatened with assassination and other forms of physical violence; UP leaders such as Communist Deputy Jorge Inzunza delivered ultimatums to radio stations demanding placement of station newsrooms under UP management and the assignment of UP staff members as news and political commentators; non-Marxist newspapers were told to choose between supporting Allende and being taken over by workers cooperatives. This bullying was short-lived, however, and was less important than long-term infiltration and growing UP influence from the working level upwards. The emergence of a UP government was all that was needed to permit leftist forces to consolidate influence and control over a broad spectrum of Chilean media whose owners and management have been all too willing to fall

into line with the new government. Even *El Mercurio*, Chile's leading conservative newspaper which had successfully resisted an attempted take-over by the leftist-controlled Union of Journalists, modified its editorial policy and ideological emphasis. By the time of Allende's inauguration on 3 November the UP had extended or consolidated its control over numerous key radio stations, including the Radio Portales network which has the highest listenership in the country. It also assumed control of the government-owned daily *La Nación* and the government-owned national television network on inauguration day.

4. The Allende government has not spelled out its media policy in detail. Allende has not followed through on his harsh campaign threats against the media which opposed him and has announced his intention to take action only against those media which follow a "seditious" line. The plan to turn media outlets into workers cooperatives appears to have been shelved for the time being in view of the complex financial and managerial problems such a transformation would entail. PDC financiers have expanded their media holdings since the election in an effort to counterbalance UP domination of the media field, particularly radio, which is the most effective mass medium in Chile and is regarded by the UP as the most effective tool available for transforming Chilean society. Allende will probably try to avoid repressive action which would tarnish his "democratic image" at home and abroad.

5. Nevertheless the outlook for non-Marxist Chilean media is bleak. A sizable portion of the industry could be wiped out if advertising revenue falls below operating costs. All media are therefore susceptible to pressures exerted by UP members holding patronage positions in the ministries concerned with labor, taxation and social security, and there are recent indications that such pressures are already being brought to bear on newspapers under PDC control. For instance, government internal revenue inspectors are pressuring Chilean businessmen not to advertise in PDC media and the Communist-controlled union at Zig-Zag, a PDC-controlled publishing company, went on strike from 6 November to 4 December in an apparent attempt to force Zig-Zag into government receivership. These pressures, plus the voluntary transformation of media content and stress which has been evident for some time in many outlets which formerly opposed Allende, indicate that the UP is likely to be successful in establishing control of the Chilean media complex without resorting to drastic measures or openly repressive action.

Media organs clearly associated with opposition parties remain as independent voices. Particularly noteworthy are PDC-run newspapers *La Prensa* and *Pueblo Libre*, both of which are following strong anti-Communist lines and are enjoying a steadily increasing circulation. *Ultimas Noticias* of the *El Mercurio* chain appears to be pulling away from

the bland political line of its parent paper, also as a result of the influence of PDC journalists. Radio Minería, whose owner is PDC oriented, is the strongest of the anti-Communist radio outlets, while Radio Cooperativa, which supported Allende's campaign, is virtually apolitical but still carries one anti-Communist commentator. All opposition outlets will clearly need encouragement and support.

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#### 42. Memorandum Prepared in the Central Intelligence Agency<sup>1</sup>

Washington, December 18, 1970.

##### SUBJECT

Chilean Facilitation of Subversive Activities in Latin America

##### *A. Introduction*

1. There is, as yet, little hard intelligence that Chile is actively supporting guerrilla activities in Latin America. The Allende government since it took office on 3 November 1970 has been preoccupied with consolidating its own position. Its existence, however, has improved the prospects for subversive activity in nearby countries.

2. The new Chilean government is in a position to aid significantly insurgent movements against the governments of other Latin American countries. Allowing these groups to train, organize, and otherwise use Chile as a base or safe-haven is one possibility. Facilitation of travel by documentation or providing access to arms, medical care, or funds are others. Allende reportedly has warned Chilean groups supporting Latin American insurgents that they must operate clandestinely in order to avoid the risk of retaliation, [3½ lines not declassified]. Uruguay is another possible target of assistance, especially [2 lines not declassified]. The good offices of the Chilean Foreign Ministry might also be used to facilitate activities of subversive groups.

3. The fact that Chile has a Marxist government will be potentially useful to both Soviet and Cuban subversive activities throughout Latin

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<sup>1</sup> Summary: This memorandum, titled "Chilean Facilitation of Subversive Activities in Latin America," assessed the ability of Allende to aid insurgents or revolutionaries in South America.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1970. Secret; Eyes Only. The memorandum was submitted under cover of a memorandum from Cushman to Kissinger containing Cushman's stamped signature and Broe's signature.



America. [*less than 1 line not declassified*] Cuban [*less than 1 line not declassified*] already has several representatives in Chile, and the pro-Cuban sympathies of many officials in the Allende government indicate that these Cubans' activities will not be circumscribed. The Soviets will probably attempt to influence Cuban activity in Chile to fit Soviet strategy. They will have the aid of the Communist Party of Chile (PCCh), but the fact that most Chilean security organizations are controlled by Socialists and other pro-Castro groups will assist the Cubans.

#### *B. Support for Guerrilla Activities by Chile and Cuba*

1. Fidel Castro long has recognized the need for an insurgency support base in South America. This aspect of the situation was made manifest in 1968 when, after the death of Che Guevara in Bolivia, Allende assisted the three Cuban survivors of his group when they and two native guides escaped from Bolivia across the Chilean border. Allende personally accompanied the guerrillas as far as Tahiti in their flight back to Cuba. [*2 lines not declassified*]

2. [*2 lines not declassified*] They may hope that the Allende administration will facilitate to some extent their revolutionary activities.

3. In January 1970 the Cuban press reported that Allende would be one of the six directors of the Chilean Committee of Support for the Bolivian ELN. This group was formed by a group of Socialists, led by Senator Carlos Altamirano, [*3 lines not declassified*]. If the Chilean government provided sufficient financing, the Bolivian ELN would be in a position to pay travel expenses and per diem for persons selected to attend guerrilla training courses in Chile. [*2 lines not declassified*]

4. Carlos Rafael Rodriguez, Cuban Minister Without Portfolio, referred to the unity of the Latin American revolutionary process while appearing on a Chilean "Meet the Press" television program in November 1970. Among other statements pertaining to guerrilla warfare, he said: "I would say categorically that our frequently presented revolutionary position that armed struggle is the basis for revolutionary development in Latin America has not been altered."

5. [*2 paragraphs (26 lines) not declassified*]

#### *D. Potential Role of the Chilean Foreign Office in External Subversion*

1. Allende appointees in the Foreign Office may also contribute to external subversion. The facilities, privileges, and protection of Chilean embassies in various countries could be very helpful to those engaged in subversive activities, and ambassadors appointed by Allende are unlikely to interfere. Several may be inclined to promote such activities while others may merely provide cover. Ranking Communist Party members have already been named to two important posts. Rene Frias, a longtime PCCh leader, will represent Chile in Costa Rica, where the

Soviet-supported Communist Party is already expanding its influence with the tolerance of the government. Pablo Neruda, PCCCh presidential candidate and Central Committee member, but also world famous as a poet, peace activist, and Nobel prize candidate has been designated Ambassador to Paris, a key transit, support and contact location for international agents.

2. Chilean diplomatic posts are also likely to provide asylum at embassies and free passage to Chile for political refugees. The tradition of political asylum is a hallowed one in Latin America, and Mexican embassies for many years have been the goal of political refugees. The Chilean Embassy in Paraguay now has three asylees who took refuge there after escaping from prison. [2 lines not declassified]

3. [1 paragraph (9 lines) not declassified]

#### *E. Chilean and Regional Communist Trade Union Programs*

1. Chile replaced Mexico as the principal Latin American base for the Communist international trade union movement in 1964. In that year the Communist-sponsored Permanent Congress for Latin American Labor Unity, known as CPUSTAL, set up its secretariat in Santiago. The Chilean Labor Federation (CUT), which is controlled by the PCCCh and the PS, has provided CPUSTAL a home and a nucleus of personnel. The Communist World Federation of Trade Unions (WFTU) has helped CPUSTAL as have Communist trade unions in other Latin American countries. The CPUSTAL secretariat has thus far provided continuity and liaison for Communist efforts among Latin American trade movements as well as some training sessions in Santiago. Its role as organizer of regional trade union meetings as well as other functions offer a base for broadened Communist labor activity. The conclusion on 7 December of an agreement between the Allende government and the CUT makes the latter virtually the labor arm of the government and may strengthen CPUSTAL as well.

2. The most successful of CPUSTAL's sometimes halting efforts has been in the organization of regional groups of workers in certain categories, such as graphic art workers, teachers, and bank employees. The Soviets have shown particular interest in the labor field and will probably help expand the CPUSTAL efforts.

#### *F. Use of International Forums to Bolster Allende Government's Policies and Prestige*

1. Stressing its legitimacy as an elected government, Chile is almost certain to increase its activities as an anti-US spokesman in international organizations. Championship of Cuba in the OAS, negotiations toward relations with Communist China and the voting for its entrance into the UN at the expense of Nationalist China, as well as the adoption of aggressive stances in the Andean Group and the all-Latin

American CECLA organization are some examples. Such moves will offer new opportunities for agitation against the US among other Latin American countries, without the pitfalls of direct confrontation with the US.

2. Organizations such as the World Peace Council and other "anti-imperialist" propaganda centers will both use and assist the Allende government. The latter's unique position of acceptability in pro-Moscow, pro-Havana, and pro-Peking circles will assist the propaganda of all. Allende's predilection for playing his own game may lead to Chile's attempt to play the game of all these interests.

#### *G. Estimate of Soviet Role in Chile*

1. The Soviets are primarily interested in assuring that the Chilean Marxist experience works and that it be an attractive example to other Latin American Marxist movements. Latin American Communists traveling in the USSR are being asked by the Soviets to return home via Chile in order to contact the PCCh to find out what their respective parties can do to help the Allende government. Should this objective be achieved it would be particularly significant in that the Christian Democrat experience under President Frei, and clearly supported by the United States Government, failed. The Soviets would expect economic and political gains to be made under the Allende government.

2. The Soviets can be expected to exploit the Chilean situation to the maximum as far as using it for propaganda to the rest of Latin America and in other underdeveloped areas, to stimulate an increase in the volume of trade with Chile, to expand Soviet activities such as Aeroflot and Soviet shipping lines, to establish "weather stations" or "Antarctic exploration stations" on Chilean territory or with Chile's aid, to increase greatly the exchange of students to and from the USSR, to use Chileans as a wedge into more and more Latin American organizations, such as trade union organizations. The Soviets will undoubtedly try to avoid any clear appearance of military involvement or exploitation of Chile. For this reason they will probably not supply any significant amount of weapons to Chile at this time.

3. The Soviets, therefore, will do what they can to contribute to the success of the Chilean experiment. This support might well take the form of extending credits, supporting Chile's internal and foreign policies, sending technical, scientific, and military advisors but the Soviets will be careful not to extend themselves where they could be put in a position of being responsible—at least in the beginning—for the outcome of the Chilean experiment. The Soviets will not be ready to assume major costs or risks to bail out Chile if a crisis occurs, such as a military invasion of Chile by the Argentines. The Soviets will, in all probability, seek to avoid a crisis developing. Some problems may be

encountered with the Cubans who tactically would probably prefer to move much faster than the Soviets in the staging of the Marxist takeover of Chile and the spread of its influence throughout Latin America.

4. The Soviet complement in Chile now numbers [*number not declassified*] of whom [*number not declassified*] are believed to be members of the RIS. The RIS will certainly be in the midst of all Soviet activities, and will be recruiting assets diligently; however, it will remain clandestine and covert. The RIS will not be visible in the arrest of “reactionaries” or the establishment of controls over the population. This will be carried out entirely by Chileans. It is probable that to the extent that it is consulted at all, the RIS will counsel caution and act as a guide for Chilean security service expansion and activities. On the other hand, the RIS will encourage all possible efforts to “unmask” CIA agents and CIA plots against the new government as a means of justifying tighter controls and in order to lessen U.S. influence in general. The total number of RIS officers in Chile will increase slowly and steadily. The RIS will look for all possible ways to blacken the name of CIA and the U.S., including thrusting the blame on CIA for alleged murder attempts against Allende and others, and any other violent acts which may occur against the new government.

6. The principal effort of the RIS in Chile over the next few years will be to utilize various types of contacts, collaborators, penetrations, and agents to influence at the highest level possible key figures within the Chilean government. The RIS can be expected to conduct and plan discreet political action operations. The RIS will seek to exploit and develop new agents of influence and agents of importance to assure that the Marxist victory of Allende remains a victory and sets the stage for similar political developments in Latin America. To the degree possible the Soviets will attempt to influence Cuban activity in Chile; some competition will exist as it has in other areas, but the Soviets have surely placed a high priority in Chile and internecine warfare with Fidel Castro and the DGI is something they will seek to avoid. Soviet/Cuban collaboration in support of subversive activity elsewhere in Latin America is likely to be enhanced if the Chilean experiment is successful from the Cuban/Soviet point of view.

#### *H. Initial Development of Communist International Press Media Coverage of Events in Chile*

While the Cuban *Prensa Latina* press agency representation in Chile has been, so far, the most active outlet for international reportage favorable to the Allende regime, the USSR's TASS Agency began to give international coverage of the government in late November. On 7 December a TASS Santiago report used in international broadcasts accused the Inter-American Press Association of supporting “international reactionary propaganda” directed against President Allende and

the people's government. The campaign to discredit unfavorable international news reporting had gotten underway in Chile earlier in November, with an accusation that U.S. funds were supporting a reactionary group in Buenos Aires compiling "distorted accounts of events in Chile." This accusation was attributed to the Communications Brigade of the Chilean Socialist Party. A Chilean Foreign Office statement condemning "distorted reporting" was replayed on the same day (26 November) by Agence France Press in Spanish. *Pravda*, *Komsomolskaya Pravda*, *Red Star*, and *Izvestia* all have carried limited reporting and cautiously favorable commentary since 18 November. On 1 December *Pravda* published an abridgement of an article by Luis Corvalan, which is to be circulated internationally in December 1970 by *Problems of Peace and Socialism*, the Prague-based international journal of Communist parties. The article devoted substantial attention to Corvalan's remarks on the importance of the Chilean example for other countries.

43. **Memorandum From the Acting Chairman of the Ad Hoc Interagency Working Group on Chile (Crimmins) to the President's Assistant for National Security Affairs (Kissinger)**<sup>1</sup>

Washington, December 19, 1970.

SUBJECT

Chile

There are enclosed six papers for consideration by the Senior Review Group. They have been approved by the Ad Hoc Interagency Working Group on Chile.

**John Hugh Crimmins**

*Acting Chairman, Ad Hoc Inter-agency Working Group on Chile*

**Enclosure 1**<sup>2</sup>

**OPTIONS FOR THE UNITED STATES IN THE EVENT OF  
EXPROPRIATION OF U.S. BUSINESS INTERESTS BY CHILE**

*I. Prospects for Expropriation*

The book value of U.S. direct investment in Chile is approximately \$800 million, more than half in mining and metal processing. Replacement value is, of course, much higher. The largest single components are Anaconda's and Kennecott's 49% participation in mixed companies which account for the bulk of Chile's copper production. (The agreement under which Anaconda transferred 51% ownership to the GOC in 1969 also requires the GOC to acquire the remaining 49% by 1982 under an agreed compensation formula.) There are numerous other enterprises wholly or partly owned in the U.S. in extractive, manufacturing or service industries, and in commerce.

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<sup>1</sup>Summary: This memorandum transmitted the paper titled "Options for the United States in the Event of Expropriation of U.S. Business Interests by Chile," for consideration by the Senior Review Group. The paper stressed that the chances for expropriation of the mining and metal processing industries were high and outlined various strategies the United States could employ in the event.

Source: National Archives, Nixon Presidential Materials, NSC Institutional Files (H-Files) Box H-50, SRG Meeting, Chile 12/23/70. Secret; Nodis. Enclosures 2 through 6 are attached but not published. These papers were distributed to the members of the Senior Review Group on December 21. The SRG meeting was held December 23. The minutes are printed in *Foreign Relations*, 1969–1976, volume XXI, Chile, 1969–1973, Document 194.

<sup>2</sup> Secret; Nodis.

The USG liability under investment insurance against expropriation could be \$310 million. Present cash reserves to meet that and all other investment insurance liabilities worldwide are \$86 million. These reserves have been growing with annual premiums which last year amounted to \$20 million. Claims require a year to ripen from the dates of the individual expropriations. Still, wide-spread expropriation of U.S. interests would exhaust the reserves and require the USG to seek further appropriations from Congress for these losses.

The GOC has set itself on an irreversible course toward expropriation of a very substantial part of the U.S. investment, beginning with the large copper mining interests.

There is a wide range of ways in which the GOC could carry out its takings. There could be sweeping seizures of enterprises by category, or there could be case-by-case negotiations. There could be takings with little or no satisfactory provision for compensation, or there could be reasonable assurance of it, whether by law or regulation, by Executive promise, by establishment of favorable judicial or administrative precedent, or by willingness to have serious negotiations with the owners. There could be adherence to clear and predictable procedures, or resort to devices and subterfuges such as introducing counterclaims, however implausible, to wash out compensation, as in the IPC case in Peru. The GOC could help labor disputes and other kinds of demands against company managements turn into pressures for expropriation, it could try to hinder this kind of development, or it could take a hands-off attitude. Expropriations could take place in low key, or could be staged as Roman circuses for propaganda effect. The GOC could carry them out with a show of impartiality, or it could openly discriminate against U.S. owners in extent of property taken or the treatment given, or both.

All these contrasting modes of action could have in-between gradations, and the GOC could employ every variety of mix among them.

GOC expropriations will probably begin soon, perhaps within the coming weeks. There are signs that the GOC is already behind its original schedule, probably because of delays in getting agreement within the UP coalition on the expropriation measures now being drawn up. The most obvious sign is the non-appearance in the Congress of expropriation legislation which Allende publicly promised for the first week of December, and then for the second week.

At this moment there are no actual expropriations of U.S.-owned properties in train, but "interventions" under Chilean labor laws have taken place in three enterprises partly or wholly owned by U.S. citizens. In these cases court appointed "interventors" have taken either full or supervisory management control. The chances appear to be even or better in two of the cases (NIBSA, a brass fabricating plant half

owned by the Northern Indiana Brass Co.; and the 60% U.S.-owned Ralston Purina chicken and feed producing plant) that the owners will be unable to recover control of management, and the situation is likely to lead to expropriation.

There is a triple impetus behind the GOC movement toward its expropriation program; its ideological thrust; its desire for the political rewards of striking at the foreign-exploiter symbol (expropriation of the copper holdings especially has an appeal in Chile extending well beyond Marxist sectors); and its eagerness to gain access to current copper (and other) earnings to ease its heavy budget pressures.

There are also inhibitions on the GOC. First and foremost is its announced—and evident—desire to retain international respectability and, more importantly in the short range, to retain credit-worthiness in the Western lending community.

Less important inhibitions would include difficulties of finding managerial and technical talent to run the enterprises for the GOC and the converse consideration of possible encouragement of further damaging emigration of this kind of talent under an expropriation program.

The statements and actions of the GOC in its first month in power, coupled with the known attitudes and intentions of coalition UP leaders over recent years, warrant the following net judgment: The GOC will certainly move shortly to expropriate U.S. properties. The GOC will probably make dispositions, especially on compensation, which will result in little or no prompt dollar payments to claimants but which will enable the GOC to make strong propaganda claims of legality and justice in its treatment of the foreign interests concerned. In the likely event that it will pay in local currency or bonds over long periods, it will play heavily on nationalistic themes of sovereignty and dignity. If, as is probable, it reduces amounts of claims on grounds of plundered patrimony, tax evasions and other malfeasances asserted in support of counterclaims, it will add to the “anti-imperialist” theme the counterpoint of betrayal of Chile by previous anti-patriotic administrations.

In any case, Chilean expropriatory acts and our response will be the single greatest determinant of the course of U.S.-Chilean relations. The repercussions will be significant within Chile and in other countries in Latin America.

## *II. Considerations Affecting the USG Response to Expropriations*

### *A. U.S. Objectives*

The USG has two already established, over-arching purposes governing all our dealings with the GOC:



1. To maintain a correct but cool public posture toward the GOC so as to avoid giving it a basis on which to rally domestic and international support for consolidation of the regime; but

2. To seek to maximize pressures on the GOC to prevent its consolidation and to hurt its ability to implement policies contrary to U.S. and hemisphere interests.

In addition, there are several U.S. objectives specifically connected with expropriation:

1. To obtain compensation for U.S. companies injured by expropriation in the interests of our general policy on protection of U.S. business, in the interests of the affected companies themselves, and in the interests of our investment guaranty program.

2. To protect other U.S. holdings in Chile vulnerable to expropriation but not taken.

3. To protect U.S. properties in other countries in Latin America and elsewhere which may be influenced by developments in Chile and our response to them.

4. To assure that the GOC bears full onus for confrontation on the expropriation issue and that our position is as invulnerable as possible.

#### *B. The Hickenlooper Amendment*

1. Foreign Assistance—The Adair-Hickenlooper Amendment (Section 620(e)(1), FAA) provides that the President shall suspend assistance to the government of any country that takes certain adverse actions against U.S. investors and fails within a reasonable time (not more than six months) to take appropriate steps to discharge its obligations under international law<sup>3</sup> to the U.S. citizens concerned, including speedy compensation in convertible foreign exchange equivalent to the full value thereof. Such suspension is to continue until the President is satisfied that appropriate steps are being taken. The actions contemplated by the statute include:

- (a) nationalization, expropriation, or seizure of ownership or control of property owned by U.S. citizens or by entities 50% owned by U.S. citizens;

- (b) repudiation of agreements with such U.S. citizens or entities; and

- (c) discriminatory taxes or other exactions, or restrictive maintenance or operational conditions, or other actions which have the effect of nationalizing or seizing ownership or control of property.

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<sup>3</sup> The United States recognizes the right of a country to expropriate private property for a public purpose provided that reasonable provision is made for the payment of prompt, adequate and effective compensation. [Footnote is in the original.]

The statute does not require that compensation be paid, or even that a firm agreement be concluded, within the six-month period. It does require that “appropriate steps” be undertaken within that period. The suspension is mandatory and may not be waived by the President, but the Executive Branch makes the determination whether “appropriate steps” are being taken. Appropriate steps could include good faith negotiations, international arbitration, or even local judicial remedies when those remedies are adequate and sufficiently speedy. The U.S. investor would not be expected to exhaust local judicial remedies that are manifestly inadequate.

The Adair-Hickenlooper Amendment applies to assistance under the FAA or any other Act, including Title I of PL 480. However, by express statutory exception, the amendment does not apply to famine or disaster relief, the Export-Import Bank, Peace Corps, or programs under the Mutual Educational and Cultural Exchange Act. It includes military assistance.

The FAA further provides that no assistance shall be provided to governments indebted to U.S. citizens in certain circumstances, such as where available legal remedies have been exhausted or where the debt is not denied by the government, provided the President does not find such action contrary to the national security (Section 620(c), FAA).

No monetary assistance is to be provided under the FAA for use to compensate owners for expropriated or nationalized property. If the President determines that such assistance has been used by the government for such purpose, no further assistance shall be furnished to such government until appropriate reimbursement is made to the United States (Section 620(g), FAA).

2. The IDB—Section 15(c) of the Inter-American Development Bank Act requires the United States to veto any loan from the Bank’s Fund for Special Operations for any activity in a country during any period for which assistance has been suspended under Section 620(e)(1) of the FAA.

3. IBRD—There are no U.S. statutory requirements concerning IBRD loans in these circumstances, but the IBRD itself has adopted a policy of withholding loans in situation in which uncompensated expropriations have taken place and reasonable steps are not being taken toward the solution of the problem.

### *C. Other Specific Considerations*

1. Investment Guaranties. Because of our great exposure under investment guaranties in force in Chile, the handling of the expropriation issue will be of great importance to the viability of the guaranty program and of OPIC itself, and to the promotion of private investment as a means of development.

2. Chilean Debt to the USG. The Chilean position on its debt to the USG, which exceeds \$983 million, will be affected as the expropriation action-reaction scenario unfolds. Of this, \$176 million is owed to Eximbank by the copper companies.

3. Vulnerability of the Chilean Economy to U.S. Measures and to Decline in Foreign Investment. Pending the findings of a detailed study now under way, a summary judgment here is that the range of measures available to the U.S. for reprisal against Chile and the presumed drop in investment from non-U.S. sources that would result from expropriation would create serious problems for the Chilean economy but would not cripple it.

4. Resort to Soviet and Communist Chinese Assistance. Although Allende has professed a desire not to become dependent on any single foreign power, and although the USSR and Communist China would probably be very reluctant to assume large assistance burdens, the chances are considerably better than even that, in response to U.S. retaliatory measures, Chile would draw closer to the Communist powers.

5. Internal Political Effects. Given (a) the widespread acceptance within the Chilean public of expropriation of foreign properties, especially copper companies, as a legitimate national act; (b) probable indifference by many non-Marxists to the principle of compensation; and (c) probable GOC "fuzzing-up" of the compensation question, the Allende Government would have a good base for rallying popular support to itself in the face of U.S. counteraction. The degree of success would depend in considerable part on the nature and pace of other internal measures Allende would have instituted prior to expropriation and on the circumstances under which the U.S.-Chilean confrontation on expropriation had occurred.

6. Effects on other U.S. Holdings in Chile. The prospects for any significant U.S. property in Chile are not bright in any event, but the application by the USG of retaliatory measures against the initial expropriations would almost certainly accelerate the pace of other takings.

7. Effects on U.S. Holdings in Latin America. The application or withholding of Hickenlooper and other sanctions would probably not be determining with respect to the actions of other governments toward U.S. properties. The chances are that each government would be guided by its own economic and political needs.

8. Political Effects in Latin America. Latin American reaction will depend greatly on how the Chilean situation evolves and on the circumstances existing at the time the U.S. makes its moves.

Strong U.S. initiatives to apply Hickenlooper Amendment provisions to Chile would touch widespread sensitivities in Latin America and arouse in some sectors considerable sympathy for Chile. Many Latin Americans believe that the application of the Hickenlooper

Amendment would be in violation of Article 19 of the Charter of the OAS, which prohibits member states from carrying out measures of economic coercion against other members. However, the Marxist and avowedly anti-U.S. nature of the Chilean regime would dilute sympathy for that country in comparison with the potential in the case of a country such as Peru.

If the U.S. approach were one of restraint, showing that Chile was forcing us into the measures we were taking, there would be significantly less adverse political reaction to us throughout Latin America.

On the other hand, failure by the U.S. to act would be interpreted in other Latin American sectors, especially among conservatives, as a sign of weakness.

9. Effects on our posture toward Peru. Application of the Hickenlooper Amendment to Chile could, depending on circumstances at the time, raise questions on our not having applied it to Peru, and call for some justification.

### III. *Options*

Option 1. (a) Immediately upon expropriation action by Chile, overtly suspend assistance, but without formally invoking the Hickenlooper Amendment. This would stop draw-downs of AID loans and grants, suspend PL 480 and military assistance, and require vetos of any loan from the IDB Fund for Special Operations. In addition, we would bar Eximbank and FCIA export credit coverage, seek to have World Bank family institutions restrict their loans, seek to prevent IDB from making non-FSO loans, withdraw the AID Mission and Milgrp, and reduce the diplomatic mission to minimum strength.

(b) Formally apply Hickenlooper Amendment, without waiting out the six months period, as soon as plausible grounds are available for concluding that a reasonable period of time has elapsed without the GOC taking “appropriate steps” to discharge international obligations.

#### Advantages.

—It would give the most forceful signal on the seriousness of the consequences of expropriation actions.

—It would stop at an early date disbursements of uncommitted balances in the assistance pipeline—now \$19 million for AID and \$41 million for Eximbank.

#### Disadvantages.

—It would coalesce support for the Allende regime in Chile and elsewhere in Latin America. (Option 1(b) would intensify the anti-U.S. reaction without providing an argument credible to the Latin Americans that the U.S. action was required by law.)

—It would destroy chances for obtaining compensation of expropriated properties and increase exposure of U.S. Treasury under invest-

ment guaranty agreements; stimulate Chile to make further uncompensated expropriations, and invite repudiation of the \$983 million debt owed to the U.S. Government.

—It would prejudice the U.S. position that suspension of assistance is not economic coercion within the meaning of Article 19 of the OAS Charter.

—It would create serious difficulties for us with the IDB and IBRD, which would probably regard our action as premature and unreasonable.

Option 2. Refrain from applying the Hickenlooper Amendment until the six-month period runs out; take no initiatives to talk with the Chilean Government nor to give guidance to U.S. companies affected. During this period we would continue and intensify present economic restrictions on Chile, approaching as rapidly as can be done in a non-overt way the *de facto* application of Hickenlooper Amendment sanctions.

#### Advantages.

—It would avoid reactions based on prematurity of U.S. action under Option 1, and allow time for clarification of the GOC position which could reinforce the U.S. position as the injured party.

—It would afford U.S. investors some time to work out settlements that would cut their losses and those of the U.S. Treasury.

—It would minimize U.S. involvement in complex expropriation compensation negotiations.

#### Disadvantages.

—Deferral of sanctions would permit pipeline funds to continue to flow to Chile.

—Application of sanctions in six months, particularly if done overtly at one point in time, would permit the GOC to use U.S. "intervention" as an issue to rally support at home and elsewhere in Latin America.

—Failure to encourage negotiated settlements or recourse to third party settlement would prejudice the interests of U.S. investors and the U.S. Treasury and weaken U.S. arguments that the application of sanctions does not violate Article 19 of the OAS Charter.

Option 3. Use the six months waiting period provided in the Hickenlooper Amendment to try to work out expropriation settlements, taking the approach that ambiguities in compensation provisions are worth exploration in direct talks with the Chilean Government. We would take steps to insure that the Chilean Government had as soon as possible a clear understanding of our position on expropriation and compensation. We would meanwhile urge the U.S. companies affected to exhaust all meaningful local remedies. We would continue to apply but not go beyond the present economic restrictions against Chile. We would be prepared to consider relaxation of these restrictions, depending on Chilean responses and the outlook for obtaining results fa-

vorable to us. (This would require modification of present guidance on U.S. policy toward Chile.)

Advantages.

—It would maximize the possibility of avoiding a confrontation which would enable the Allende regime to gain support at home and elsewhere.

—It would be consonant with a cool but correct posture toward Chile.

—It would strengthen the U.S. legal basis for application of sanctions by putting the GOC in the position of rejecting our proposals for settlement.

Disadvantages.

—It would continue disbursements under existing obligations.

—It would defer a clear U.S. denunciation of the Allende regime's actions on expropriation.

Option 4. The same as Option 3, but looking to the possibility of not applying the Hickenlooper Amendment so long as plausible grounds existed for delay. Investors would be encouraged to exhaust local remedies. Hickenlooper sanctions might be applied gradually with as little publicity as possible to avoid confrontation on a set date.

Advantages.

—It would permit maximum flexibility for the U.S. to pursue its basic objective of maintaining a correct public posture and limiting economic support for the Allende regime.

—It would avoid a direct confrontation which could disrupt the inter-American system.

—It would maximize the legal justification and support of the actions which the U.S. may take.

Disadvantages.

—It would delay a clear U.S. denunciation of the Allende regime's actions.

—It could incur Congressional charges that the Executive branch ignores the Hickenlooper Amendment and is coddling a Communist regime.

—It would protract the flow of assistance.

#### 44. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, January 5, 1971, 2154Z.

43. Subj: The Evident Becomes Obvious (Part I of IV).

1. President Allende moved to Valparaiso today in another innovation aimed at advertising Popular Unity's proximity to the people (including, I assume, those filling all those bikinis on the beaches of the Pacific). The President and his associates have earned their two months bask in the sun. They have attained every initial goal of their program to make Chile a socialist state:

A. They have consolidated their power in Chile with astonishing ease.

B. They are implementing most of their electoral program without engendering serious resistance.

C. They have maintained their coalition without meaningful disruptions.

D. They have gained the undiluted loyalty of the armed forces, the blessing of the Church, the compliance of the bourgeoisie, and the legitimacy of the international community.

2. The revolution launched by Allende will not be slowed or diverted by the summer transfer of the seat of govt to Chile's second city. As that most astute of Chilean politicians, Communist Party head Corvalan told a pre-Christmas interviewer from Rome's *L'Unita*: "The situation is certainly not yet irreversible; it is up to us to make it so." Corvalan explained that all the U.P. basic programs would be put into the hopper as fast as possible ("within one month"). The pace had to be forced, he said, so that Chile would be irrevocably placed on the path to socialism. "Were we to limit ourselves to a redistribution of income and to reducing inflation and unemployment, we would fall into a reformist policy," said Corvalan. "The process must proceed toward the trans-

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<sup>1</sup> Summary: In the first of four related telegrams titled "The Evident Becomes Obvious," Korry discussed the changes instituted by the early Allende administration, noting that the administration had attained every initial goal of its program to make Chile a socialist state using non-violent, democratic means. Moreover, the early successes enjoyed by the administration had earned the support of the military, the Church, the bourgeoisie, and the international community.

Source: National Archives, RG 59, Central Files 1970-73, POL 2-2 CHILE. Secret; Limdis. Repeated to Asunción, Bogotá, Bonn, Brasilia, Buenos Aires, Canberra, Caracas, Guatemala, Kingston, La Paz, Lima, London, Madrid, Managua, Melbourne, Mexico City, Montevideo, Ottawa, Panama, Paris, Port au Prince, Port of Spain, Quito, Rio de Janeiro, Rome, San José, San Salvador, Santo Domingo, Tegucigalpa, and USCINCSO. Parts II, III, and IV are Documents 45-47.

formation of the present economic and social system and the reforms must be such, in depth and in relation with each other, as to place the country on the path leading to socialism." Socialism by Corvalan's definition is not the Scandinavian or Israeli model; it is the Eastern European.

3. Despite the surface calm, the import of Corvalan's end and Allende's means are just beginning to be understood by growing numbers of affected Chileans. As a perceptive American recently said: "When we lack the will to see things as they really are, there is nothing so mystifying as the obvious." What is starting to occur here is that the obvious has become so overpoweringly evident that it is finally creating some will to see reality. Of the many personal evidences that I have received the past few days, perhaps the most striking was that of Felipe Herrera (protect) who has steadfastly insisted, like Galo Plaza and most other Latin "names" that "it can't happen here". Herrera likened the Chilean Govt to a runaway horse, out of control and racing ever faster. He lamented that Allende appeared to be drunk with power, deaf to all advice. Thus Herrera has concluded that he will proceed with a long European vacation after leaving the IDB and not return here before mid-June.

4. Ex-President Frei said the Chilean situation is evolving so fast and so irreversibly that he wonders whether he can leave the country after the municipal elections, as he has planned, because he might not have any political base when he returns. Benjamin Matte, the head of the once powerful National Society of Agriculture who thought he could buy time and tolerance by offering to cooperate fully with Allende and by having negotiated new agriculture deals with Cuba, is planning to announce his resignation shortly for having been so totally misled. Scores of businessmen, scrambling to keep their heads above water, are despondently reconsidering their decisions to try to hold out in Chile and are once again seriously contemplating emigration. Tomistas whose confidence in Chilean traditions persuaded them to vote for Allende in the October congressional vote for the Presidency are coming voluntarily to us to offer their mea culpas; an increasing number of Radical and Nacional politicians are in the same frame of mind; and even some "extreme" Socialists are making known their annoyance and disquiet over the Communist ascendancy within the govt.

5. The speed and skill with which Allende is realizing the Chilean revolution has thus far robbed his natural opposition of any field where they could give battle. Until now, he has not used any of the classical recipes for imposing socialism. There have been no firing squads, no arbitrary arrests, no obvious censorship, no barriers to free travel, no anti-religious excesses (on the contrary he insisted on attending a Te Deum following his inauguration). As I wrote the night of election (Santiago



3499 Paras 10 et seq), Chile is the only country that I knew where a govt could follow traditional procedures and utilize democratic institutions to install within a normal Presidential term an irrevocable Marxist-Leninist model. A significant sector of informed Chilean opinion is now beginning to comprehend the methods and to perceive the goal. The purpose of this series of cables is to detail some illustrative examples of this unique procedure. To report some of the political and social consequences that it is fomenting, and to offer some comments. (End Part I)

Korry

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**45. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, January 5, 1971, 2324Z.

46. Subj: The Evident Becomes Obvious (Part II of IV). Ref: Santiago 43.

1. The past Sunday's *Mercurio* signalled the end of the two-month truce between that once loud anti-Communist thunderer and the Allende regime. For the first time since the paper's management decided Nov 5 to seek to woo Allende rather than to wound him, it moved undisguisedly over to the attack. Its representatives have come to me to explain their decision and to inform us that the paper will go down fighting rather than be sapped of its prestige and influence by a drip-drip economic torture or by a provocative labor conflict. It wants the world to know that when it ceases to publish it was for political reasons. It has little doubt now that it will not last the years that transpire before the mass of Chileans become equally aware.

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<sup>1</sup> Summary: In this second of four related telegrams titled "The Evident Becomes Obvious," Korry reported on the media and financial counterattack of anti-Communist opponents of Allende. Specifically, Korry noted that the conservative Chilean paper, *El Mercurio*, had ended its truce with the administration and was engaged in a final battle with Allende. As a result of its political attacks, advertisers had stopped investing in the newspaper and the paper was having difficulties paying its employees.

Source: National Archives, RG 59, Central Files 1970-73, POL 2-2 CHILE. Secret; Limdis. Repeated to Asunción, Bogotá, Bonn, Brasilia, Buenos Aires, Canberra, Caracas, Guatemala, Kingston, La Paz, Lima, London, Madrid, Managua, Melbourne, Mexico City, Montevideo, Ottawa, Panama, Paris, Port au Prince, Port of Spain, Quito, Rio de Janeiro, Rome, San José, San Salvador, Santo Domingo, Tegucigalpa, and USCINCSO. Reference telegram 43 from Santiago, January 5, Part I of the series, is Document 44.

2. In the interim, the ownership of *Mercurio* (no longer Agustín Edwards who has emigrated to the US and is now working for a US concern) is stripping for this final battle by unloading liabilities so that it can hurl bolts at the Marxists for the longest possible time. *Mercurio* had difficulty meeting its payroll the past week. In pre-electoral times, it was the organ for 69 percent of all daily advertising in the Chilean press. Its average advertising has been almost halved and is steadily sinking. (Its circulation is only off by 5 percent while its sister publications, the afternoon tabloid *Ultima Noticias* is holding its own at 45,000.) *Mercurio* is proprietor of the finest and most modern print jobber in the country if not the continent, Lord Cochrane Press. The latter has assets of 100,000,000 escudos and liabilities of 60,000,000; although it keeps 700 employees busy three shifts and has annual sales of 130,000,000 escudos with a good profit, its cash flow, because of debt, is negative and a heavy drain on *Mercurio*. If the govt, which is planning to establish a state editorial house is unwilling to buy the enterprise at book value, Lord Cochrane will soon declare itself bankrupt and force creditor banks (including [omission in the original] to make the best possible deal. Similarly *Mercurio* is seeking to unload its once profitable and popular radio station, Corporation of Santiago. Corporation has a book value of some 2,000,000 escudos but is now running a monthly loss of 400,000 escudos as the private sector retrenches and as govt advertising is withheld. *Mercurio* has been negotiating to sell Radio Corporation to the proprietor of a provincial station Radio Bio Bio. And therein lies a revealing tale about this govt.

3. When the Banco Edwards was intervened by the govt last month for allegedly having violated the regulations governing import of capital, Allende Socialist intimate Erich Schnake approached the *Mercurio*–Banco Edwards management to offer a deal. He revealed that the would-be purchaser of Radio Corporation was a dummy for Ancieto Rodríguez, the Secretary-General of the Socialist Party. He said that Allende did not want Rodríguez to gain control of the station and that he wanted it for his own faction. Schnake said that if *Mercurio* would sell the station to him and to other Allende associates, the President would see to it that the Banco Edwards matter was arranged amicably.

4. Meanwhile the Banco Edwards lawyers were meeting with the Socialist Alfonso Inostroza, head of the Central Bank, and two other high bank officials, both Socialists, to arrange an out-of-court settlement. The Central Bank's counsel admitted in these talks that the charges against the Edwards Bank would not be sustained by any court and that therefore an amicable accord was preferable. *Mercurio* then decided to accept the Schnake deal.

5. The final episode came last week:

A. Schnake after seven days in which he claimed to have talked three times to Allende confessed he could not deliver his end of the deal.

B. The directors of the Edwards Bank were summoned to the Central Bank last Wednesday where the number two man in that hierarchy, the Communist Hugo Fazio, informed the directors they would be prosecuted, the bank manager would be charged criminally and that none of the directors could leave the country pending the judgments. When the Edwards Bank lawyer protested that he had been given to understand in negotiations with the govt that an amicable settlement was possible, the Communist snapped "this govt does not negotiate" and demanded to know who had spoken for the govt. Since the three Socialists who had participated in the earlier informal talks were present, including President Inostroza, and since they turned white with fear, the Edwards Bank people covered for them.

6. Finally, the Edwards–*Mercurio* managers have been seeking to save from bankruptcy one of the biggest industrial enterprises in Chile, their beer business with 3000 employees in eight cities. Cash flow is again the problem since no price increases have been allowed for a year despite 35 percent inflation and wage increases of some 40 percent that the govt has decreed must be incorporated into costs. As with most other enterprises, management has been unable to see any cabinet official although bankruptcy is certain with two months without price relief. When an appointment was finally secured last week with the head of the price-setting agency Dirinco, it was informed:

A. No price increase would be permitted for all 1971.

B. No management rep would again be received. Only reps of a blue-collar union would be given audiences.

C. The company had assets it could sell to keep operating until [omission in the original].

D. In 1972, the company would be incorporated into the mixed-economy area with a govt majority ownership.

7. Now if we deemed the Edwards case rather unique because of the dominant position that this one clan had in Chile, the foregoing details would not be all that noteworthy. But they typify the rule more than the exception insofar as any significant enterprise in Chile is concerned. The beer business, strangely enough, is enjoying a 30 percent rise in consumption since the elections, and has attracted the interest of West German investors, with whom management is now in discussion. But in many other cases, there are no buyers aside from the govt in sight. I continue to rely on Corvalan's candor: "The people have won the government," he said, "which is part of the political power. They

must consolidate this victory and advance further so that the entire political power and state apparatus should pass into their hands.” (End Part II)

Korry

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**46. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, January 6, 1971, 1650Z.

52. Subj: The Evident Becomes Obvious (Part III of IV). Ref: Santiago 43 and 46.

1. Banks and copper have been the first major nationalization targets of the govt. Coal, a hopeless industry in Chile, was also taken over and Corvalan promises that shortly all the other basic units of Chilean industry will be nationalized. Since the first two are the most significant for Chile’s economy and for its future structure, the procedures and the dominant attitudes of the govt are instructive.

2. A very reliable Chilean informant who spoke to Max Nolff, the head of the govt copper corporation, on Jan 4th, discovered that he believes (and it should be emphasized that Nolff is the most influential of the Marxists when it comes to copper) that (A) Kennecott should pay Chile for having too great a profit instead of receiving any compensation for its remaining 49 percent in the El Teniente mine; (B) that the reaction of the world press and the Western govts to the Allende regime has been so favorable that the GOC can be as tough as it wishes with the US companies; (C) that the GOC will insist on implementing the Allende proposal (in the draft constitutional amendment authorizing the copper nationalization) that past profitability can be adjudged excessive and the surpluses deducted from the compensation; (D) that eventual renegotiation of debts to Ex-Im and other creditors will not pose

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<sup>1</sup> Summary: In this third of four related telegrams titled “The Evident Becomes Obvious,” Korry discussed the nationalization plans of the Allende regime and the attitudes of the other Chilean political parties toward the expropriation of foreign property.

Source: National Archives, RG 59, Central Files 1970–73, POL 2–2 CHILE. Secret; Limdis. Repeated to Asunción, Bogotá, Bonn, Brasilia, Buenos Aires, Canberra, Caracas, Guatemala, Kingston, La Paz, Lima, London, Madrid, Managua, Melbourne, Mexico City, Montevideo, Ottawa, Panama, Paris, Port au Prince, Port of Spain, Quito, Rio de Janeiro, Rome, San José, San Salvador, Santo Domingo, Tegucigalpa, and USCINCSO. Reference telegrams 43 and 46, Parts I and II, are Documents 44 and 45.

any great problem and (E) there is no danger of any effective foreign court action by the copper companies to block Chilean sales or to seize assets. My informant said that other equally reliable emanations from the Communists indicate that they feel there is no reason to be anything but severe with the copper companies and that if the US were to react, either by company or by govt, the US would then be cast in the villain's role of waging unjustified economic war that in turn would justify further turnings of the screw within Chile.

3. Some of these soundings may be nerve war rumblings since a tested Allende tactic is to use the Revolutionary Left (MIR) to push things to the extreme so that when he intervenes magistrally, his solution looks better, but better only in comparison to the most extreme. However it is increasingly evident that the U.P. is not so much interested in how the economy will operate in 1971 as it is in achieving the profound socio-economic changes that will set the country in socialism. It is so cockahoop with its success in mesmerizing the country, so self-satisfied with its \$500,000,000 in reserves and so reassured by promises of substantial long-term credits from European and Japanese suppliers that both knowledgeable Christian Democrats and independents such as Felipe Herrera may be on the target with their judgment that Allende is already drunk with success. If he is intemperate, the world press has contributed to his exaltation by its applause of his copper and bank nationalizations. When the *London* and *New York Times* characterize such proposals as moderate, any student of the law, whatever his views of social justice, can only throw up his hands.

4. The innocence abroad makes it extremely difficult for the opposition parties here to find firm footing to contest a bill that involves the nationalization of US copper enterprises. Both the Christian Democrats and the Nacionales consider most of the terms of the Allende proposal to be outlandishly severe. I have reason to believe that there is an even chance that the PDC will submit amendments that would simply have the GOC buy the remaining shares of the company at book value less depreciation. Payment might also be the 30 years at 3 percent that Allende proposes and that reduces the real cost to Chile to a fraction.

But such a proposal would in effect sanctify the deals for the first 51 percent negotiated by Frei and would render to the companies payment far in excess of what the GOC is contemplating. Other amendments might soften such harsh terms as the historic profit measure, depletion of mines as a deduction and the threat of non-payment to banking institutions such as Ex-Im because the money had not been spent for whatever the President deemed to be socially unuseful. The opposition will of course focus on workers rights, will seek to strike out the general clause that throws into doubt all contracts between all private entities and the govt whatever the nature of the accord and may

insist on normal judicial review rather than the kangaroo court of political appointees to review any appeals that Allende is proposing. But they emphasize that to a large degree, the opposition is dependent on what the rest of the world is saying and that so far the only comments are encouraging to the extremists in the GOC.

5. Nolff's case against Kennecott is that in the original 1965 deal with the Frei govt, the book value of the company's 51 percent was overstated by \$8,000,000 and that by applying the historic profit test, the final result would be negative compensation. PDC negotiators, seeking of course to protect the Frei administration record and to preserve the fundamentals of the Frei Chileanization program, argued with Nolff that the purchase of the remaining shares would cost Chile approx \$275,000,000 paid out over long term (in addition to the original 51 percent already negotiated). Against that they say that the GOC formula would immediately provoke full calls by the Ex-Im and other bankers and would require either a \$400,000,000 payoff in the short-term by Chile or a confrontation with the US. Hence they stress the importance of the role of the world press, particularly serious analytical material in the most serious press, daily, weekly, monthly.

6. Opposition experts feel that, to use Frei's word, the most "brutal" segment of the Copper nationalization is the inclusion of Andina mine, the 70 percent owned by Cerro brand new undertaking (30 percent GOC) and of Exotica (Anaconda 75 percent GOC 25 percent). The measure the *NYTimes* applauds applies in theory only to what the Chilean law terms "Gran Minería" which is defined as 75,000 tons output yearly. Andina which has yet to make any money, which has a projected capacity output of 65,000, which required approx \$160,000,000 to open, almost double the planned investment, and which brought a very high degree of technology to the most difficult exploitation in Chile is included in discriminatory fashion in the bill. (Exotica produces 25,000 tons but is much integrated in big Chuqui operation.) Although Andina will only produce 40,000 tons its first year, a French mine with 41,000 tons and a German mine with 31,000 tons output, both with high profits over many years, were excluded. Two executives of Cerro arrived here from New York Jan 4 for a Jan 5 appointment they had sought with the Minister of Finance (Communist) who promptly shunted them off to the Central Bank without discussing their problems. They encountered no satisfaction at the Central Bank and are now reverting to my original suggestion of last week that they write a forthright letter to Nolff stating why they cannot meet their Ex-Im Bank or Sumitomo payments on loans and why the company will be forced to stop work next week if there is no financial relief authorized by the GOC. They also will use their time here to sound the possibilities for a possible deal by which they will contract for copper and operate the mine.

7. As for the 22 Chilean banks, they too are encountering the gravest difficulties in responding intelligently to Allende's ploy of offering to buy out all shareholders at a better price than that offered in the nationalization bill he will shortly submit. While the PDC had planned to fight this bill to prevent a centralized state control which, as *Mercurio* pointed out Sunday, will give the state total power over all debtors, including politicians and their supporters, the bank owners and managers met privately Jan 4 to consider their tactics. The majority felt that they required a political solution, which meant support from the opposition parties; but they quickly concluded that Allende had left the opposition high and dry, particularly when the biggest private bank, the Banco de Chile, noted that its shares are very widely held and that a majority of its modest stockholders would wish to avail themselves of Allende's offer to pay cash for the first 10,000 escudos of stock at market values of one year ago and the next 40,000 in readjustable savings certificates. Also the half score of banks controlled by rich Arab families were anxious to accept the Allende offer since they believe that cooperation in this instance may gain some transitional but essential favors for their other varied industries. The meeting ended without agreement as is typical in the Chilean private sector, thus providing further maneuverability to the Marxists in their divide and conquer strategy.

8. Nonetheless anti-Marxists of the PDC, the PN and of the small Democratic Radical Party are having intensive talks to determine whether they can put forward this week a public proposal that would offer exactly the same buyout terms as Allende's to the stockholders but that would be included in a counter version of a nationalization law. The distinguishing difference in the alternative nationalization would be decentralization rather than centralized state control. Each bank would be run by the workers and employees as a cooperative. As with everything else, the opposition is less than united and the diehard conservatives of the Nacional Party are still opposed to any accords, public or otherwise, with the Christian Democrats. The latter are now controlled by the Frei faction and are much more disposed to negotiate realistically than even a fortnight ago; the Nacionales are still led by those who consider Frei to be Chile's Kerensky and who still have the conviction that a deal with the Socialists is preferable and possible. However this faction of the Nacionales is weakening daily as their supporters are hit from every side; it is not impossible that a change of leadership will be effected in the near future with party head Onofre Jarpa supplanted.

9. As for the four foreign banks (two US being Bank of America and First National City) the current private report is that Allende intends to pay full book value (\$12,000,000 total for the four), that he will

give the four the full calendar year 1971 to settle their in-house affairs, that the doors of the four will be closed by July 1 and that if they wish, they can then maintain representatives here to deal with foreign banking. The obvious purpose is to keep open the lines to Western credits and to give a fair enough deal so as not to prejudice such access. (End Part III).

Korry

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**47. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, January 6, 1971, 2059Z.

59. Subj: The Evident Becomes Obvious (Part IV of IV). Ref: Santiago's 43, 46 and 52.

1. By any objective measure, the actions of the Allende govt please the majority of the Chilean people. Moreover the majority of Allende's actions will benefit the mass. And "mass" is the key word for the Marxists.

2. Although the Communist Corvalan can state with chilling accuracy that this govt does not intend to be "reformist" and does not intend merely to increase employment, effect redistribution and augment production, Allende is building his irresistible momentum by such reforms. What political party can be opposed to higher wages, price roll-backs, greater social security benefits and a massive redistribution of income? What politician can argue against "land reform" that will initially expropriate only the 3500 to 4000 farms that remain above the maximum limit of 200 basic irrigated acres? For the mass of peasants with tiny holdings, the word "cooperative" is not and should not be a discouraging perspective despite the simultaneous use of "state farm".

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<sup>1</sup>Summary: In this fourth of four related telegrams titled "The Evident Becomes Obvious," Korry described Allende's use of populist reforms to build support amongst the majority of the Chilean people and the ways in which Allende was trying to control the media and consolidate power in Chile. The Ambassador concluded by highlighting the UP coalition's desire to remain unified.

Source: National Archives, RG 59, Central Files 1970–73, POL 2–2 Chile. Secret; Limdis. Repeated to Asunción, Bogotá, Bonn, Brasilia, Buenos Aires, Canberra, Caracas, Guatemala, Kingston, La Paz, Lima, London, Madrid, Managua, Melbourne, Mexico City, Montevideo, Ottawa, Panama, Paris, Port au Prince, Port of Spain, Quito, Rio de Janeiro, Rome, San José, San Salvador, Santo Domingo, Tegucigalpa, and USCINCSO. Reference telegrams 43, 46, and 52, Parts I–III, are Documents 44–46.



In the interim Allende has cancelled the land tax for all those with incomes of less than some \$3000. What is objectionable about reducing the cost of credit by 25 percent and promising to make it available to the small industrialist, to the small farmer and to the cooperatives? What is more logical in a country of only 9,300,000 than to trim from eleven to three the number of auto companies? What is more sensible than to create mass money supply so that domestic industries will get a volume sufficient to lower real costs and so that the society as a whole can concentrate on increasing output and boost its non-traditional exports? Who would oppose a half liter of milk to every child daily, free school books, free medicines, greater access to university and even "peoples courts"? This last idea is justified as unclogging a court system overloaded with minor cases that could easily be decided on a neighborhood level by representatives of the people.

3. The evident truth is that Allende is doing a great many things that most people would agree are good for Chile and he is doing nothing that he did not say he would do prior to the election. He has so far reneged on only one of his electoral planks—to leave the IMF—and who would fault him for reversing that pledge? He said he would wage class war against a small minority that had inordinate power and wealth; they are his only domestic victims so far. He said he would reduce Chile's tremendous dependence on the US. He is fulfilling that goal. Because the conservatives in this country are, and have been so deservedly discredited and because the anti-Marxists threw away their numerical majority in blind parochialism, the majority of the middle class in this unique land with its 90 percent literacy and 75 percent urbanization is not at all perturbed by what has occurred in the first two months of the Allende govt. I might add that the majority of US press, itching with a hairshirt of guilt, sticks to a birdseye view and flutters with joy.

4. DeGaulle when he visited Chile several years ago described it as "the pilot country for Latin America". Regis Debray, a young revolutionary whose ideas contributed to the May 1968 French upheaval that led to the downfall of DeGaulle, said last night in his first press conference that the Chilean revolution was a "colossal" event and that it would have repercussions in Europe as well as Latin America. Debray is much intrigued by the novelty of the Marxist methodology here and is delaying his departure to Cuba to learn more before he begins applying his experience in other parts. For what it is worth, I think both Frenchmen, like De Toqueville about the US, have an extraordinary perspicacity.

5. Two months of observing Allende has reinforced my original appreciation. He is a dedicated socialist; he is a shrewd politician; he is not a Communist; he is determined to serve six years, to effect his pro-

gram of establishing a “Republic of the Workers”, to do it within a legal framework. He wants Chile to be independent in the sense of not being dependent on a foreign country, be it the Soviet Union or China. But he is unalterably and implacably opposed to all that US society represents today, starting with the profit motive and our historic record in L.A. Except where the US will agree with the USSR, he will oppose us in every international forum and in some cases such as the Law of the Sea, he will stand against both the superpowers. So far, there is nothing exceptionable in the foregoing insofar as other areas of the world are concerned. But he will cooperate in every manner possible to have the Chilean experience emulated in every Latin country and indeed, his success here has already had manifold effects. For the US therefore, it means a complete overhaul of its assumptions about Latin America, particularly South America. That political genius of Chilean Communism, Velodia Teitelboim, said in an interview in Montevideo last month, that Popular Unity proved that President Frei had exaggerated the importance of the US in Latin America and that Foreign Minister Valdes had understood and enacted a contrary foreign policy that had great significance. In that sense, DeGaulle’s terminology might well be prophetic.

6. Allende has set in motion the greatest change Chile has known since independence. Leaving aside foreign implications, Allende would be a rare leader indeed if he could control the forces he has loosed. He is enacting a populist program that will reinforce the already sharp appetites of a population that was, under Frei, emerging rapidly from backwardness, marginality and isolation. He is establishing a bureaucratic centralism that will directly or indirectly convert every nonpolitical organization in Chile into a full or quasi arm of the state. This combination has inevitably led elsewhere to greater controls, more centralism and finally to repression.

7. Allende and his associates are raising hell publicly with the Supreme Court’s reversal of a lower court’s decision to lift the congressional immunity of rightist Senator Raul Morales on charges growing out of the Schneider assassination. At the same time he is deliberately encouraging prosecution of such dubious cases as of the Edwards Bank and is seeking to establish a kangaroo court for the copper nationalization. In sum he is arranging events in order to justify an overhaul of Chile’s traditional independent judiciary. He is doing it legally but it is the threat of the mass pressure that will produce the result he and the Communists want.

8. Allende is also raising hell publicly with the two leading anti-Communist newsmen in radio and privately his lieutenants are beginning to put pressure on some of the few remaining non-conformist voices in the press. TV is already his. With decreasing advertising and

consequent decreasing numbers of news pages, with increasing dependence on the state for revenue, for price increases, for credit, for labor peace and for other govt favors, can anyone seriously propound the notion that the conditions for a free press genuinely exist? (*El Mercurio* has many problems not the least of which is that Agustin Edwards's sister Sonia, the only Edwards on the board of directors and an Allendista, is now hopelessly in love with the extreme left wing Socialist Senator Altamirano.) Perhaps most illuminating is the case of Dario Saint Marie, known as Volpone here the sole owner of *Clarín*, the most populist of all Chilean papers, second only to *Mercurio* in circulation and a staunch supporter of Allende. Volpone is a millionaire many times over as a result of his start in life as a successful blackmailer, drug-runner and today, as a crypto-racketeer. *Clarín* has been licensed to print money with the Frei govt buying peace from *Clarín* by stuffing it with govt advertising and an aid special letter of credit to buy new modern equipment. Now Volpone has discovered that the paper has been effectively captured by the Communists through their control of the shop journalist union. Although a close personal friend of Allende, his complaints have so far been unavailing and he may well try to sell the paper and quit Chile to enjoy his fat foreign bank accounts. But he is so vulnerable that the Communists are standing firm and the outcome of this test of amoral wills is going to have wider implications.

9. Wildcat strikes unless prompted by the govt have almost disappeared since Allende came to power. There has been one at the Chuquicamata oxide plant for one week but as I have noted in the past that mine has the most bloody-minded workers in the country and they will not be easy to cow. The govt has already won the support there of all the unions at the mine against the strikers (whose walkout is totally unpublicized in the free press) and it would not be rash to predict that the govt will have its way. Since the Communists control the national trade union CUT, and since CUT has been designated the sole voice of labor in its dealings with gov, the demise of pluralistic trade unionism is not far off.

10. Political parties and indeed democracy depend in the last analysis on freedom of expression and the effective capacity to have that expression reach the electorate. The PDC can appear on TV debates and state its views; it can publish its one newspaper with a claimed circulation of 25,000 (as opposed to *Mercurio's* estimate of 15,000) and it can broadcast on the one of the 29 stations in Santiago that it owns. The other opposition parties have no Santiago newspaper per se although the *Mercurio* trio must be credited to their cause and only two remaining radio stations, neither of which will be in hands unfriendly to the govt for long since a combination of tight money and of govt blackmail against the current owners are forcing the proprietors to consider only "friendly" bids.

11. Political parties depend also on mass organization and structure. The Communist Party had its way this week, gaining Allende's concurrence against initial Socialist opposition, to convoke the Santiago provincial apparat that the U.P. organized for Allende's campaign so that the governing unity will be reinforced for the municipal elections. Hardly a worker or a small or large businessman will not be forced to buy the equivalent of "protection" by contributing to the U.P. campaign for the nationwide municipal elections in early March. Many will do so gladly in gratitude for the many benefits that Allende has conferred. But many with meager means and with doubts will cough up because of the peer pressure and out of fear; hence they will neither be able to work for or contribute to opposition parties. Once again a birds-eye view misses the subsurface.

12. I have cited a few of the instances by which Chilean democracy and traditions are being altered in substance if not in appearance. The point is that a momentum is being developed that will give the Unidad Popular a huge vote in the municipal elections, that between them the Communists and Socialists may get 40 percent of the total vote, that these two Marxist parties will not fall into the trap of competing openly with each other but will concentrate its efforts on grinding down the opposition and that this Marxist combination is establishing a tight bureaucratic centralism that will develop its own accelerating antipluralistic thrust. A great many romantic Chileans believe they can split Allende from the Communists. The Communists need Allende indispensably as the umbrella under which they legitimize their push for power; nothing can unstick them. Senator Altamirano, who was considered to be an anti-Communist because of his Maoist views, told *Punto Final*: "Socialist-Communist unity is and will be the base for all our action which in turn ought to be founded on a solid identity of both strategic and tactical goals." Debray makes the same point of the need for Marxist unity with the Revolutionary Left (MIR) acting as the defender of the revolution to prevent the govt or the U.P. from being entrapped by becoming bourgeois or by being softened by the bourgeoisie. Significantly Debray says that Allende understands this entrapment threat and will combat it. There are others, particularly in the PDC, who argued that the U.P. could not run its economy without their cooperation; they are dead wrong. Not only does the U.P. have just as many trained technicians of more or less equal calibre, but they have an ideological outlook that is cohesive and they have the labor discipline and the mass structure to enforce their will. PDCers will be given the option of being loyal or of being outcasts.

13. For all these reasons, the opposition is now hastily confronting the realities and the most intelligent of their leaders are talking the kinds of deals that might make some sense. Here are some short-term possibilities:

A. The Nacional Party has designated Deputy Silvia Alessandri to be its candidate for the senatorial seat vacated in Magallanes by Allende. She has not yet formally accepted. The PDC has not yet named a candidate. There is a chance that a deal will be arranged whereby Alessandri withdraws her name at the last moment before the election and gives freedom of action to her supporters. The anti-Marxists have a majority in Magallanes and a victory for the PDC there would do much to balance the simultaneous weak showing they expect in the municipal elections.

B. An overturning of the U.P.'s control of the Mesa Directiva in the Chamber of Deputies and its replacement by a coalition of oppositionists.

C. A coordinated resignation of various private enterprise association heads rather than the inchoate and ineffectual individual dealings.

D. Successful efforts to alter various legislation in the Congress submitted by Allende.

E. Greater effectiveness in publicizing in the Western world the sharply increasing preoccupations so that the [garble] here will provide a better base for opposition.

14. None of these measures will alter the inevitable thrust of events but they might provide enough footing to enable the opposition to assure enough pluralism for later confrontations when the consequences of state control of the economy begin to be felt. It will be the politicians and the mass of the people, not the army, that might save Chilean pluralism. The armed forces are considered totally safe now by the Communists and Socialists. They are not a political force in Chile; they are always for order and the fatherland. (End Part IV)

**Korry**

**48. Backchannel Message From the Ambassador to Chile (Korry) to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Santiago, January 29, 1971, 2256Z.

719. 1. In addition to Santiago 544 via State channels you and President should be aware of fulminations against administration by some major US businesses here. Embassy sending separate cable on Anaconda's statements including their comments re my position and their interpretation of *Washington Post* story. Others echo them.

2. As I had predicted to you, leakage about my tenure would strengthen the argument of those who on Oct. 30th had advised Allende in writing to play upon the alleged divisions between State and the White House and to force my removal in order to strengthen Allende's position in the US, in Chile and elsewhere. That leak was made some weeks ago as I anticipated it would be and as I was aware that it had been.

3. The wording of the Dept's prepared press guidance in response to the *Post* story will only serve to confirm that story and further damage the extraordinarily difficult negotiating position we have here. It will without question undermine the President's authority. At a time when all the Chilean non-Marxists are saying loud and clear in daily print what you said in your Chicago backgrounder, the sad truth is that there are a great many misguided people in Washington who seek to justify their own overtaken positions, unaware that it is not social justice or social systems that should be of concern but the effect on Soviet or Chinese strategists who do understand the opportunities afforded by Allende's policies in a broad area once considered "special" for the U.S. and whose perceptions do affect the security and the structure of the US. When the Chilean Under-Secretary of Foreign Affairs can mock the U.S. in the crude authentic language reported in Santiago 565, he makes the obvious point.

4. I shall, of course, continue to keep my silence, outraged though I and my family confess to being, as long as I am the President's representative. I suggest you read the Anaconda cable and I would appreciate your comments. Warmest regards.

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<sup>1</sup> Summary: In this message, Korry reported on the criticism of the Allende administration by U.S. businessmen in Chile and discussed the implications that the reports of his departure from his ambassadorship had had on U.S.-Chilean relations.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 423, Country Files, Latin America, Chile, 1971. Secret; Exclusively Eyes Only. A handwritten notation on the first page by Haig reads, "Arnie, in envelope." Underneath Haig's notation, "Xerox copy sent—n.m." is written in an unknown hand.

#### 49. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, February 9, 1971, 1720Z.

768. Department pass Salzman/OPIC. Subj: Allende.

1. After very convivial dinner in honor of Amb Letelier at residence last night, MinInterior Toha drew me aside to say President Allende wished me to know that he had been very interested and encouraged by Toha's account of conversation with me Jan 21 (Santiago 395). In particular, Allende wanted me to understand GOC's disposition to seek to avoid dispute over copper and that he had charged Toha with sounding me further on details. How much OPIC insurance was involved Toha then asked.

2. I ducked numbers in reply since I did not wish to set false price on negotiations, particularly one that would not satisfy companies nor resolve problem. I explained guaranties were very complicated in that they could apply to investment, to debt or to both. Essence of problem was that we, as Chile, had our procedures, our politics, our values; the challenge to diplomacy was to seek to reconcile the different norms; the manner was to avoid formulae that force inflexibility.

3. What specific suggestions could I make to the President, Toha asked. To try to retain the greatest flexibility in as many of the issues involved as possible, be it evaluation, term, interest, etc. in the legislation before Congress. Specifically, I would suggest that GOC give consideration to advantages of nationalizing the enterprises rather than their assets since the former did not affect third party debts. I did not wish to be misinterpreted as voicing any kind of implied threat but I did think it important that the honor and prestige of Chile insofar as previous agreements by its govts be upheld to the maximum extent consistent with Allende goals. The US did not oppose nationalization as long as it was executed in a manner that took into account our norms and interests and as long as it did not signify discrimination and unilateral imposition. There was mathematical calculation involved too: what would be the long range cost to Chile of a short term imposition of its will on copper or iron companies? Toha agreed. He said Frei had informed him of my role in the 1969 Anaconda negotiations and therefore

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<sup>1</sup> Summary: In this telegram, Korry reported on discussions with different officials in the UP government, some of whom wanted a quick nationalization of major foreign companies and others who supported a slower, more pragmatic approach to "Chileanizing" the foreign sector of the economy.

Source: National Archives, RG 59, Central Files 1970-73, INCO 15-2 CHILE. Confidential; Immediate; Exdis. Repeated to Panama.

the govt wished to stay in close contact with me so that a mutual maximum effort could be made to avoid any disturbance to our rels. Allende fully shared this view and Toha hoped that we could continue to talk. I said we could but that I did not wish to substitute myself for the companies and that I had made the same points to those members of opposition parties who had sought our views.

4. At this point MinMines Cantuarias who has a fraction of the style, wit or political sophistication of Toha wandered up to say he hoped I would use my influence to persuade Bethlehem to respond favorably at the following day's meeting (with CAP). I replied that I was not in the negotiation but that if I could venture a suggestion, it would be that he keep in mind the importance of not locking doors to possible solutions and that in diplomacy patience rather than precipitation was a material of mutual understanding. Toha listened attentively to this exchange which I preferred not to prolong.

5. Subsequently FonMin Almeyda drew me into a lengthy conversation in which he too focussed on copper. (Incidentally he volunteered the comment that I made in Santiago 755 to the effect that in Sunday night's TV interview he had deliberately mentioned his conversations with me so as "to dispose of" any rigorous interrogation about the *NYTimes* article and so as to demonstrate that we did have normal relations). Almeyda said that unlike Cuba we should together seek to avoid an escalation of problems. In Cuba specifics had been inflated by ideological or global considerations. If we could isolate problems such as copper so as to deal with them practically they might, despite their knottiness, be resolved.

6. Almeyda said he was an "extremist" by our definition and by his view of the evolution of world relationships. However he followed Mao's advice in separating short-term tactics from longer-term strategy. He did not doubt that US policy had not changed fundamentally insofar as its view of what might occur in Chile, but he hoped we would not fall in the trap of a "super-pragmatism" in which each specific problem was seen as part of global strategies. He felt this was the tendency in Washington; he could understand the motivation of our worldwide outlook; he trusted that we could match his tactical bent.

7. Almeyda said there were those in the Popular Unity who argued that since US policy had not changed and that since it could not change its view of Chile that the GOC should not waste time and should push forward with its programs and damned the consequences. He was opposed to such policies; he was prepared to help me, if I wished to avail myself of his good offices within the UP and the GOC and to match his pragmatism although he was not charged with the problem of copper since it was much more general one than foreign affairs.



8. I responded in like vein. I could not speak for the USG world-wide view insofar as it related to copper or even to Chile since the dynamics of foreign rels and of US society signified movement; US foreign policy was not a cybernetic process. I was not, as he was aware, a partisan of Popular Unity; I had doubts as to where it might lead. But my views of Chile's revolution had not blinded me to the overriding truth that the function of diplomacy was to contain not complicate problems. As he had reminded me (by references to mutual Yugoslav friends) I had the privilege of playing a role in the resolution of profound problems between the US and Yugoslavia in the 1949–50 period; then as now it was a matter of utilizing mutuality of interest to reduce tensions and to offer new perspectives. To the extent that I could influence the process, I intended to do the same in Chile. I was grateful for his offer.

9. Comment: These combined efforts by the ranking Socialist members of the Allende cabinet (and Toha is the single closest intimate of the President) do show the kind of pragmatism to which I referred in my brief recent disquisition on Chilean "convivencia" when confronted with the possibility of firm confrontation. I remain persuaded that there is a chance for a deal if we wish to have one. I am buttressed in this feeling by the talk I also had yesterday with Zaldivar and his message from Irureta the PDC President with whom I shall be lunching Thursday. I do not wish to minimize the difficulties inherent in the nationalizations problem nor dangle a false hope that any negotiation will be easy or meet all our hopes. But the essential question is whether we wish to avoid confrontation if it can be avoided, whether we wish to make the effort. My view now as in October when I proposed a talk with Allende, is that we should, and now is the appropriate time to do so. If the answer were affirmative, I would do what I did in 1969 in the first instance—seek to define with both companies and govt the possible parameters of a settlement; if they existed, to encourage the parties to move towards an equilibrium that was acceptable if imperfect. Then as now our involvement is essential to the GOC. (A septel will be sent providing other details of dinner in which US business reps (Anaconda, Kennecott, Dow, First NCB, Bethlehem) had opportunities to propound their views and even to do business.)

Korry

**50. Intelligence Memorandum<sup>1</sup>**

ER IM 71–30

Washington, February 1971.

**Chile's Economic Vulnerabilities****Introduction**

Allende's program to nationalize US properties in Chile may be setting the stage for a serious confrontation. The US government has insured several properties against uncompensated nationalization and stands to lose as much as \$300 million if Chile refuses compensation. US legislation calls for an aid cutoff in the event of uncompensated expropriations of US business interests. This memorandum discusses the outlook for the Chilean economy, its vulnerabilities, and the likely impact of US economic sanctions that might be considered.

*Recent Economic Trends*

1. Chile's economy has performed poorly in recent years despite record copper prices averaging more than twice those in the early 1960s. During the last three years there was also a massive \$560 million inflow of capital to expand the copper industry, and foreign aid inflows of about \$100 million annually. Even so, the average rate of economic growth in real terms fell from 6% annually during 1965–66 to less than 3% during 1967–70. Per capita income has stagnated since 1966, while inflation increased from a low of 17% in 1966 to almost 40% in 1970. Investment outside the copper industry has fallen since 1967 and, except for projects receiving government funds, private business actually has been disinvesting.

2. Although the data are incomplete, it seems likely that gross domestic product (GDP) fell in 1970 despite increased copper output and agriculture's partial recovery from drought. Private investment was especially depressed because of the uncertainties surrounding the election, and industrial output fell sharply following Allende's victory in September. Domestic trade was also severely disrupted during the

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<sup>1</sup> Summary: This memorandum provided an overview of the Chilean economy and discussed the impending conflicts between the Allende government and the United States over nationalization of U.S. businesses. In addition, it presented a number of potential United States responses and outlined the advantages and disadvantages of each.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. IV. Secret; Sensitive; No Foreign Dissem; Controlled Dissem; No Dissem Abroad. A notation on the first page indicates the memorandum was prepared in the Office of Economic Research, Central Intelligence Agency, and coordinated within CIA. The memorandum was received at the White House on February 12. A notation on the cover page indicates it was seen by the President.

year's final months. Because of these factors, we estimate that per capita income dropped appreciably last year and probably was not much higher than in 1964, when the Frei administration began.

3. Chile has traveled a long way down the road to socialism in recent years. The state's economic role, already large when Frei took office, was greatly expanded during 1965–70. Increased taxes, a wage-price policy that furthered income redistribution, and increasingly vocal attacks on the capitalist system strongly discouraged private enterprise. At the same time, an ambitious agrarian reform, although falling short of its goals, radically changed land tenure in some provinces and attitudes toward private property rights. These programs awakened more desires than could be satisfied—especially after economic performance generally began to deteriorate—thus setting the stage for Allende's more radical programs.

#### *Allende's Inheritance and Initial Measures*

4. Allende did inherit some substantial assets, however. The copper expansion program begun in 1967 now is nearly complete and will about double capacity. Foreign exchange reserves accumulated as a result of extremely high copper prices during most of 1969–70 amount to about \$400 million. And, lastly, the foreign loan pipeline contains more than \$400 million in authorized but unutilized credits.

5. Allende appears determined to spend this inheritance, if necessary, to further his economic programs and consolidate political control, and thus "make the revolution irreversible." To enhance his popularity, Allende has adopted wage, price, and budgetary policies which will substantially boost real incomes for most Chileans during 1971. Since his inauguration in November, money wages have been increased by 45%, and prices (which traditionally have risen rapidly after wage adjustments) have been frozen. The imminent takeover of the banking system will weaken political opposition by giving the Allende administration effective control over most businesses. At the same time, accelerated radical agrarian reform and government toleration of peasant land seizure are beginning to destroy the economic base of one of Chile's most important conservative groups—the medium- and large-size farmers in the southern provinces, especially in Cautin, where former President Alessandri won a majority in the September election.

#### *Chile's Short-Term Prospects*

6. Chile's economic prospects for the next year or so were unfavorable before Allende's election and have since worsened. Current policies will generate increasing managerial problems and shortages and prevent economic growth for some time. However, a severe economic downturn is not likely. The urban unemployment rate did grow from

6% in September 1970 to 8% in December, but Allende's wage and price policy should help to sustain output, sales, and employment because decades of inflation have conditioned Chileans to spend their incomes rapidly. Moreover, if increased as planned, public investment would largely offset the loss of private domestic and foreign investment, which accounted for less than 30% of total investment during 1967–70.

7. The prospective sharp increase in consumer expenditures threatens shortages of foodstuffs, intermediate products, and manufactured consumer goods in the months ahead. Because private investment in manufacturing has been extremely depressed for the past four years, we doubt that output can be expanded to meet demand—especially since private production incentives have been largely eliminated. Supply problems will be aggravated if, as we expect, the radical agrarian reform continues apace. Wheat output may increase this year, partly because much of the crop was planted before Allende's election, but private farmers—who still supply most of Chile's foodstuffs—have since sharply cut back their plantings of other crops and have begun to slaughter breeding stock. Since Allende will likely try to avoid rationing or other unpopular steps, he probably will try to minimize shortages by boosting imports.

8. Increased imports, possibly compounded by failing farm output, could force Chile to begin spending its foreign exchange reserves. Export earnings this year could fall by \$200 million because of reduced copper prices, and capital inflows also are likely to decrease sharply. However, because capital goods imports will also decline and profit remittances of about \$70 million to the copper companies will probably be eliminated, Chile is unlikely to suffer a severe balance-of-payments deficit. The balance of payments may well deteriorate during the next few years, however, especially if copper prices remain low.

#### *Economic Vulnerabilities*

9. While the economy faces many problems in coming months, it will not thereby become particularly vulnerable to economic sanctions. Investment is already largely concentrated in government hands, and the complete loss of US investment capital would not have a major immediate impact, especially since the copper expansion program is close to the end. Moreover, it would almost certainly be extremely difficult to enlist West European or Japanese support for any trading sanctions against Chile because these nations have gone on trading with Castro despite OAS-made sanctions and because Chile meets a major portion of their copper needs. For his part, Allende has apparently agreed not to take action against their interests in Chile. In any case, sanctions would boost Allende's popularity and provide an excuse to tighten political control and take desired but unpopular economic actions.

10. A US embargo of Chilean goods by itself would not have much impact. The United States purchased only 17% of Chile's exports in 1969, compared with 22% in 1968, and with demand for imported copper down in 1970, the US share of Chilean exports probably dropped further (see Table 1). Copper, which makes up most of US purchases from Chile, could be diverted at least in part to other markets (see Table 2). Other exports to the United States—fresh fruits and vegetables, iron ore, nitrates, fishmeal, wine, and various other small items—approximate only \$40 million a year, and about half of these could be sold elsewhere. The remaining half, consisting largely of animal products and fresh fruits and vegetables and making up about 2% of Chile's exports, would be more difficult to sell. However, such items may not be available for export, because of disruptions from agrarian reform.

Table 1  
Chile: Direction of Trade  
1969

	Percent of Total	
	Exports	Imports
United States	16.9	38.5
European Economic Community	27.3	19.3
United Kingdom	14.3	5.3
Other Western Europe	6.9	6.4
Japan	13.4	2.0
Latin America	10.6	25.4
Other	10.6	3.1

Table 2  
Chile: Copper Exports, by Destination

	Percent of Total						
	1964	1965	1966	1967	1968	1969	1970 <sup>a</sup>
European Economic Community	28.2	34.9	38.0	41.3	34.5	40.4	48.5
Of which:							
West Germany	12.5	15.7	22.7	21.2	19.6	20.8	27.0
France	3.2	3.4	6.1	6.3	5.4	7.7	7.5
Italy	3.9	4.7	6.9	8.7	7.8	9.9	9.3
United Kingdom	16.5	15.9	17.0	16.1	17.4	17.4	14.2
Japan	1.9	2.8	4.3	6.2	8.4	9.3	8.8
United States	41.0	37.5	31.4	23.4	25.3	17.2	15.6
Other	12.4	8.9	9.3	13.0	14.4	15.7	12.9
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> Estimated from data for first nine months.

11. A US prohibition against imports of products containing Chilean copper, similar to the action taken against Cuban nickel, undoubtedly would be more harmful to Chile than direct trade sanctions. However, such a policy would be costly to enforce and would create problems with US trading partners. In any case, this policy has not proved particularly effective in blocking Cuban nickel sales and would be unlikely to prevent Chilean copper exports. At best, it probably would create a situation in which Chilean copper was sold at a small discount from the world price.

12. Chile is not critically dependent on US imports. The United States has been a major supplier of capital goods, intermediate products, and technical expertise—especially to the copper industry—but these items are, in most cases, readily available from non-US suppliers. Moreover, experience with Western economic sanctions against both Rhodesia and Cuba—and before them North Korea, Communist China, the USSR, and Eastern Europe—has shown that severing traditional sources of supply does not lead to severe economic problems, although costs may be increased and economic growth slowed. Because a smaller portion of the Chilean capital stock is of US origin than was the case in Cuba, the impact of such measures as spare parts denials would be more limited.

#### *Operating the Copper Industry*

13. US mining companies operating in Chile state that Chileans can operate the mines despite the loss of technicians now taking place, although efficiency will fall and output probably will be less than under US management. Although most of the industry's capital equipment and supplies of reagents and other essential items are of US origin, denial of such items would have little immediate impact. The technology used is common to the copper industry, and supplies of reagents, most capital replacements, and mining technicians are available in Western Europe, Japan, South Africa, and Canada as well as in the Soviet Union and Eastern Europe. Moreover, Chile has inventories of spare parts and supplies, in most cases enough for a year or more. Over the longer run, inability to obtain US equipment and supplies would increase industry costs, but Chile would be able to limit the impact by cannibalizing equipment and purchasing replacements outside the United States. Since Chile produces the world's lowest cost copper, moderate cost increases would not make the industry uncompetitive, although they would reduce government copper income.

#### *Denying Other Imports*

14. Short of mounting a naval blockade and interfering with coastal shipping, Chile would not be vulnerable to a US-imposed cut-off in oil or other critical supplies. About half of Chile's crude oil re-

quirement is produced by the state-owned oil company (ENAP) in the Magallanes region, and three state-owned refineries meet most petroleum product requirements. Chile now imports most of its crude oil deficit from Venezuela, and some refined products are obtained from Curacao and other sources. If Venezuela and Curacao agreed to halt shipments to Chile, crude oil would be available from state-owned oil companies in North Africa or the Middle East, and refined products could be obtained in Western Europe or from Communist countries. Chile also probably could import the necessary amounts of oil from Bolivia, whose crude oil is now largely exported via pipeline through the Chilean port of Arica. Although Bolivian crude oil has a higher gravity than that Chile now uses, it could be processed if necessary. Chile recently imported 140,000 barrels of this crude oil to run refinery tests.

15. A denial of US capital goods and spare parts for the manufacturing and transport industries would inconvenience but not appreciably harm the economy. Similar goods would be available from both Western Europe and Japan. In contrast to Cuba, where most transport equipment was US-made, Chile has much equipment of West European manufacture. The only serious limitation on Cuba's imports from Western Europe has been a severe hard currency shortage—a limitation Allende will not face.

16. Chile is highly dependent on imports for foodstuffs and agricultural raw materials, but the United States is not a major supplier of either. Imports of about \$175 million in 1970 supplied 20% of Chile's foodstuffs. These imports consist mostly of cereals, sugar, and meat. With demand likely to increase sharply because of increased real wages and population and with farm output likely to stagnate at best, agricultural imports will have to rise sharply if rationing is to be avoided. Imports of agricultural raw materials amount to another \$25 million and also will probably have to be increased.

17. Because higher real wages for Chile's lower classes are quickly translated into demand for food, foodstuff requirements could increase by 20% or so in 1971/72. This probably would mean a doubling of food imports, if major shortages are to be avoided. Increased demand will be greatest for quality foods—milk, poultry, eggs, meat, and fruit. Because the livestock industry is being particularly hard-hit by agrarian reform, the need to import or ration animal products will be felt quickly. With the ending of the current slaughter of breeding stock (which comes on top of the drought losses of 1969–70), the beef shortage could be severe. Milk reportedly is already in short supply as a result of these factors. Aside from relatively minor PL-480 shipments and some commercial wheat sales, the United States has not been a major foodstuff supplier for Chile. Most meat imports are from Argentina, and Chile has been expanding imports of cereals and dairy products from New Zealand,

Australia, and France. Chile recently concluded agreements with Cuba to exchange temperate zone agricultural products and wine for sugar.

### *Monetary Sanctions*

18. Chile is not particularly vulnerable to a cessation of US government aid. According to several estimates, Chile has a backlog of more than \$400 million in long-term credits usable over the next three years; these are mostly West European suppliers credits, Soviet loans, and loans from international organizations. Receipt of some of these funds requires Chile to maintain interest and amortization payments on its external debt which average almost \$300 million annually during 1971–73. For example, in the event of an uncompensated expropriation, new loans from the World Bank would halt because of established policy. Only about \$70 million of the total backlog consists of US official loans (see Table 3). US sanctions would unquestionably give Chile an excuse to default on its \$900 million debt to the United States. Because interest and amortization payments due the United States in 1971 will total \$65–\$70 million—against only about \$30–\$50 million in new disbursements scheduled under all existing programs—Chile clearly would not be the loser. In following years, scheduled US disbursements fall sharply, while Chile's repayment obligations increase.

Table 3

Chile: Unused Development Credits  
End of 1970

	Million US \$
United States (AID development loans)	24
Export-Import Bank	48
World Bank	52
Inter-American Development Bank	99
Belgium (for expansion of state mining enterprise)	46
France (for Santiago subway)	52
USSR (extended in 1967)	55
Estimated other	24–124
Total	400–500

19. Prior to Allende's election, US commercial banks and other financial institutions provided about \$250 million in short-term credits. This total has already been reduced by about \$50 million and, because of the dismal outlook for private enterprise in Chile, many banks are attempting to reduce their exposure still further. Chile probably will be able to substitute West European trade credits for declining US trade credits—especially if its import pattern changes—but we doubt that it



will be able to replace US loans to Chilean banks and corporations. However, Chile wants to maintain financial respectability and probably would continue to pay these obligations for at least a year or so even if this meant drawing upon reserves. Interest on these private US credits currently runs about \$15–\$20 million per year. The balance is being reduced as rapidly as possible, however, and the total outflow could reach as much as \$50–\$100 million during 1971. Official sanctions would give Chile an acceptable excuse for blocking this outflow.

#### *Other Countries' Economic Reactions*

20. US sanctions would offer Chile's other trading partners a significant commercial opportunity. The British and French already have shown their eagerness to expand exports to Chile. Japan depends heavily on the US market and might not aggressively pursue trade outlets in Chile for fear of offending the United States. However, the Japanese are the largest non-Communist buyer of Cuba's sugar and probably would not refuse to purchase increased amounts of Chilean copper and iron or supply Chile with capital goods. US sanctions would also give the USSR a better opportunity to expand commercial and military ties with Chile. Chile would have strong motives to make prompt use of the Soviet economic credit already extended and to seek others. Sanctions also might rapidly lead to Soviet military sales to Chile.

#### Conclusions

21. The Chilean economy has fared poorly in recent years, and little or no growth is in prospect for 1971. A severe economic downturn this year is not likely, but expropriations, business failures, and stepped-up land reform will doubtless cause some interruptions in output. Allende apparently has adopted a policy of spending to achieve immediate popular support and consolidate his control. Workers' real incomes will rise sharply, and Chile will probably substantially increase its imports of foodstuffs, consumer goods, and raw materials. Although exports will fall in 1971, capital goods imports and profit remittances will also drop sharply and Chile probably will not severely deplete its foreign exchange reserves.

22. US economic leverage is small in Chile, and economic sanctions would probably be of limited impact on Chile's economy over the next year or two. The United States took only 17% of Chile's exports in 1969 (and probably less in 1970), and most of these could be sold in other markets. The United States has been a major supplier of capital goods to Chile, but blocking future sales would have only a small short-term impact because Chile would be able to purchase similar goods from Western Europe and Japan. Sanctions would probably improve Chile's financial position in the short run because they would give Allende an

excuse to default on US public and private loans. Disbursements on these loans at most will probably run only \$30–\$50 million in 1971, while scheduled repayments, interest, and called loans probably will exceed \$100 million.

23. In sum, traditional economic sanctions such as those used against Cuba probably would have little immediate adverse impact on Chile. Indeed they could be counter-productive. Sanctions would give Allende an excuse to tighten his political control, boost his popularity locally, and increase sympathy for his regime internationally as well as cause Chile to move more rapidly to strengthen its ties with the Soviet Union and Eastern Europe.

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#### **51. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, February 12, 1971, 2215Z.

875. Pass OPIC. Subj: Current US Options on Nationalizations. Ref: State 024218.

1. Setting aside external factors (effects on other countries) the Chilean elements are:

A. The GOC. Rumor notwithstanding, Allende will make the decision. His immediate aim is to maximize his bargaining position. Congress, unions, financial pressures, propaganda, investigations of mismanagement are among the array of weapons of which all but the first he controls totally and will use without inhibition. His present preference is to prevent a reaction that will damage a stagnant economy, that would jeopardize a thumping April electoral triumph, that would affect other sources of capital or that would make him a prisoner of automatic processes. Once he has the election results, he will take a new reading.

B. Congress. The Senate has passed a copper bill that introduces some flexibility but retains unacceptable provisions regarding past

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<sup>1</sup>Summary: This telegram outlined the emerging Chilean nationalization policy and set forth options for U.S. companies to pursue in the light of recent moves to expropriate property. The closing paragraph provided a grim picture of Allende's ongoing efforts to reshape Chilean society.

Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. Secret; Priority; Exdis. Repeated to Rome for Ambassador Martin. Reference telegram 24218 to Santiago, February 12, is *ibid*.

GOC commitments, evaluation methods for future compensation and debt. These provisions would not satisfy the companies, OPIC or international norms. The House will shortly begin consideration of the bill. There is a chance that some of the most intolerable conditions (the inclusion of Andina and Exotica excepted) of the measure will be either eliminated or significantly improved. If substantial amelioration were the result, OPIC's and Ex-Im's greatest concerns would be eased and our diplomatic problems would be tolerably contained for a time. We are informed by the Senate information office that the Upper House will "suspend sessions" Feb 17 to March 1 while the House "recesses" Feb 15 to March 1st. Presumably this summer vacation for the legislators will be followed in late March by similar pre-electoral recesses or by large scale absences to permit grass-root politicking. Thus it is unlikely that the House will act finally until after the Sunday April 4 elections, the results of which could have a determinant effect on final outcome of the bill. If the House altered the measure or if the GOC were to amend the constitutional amendment to include iron, the bill would return to the Senate. In other words it would be May before the 60 day cooling period for constitutional reform began during which time Allende's direct responsibility would come into play. Indirectly until then he will affect the timing and the content of the measure by an unlimited number of possible transactions with his disorganized and fearful opposition.

C. Political parties. Their present feeling is that the copper issue has been contained as a short-term electoral issue and that once the elections are out of the way, they will have some greater degree of maneuver. They are aware, at the same time, that other pressures could develop, particularly if the extreme Socialists now in command of the party and the MAPU can increase their leverage over Allende as a result of a poor showing in the elections. An impressive Allende triumph could cow the opposition parties into submission or could make him less heedful of extremist pressures and more responsive to responsible statesmanship.

D. The companies. Of the three copper companies, Andina is reduced to hoping that the bill will permit debt insurance recovery from OPIC and sufficient flexibility to allow a true negotiation with Allende. Kennecott tends to the same view with less hope for any satisfactory settlement; therefore it feels that the worse the copper bill, the faster and less difficult the collection of its \$80 million insurance from OPIC. Anaconda's only hope lies in the bill as the essential prerequisites for protecting its 51 percent received and for effective negotiations for the remaining 49 percent and Exotica. All three are interested in effective and adequate compensation in the form of copper.

E. The USG. Our parochial interests have been that:

(1) There be nationalization of equity interests only with companies debts being honored.

(2) Notes given for original Anaconda 51 percent be honored.

(3) A reasonable compensation package (price, term, interest) be offered for equity.

2. Unless the foregoing three conditions were met, the USG would not be satisfied and to this end, I have been working through the political parties, the GOC, the copper companies and Bethlehem. The basic tactical assumption has been that our first two objectives could only be achieved in Congress while the third objective can only be gained directly with the GOC after the first two have been achieved in Congress.

3. We have been seeking to utilize the Bethlehem negotiations to attain our three objectives by trying to establish favorable precedents for copper or alternatively prevent precedents that would adversely affect the copper companies. Bethlehem has provided a useful opportunity to sound out the GOC on its intentions. Then too a break-off in Bethlehem talks with GOC would bring to a head the issue of the expansion program (almost all the material is here) and criminal responsibility of Bethlehem executives for operations.

4. If we take into account each of the foregoing factors, including timing, I see no choice but to buy more time. A hard line by Bethlehem in which it refused to continue talks would tend to favor the hard-liners in the Unidad Popular without a countervailing impact of a hard USG line. It is not the opportune moment for the US to wave a big stick, be it because of its effect on congressional opinion here or in the US, or before world opinion. Moreover whatever I may say to the GOC will be used against us, as we have just seen in the leaks over our official *démarche* and the fantastic interpretations that have followed in the Chilean media. Thus far such leaks have not been harmful; on the contrary. But we need better preparation of public opinion at home and in LatAm, Europe and Japan before we can officially spell out what “serious consequences” signify. Since we may be one or two months from the season of negotiation with that everyman, Allende, we should regard the interim as an educative opportunity, with the political parties here, with the GOC thru its new Amb Letelier (who will be in Washington Sunday) and thru Washington’s contacts with reps of international institutions (if Galo Plaza is going to act as Allende’s messenger boy in the world then he should be used to greater advantage than mere exercises that inflate Allende’s ego prestige and power) and friendly capital-exporting countries.

5. A separate process of education is underway in Chile. The Soviets, we are told, are not being very flexible or generous. The Cubans are not very interested in much trade and are getting hard currency for their sugar. The British are not proving to be soft touches. The economy

is stagnant; unemployment at a high and administrative efficiency at a low. Fear dominates everyone including workers—fear of losing a job, fear of not getting a job, fear of what a state editorial house and single line of text-books implies, fear of the MIR and their impact on agricultural production, fear of the Communists and their domination of all other political parties, and the list could go on. Allende, a man of uncommon political sensitivities, has sensed this change of mood but is finding it difficult to deal effectively with it. He has continued to be as reassuring to everyone as he can, but words are not jobs and one man in a govt committed to traditional forms cannot yet control all the disparate forces at work despite the formidable laws that are available to him and that he uses. While the longer term implications of the internal contradiction between a democratic structure and the disciplines that socialism demands are of significance, the short-term effect is to make Allende prudent with us.

Korry

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**52. Paper Prepared by the Ad Hoc Interagency Working Group on Chile<sup>1</sup>**

Washington, February 12, 1971.

**OPTIONS PAPER ON COPPER NEGOTIATIONS WITH CHILE**

I. *The Issue*: What tactics should the USG adopt in trying to influence the terms which the GOC will apply in the expropriation of U.S. copper companies?

II. *Background*:

A. (Please refer to the paper entitled “Options for the United States in the Event of Expropriation of U.S. Business Interests by Chile” submitted for the SRG meeting of December 23, for previous discussion.)

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<sup>1</sup> Summary: This paper reviewed some possible policy options for the United States regarding its reaction to Chile’s expropriation policies. The alternatives ranged from a passive stance to different variations of a more active, interventionist stance.

Source: National Archives, RG 59, Central Files 1970–73, INCO-COPPER CHILE. Secret; Nodis. Drafted by Fisher. Crimmins forwarded this paper to Selden, Leddy, McAlister, Shaefer, Nachmanoff, Broe, Amerson, and Eaton under cover of a February 13 memorandum. (Ibid.) The paper was prepared for the upcoming Senor Review Group meeting on February 17. The minutes of that meeting are printed in *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 206.

### B. Recent Developments:

The SRG agreed on December 23 that in the event of expropriation the United States would use the six-month waiting period provided by the Hickenlooper Amendment to explore the possibilities for working out settlements. The negotiations would be left primarily to the affected companies, though the U.S. Government might provide assistance if appropriate opportunities arise. The Chilean Government would be advised of our position on expropriation and compensation. We would continue to apply present economic restrictions, but would be prepared to relax or intensify them depending on Chilean responses and the outlook for obtaining favorable results. If satisfactory progress on expropriation settlements were not achieved at the end of the six-month period, the question of application of the Hickenlooper Amendment would be taken to the National Security Council for its consideration.

The Department of State prepared, cleared with SRG principals and transmitted to the GOC on February 1 via Ambassador Korry a *démarche* informing it of the position of the United States on expropriation and compensation.

Our February 1 *démarche* registered our concern over the proposed amendments to the Chilean constitution on expropriation of major copper enterprises in Chile. These amendments hold little or no promise for just compensation for the U.S. properties covered. Ambassador Korry has taken opportunities before and after the major presentation of our position to impress on both opposition and government leaders the desirability of flexibility over rigid statutory requirements in dealing with the U.S. interests affected. An accurate public criticism of the proposed constitutional amendments by Senator Javits, also on February 1, received much attention in Chile. Pro-government media were quick to vilify it, but it may have caused some Chileans to have second thoughts on the copper amendment.

The proposed amendments are still under consideration in the Congress. On February 10 the Senate approved and sent to the Chamber a modified version of the original draft bill which leaves most of the provisions as harsh as in the original, preserves or adds confusing ambiguities, but in a few significant respects offers new possibilities of flexibility.

In recent conversations with influential cabinet ministers, Ambassador Korry has encountered a show of interest in dealing with us “pragmatically” on copper. The Foreign Minister offered his help to this end, stating that he opposed certain of his colleagues in the coalition who favored pushing forward with programs regardless of consequences. The Minister of Interior said that Allende wanted the Ambassador to understand the GOC’s disposition to seek to avoid dispute

over copper and that he had been charged by Allende with sounding out the Ambassador. In this respect, therefore, conditions are as propitious as they are likely to get to seek to bring our influence to bear on the GOC's handling of copper expropriations in advance of final decisions. Ambassador Korry recommended that we avoid a confrontation with Chile over copper if it is avoidable, that we make the effort to do so, and that we make it now.

In a case which can have an important bearing on the fate of the copper companies, representatives of Bethlehem Steel have been discussing with GOC officials since mid-January the terms of a take-over by the GOC of the Bethlehem iron mine properties in Chile. Bethlehem has requested and received counsel from OPIC and the Embassy. We are trying to avert the imposition by the GOC on Bethlehem of terms which could prejudice the coming dispositions on the copper companies. The copper companies are ready and willing to enter negotiations with the GOC, but have found no interest on the GOC side thus far.

### III. Options:

A. Option A—*Continue relatively passive stance. Limit actions intended to influence GOC copper policy to measures currently being followed, including: (1) counsel to U.S. investors seeking advice from OPIC and the Embassy; (2) continued encouragement of both the GOC and the copper companies to negotiate a settlement while avoiding any involvement in detail; (3) such further démarches to Chilean officials, possibly including President Allende, as necessary to insure that the GOC is fully aware of our position on expropriation and compensation, the seriousness of our concern over expropriation developments in Chile, and the likely consequences; (4) continued efforts to influence the Chilean political opposition to work for moderate copper expropriation policy; and (5) further efforts as feasible to obtain greater public awareness and acceptance, in the United States, Latin America and elsewhere, of our position on copper expropriation.*

#### *Advantages:*

—It would be consistent with a correct but cool posture with the GOC, minimize the chances of our appearing to seek either to obtain favors from the GOC or to put pressure on it, and avoid engaging USG prestige in what may well be a lost cause in any circumstances.

—It would avoid any risk of the United States being drawn into a commitment, express or implied, to maintain "normal" relations with the Allende regime.

#### *Disadvantages:*

—It would limit U.S. opportunity to influence events in Chile, leaving the initiative to those elements in the UP favoring confrontation

with the U.S., thus increasing the likelihood of (a) confiscation of U.S. copper companies without any meaningful compensation; (b) heavy USG liability under insurance contracts with consequent need to seek Congressional appropriation and attendant damage to worldwide investment guarantee programs; and (c) a confrontation with Chile on the terms most favorable to it, i.e. over an investment issue in which it could expect support from most Latin American and many third world countries.

—The provisions for compensation unilaterally imposed by the GOC, which are likely to be highly prejudicial to U.S. investors, could influence terms of settlement in future expropriation cases arising in other countries to the serious detriment of U.S. investment in the LDCs.

*B. Option B—Provide informal but active good offices, as in 1969, in support of direct negotiations between the GOC and the copper companies. The Ambassador would consult with the GOC, starting preferably with Allende, and with the companies to seek to define with both sides the possible parameters of a settlement. If the parameters existed, he would encourage the parties to move toward an equilibrium which would be acceptable. This encouragement, in the 1969 pattern, would include unofficial mediation as necessary.*

*Advantages:*

—It would provide the United States full opportunity to bring influence to bear in favor of a settlement which would minimize injury to U.S. investors and the U.S. Treasury and avoid the political costs of a confrontation with the GOC on an investment issue.

—It would maintain tactical advantages for the United States of direct negotiation between the companies and the GOC, affording an important measure of flexibility for the United States vis-à-vis both the GOC and the companies.

—It could demonstrate U.S. good faith desire to avoid unnecessary confrontation with the GOC and strengthen the hand of those in the UP who may caution restraint in GOC actions threatening U.S. interests in the foreign affairs field.

—It would establish a record, against failure, of having tried actively to avoid a confrontation.

*Disadvantages:*

—By involving the United States in the substance of the talks, even indirectly, it would permit the GOC to attribute responsibility for the outcome to the USG. In the event of failure, it would expose us, along with the companies, to GOC propaganda charges of unreasonableness.

—If talks were successful, the GOC might expect the USG to permit normal financial cooperation through bilateral and multilateral instrumentalities.



—It would require the USG to analyze on short notice complex and contentious questions concerning the companies' investment, and to make difficult and far-reaching decisions on the adequacy of GOC compensation offers.

*C. Option C.—If direct negotiations between the GOC and the copper companies do not develop, attempt to influence unilateral GOC determination of terms of copper expropriation through direct Embassy–GOC talks at the level necessary to influence GOC policy. This would be a government-to-government contact, probably at some point involving Allende, with the companies excluded. It would go beyond the presenting to the GOC of démarches on our general position on expropriation and enter into specific exploratory discussions of possible measures by Chile and their possible consequences.*

*Advantages:*

—If the GOC refuses to negotiate directly with the companies, this course could enable the USG to achieve the advantages set forth in Option B above with the exception of the tactical advantage provided by direct GOC negotiation with the companies.

—Once the expropriations take place, and the companies draw upon their insurance contracts with OPIC, the USG will be in direct contact with the GOC as claimant on its own account. USG leverage would be greater before expropriations take place.

*Disadvantages:*

—It would expose the USG directly to any demands the GOC may choose to make as the price of its cooperation.

—It would put the USG in a difficult position vis-à-vis the companies who would be able to avoid direct responsibility for the settlement. It would expose us to recrimination and complicate the adjudication of disputes under investment guarantee contracts.

**53. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, February 16, 1971, 1310Z.

876. Pass Salzman/OPIC. Subj: GOC Views on Copper (and Iron) Nationalization.

1. Amb Letelier in farewell call night of Feb 12th gave first authoritative outline of GOC intentions on copper nationalization. In effect he confirmed conclusions contained Santiago 875 and working assumptions on which we have been proceeding:

A. There will be no copper negotiations before Congress passes constitutional amendment. Congress will not finish with the law until mid-April at earliest.

B. Allende will have “total flexibility” in negotiations once he has will of all Chileans expressed in form of new copper bill. He has now “willingly” assumed this responsibility that is, according to his Ambassador, a further sign of his great courage.

C. Allende and the GOC wish to arrive at a final accord with the companies that will reflect compromises between the traditional positions of the US and the initial position of the Unidad Popular. “Traditional” emerged from the conversation as signifying “effective, adequate and prompt” within the specifics that I enumerated in Santiago 875 para 1E (and in para below) while the UP original thesis had had an automaticity for evaluation, a 30 year term, 3 percent interest, a cancellation of the instruments paid Anaconda for its 51 percent and a good many other rigid norms.

2. The foregoing was elicited by questioning during a cordial (I stand by my original assessment of Letelier whom I genuinely like) two-hour conversation in which I offered a number of observations that I qualified as personal interpretations. For example, I challenged his assertion that Senate passage of the bill had provided the flexibility I had told the GOC was a minimal prerequisite; I said that insofar as the three essential requirements for us—nationalization of equity including debts, honoring the notes issued for the 51 percent and the final

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<sup>1</sup> Summary: This telegram reported on a meeting Korry had with Chilean Ambassador Orlando Letelier at which the two men discussed Chile’s emerging nationalization policy and the power Allende would have over the process. At the close of the telegram, Korry made an assessment of the impact nationalization would have on U.S. companies.

Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. Confidential; Immediate; Exdis. Nachmanoff sent this cable to Kissinger in preparation for the February 17 SRG meeting. In the attached February 17 covering note, he advised that Kissinger take particular note of paragraphs 1 and 3. (Ibid., Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–52, SRG Meeting, Chile, 2/17/71)

package of price, term and interest—the first two were, according to legal opinion provided us by Chilean and US lawyers, not assured in the Senate-approved legislation. Letelier sought at first to argue that the first point was clear in the bill but then admitted it could be further clarified in its passage thru the House; as for the second point, he said that Allende now had the power to recognize all or part of the promissory notes for the 51 percent and that this would depend on the final negotiation in which the USG would of course be very involved.

3. To this last remark I reasserted our desire to remain out of the negotiations, observing that my arguments in favor of “flexibility” had been designed to permit peaceful direct settlements between companies and GOC. I did not pursue his assertion that my involvement would be indispensable; it has been increasingly obvious that Allende wishes to utilize the copper and iron negotiations in order to bargain with the USG and that he hopes to lever promises, if not earlier commitments, of credits from the US as part of the overall package of a settlement. Put another way, he is, I am confident, more persuaded today that a dry-up of credits that would include the IBRD, BID and perhaps European financiers in addition to the Ex-Im and American private capital would have political and economic implications of such gravity that he would not lightly risk treading that dollar desert.

4. Letelier and I shadow-boxed around this question. He echoed at every available opportunity Allende’s public assertions that the copper measures were not directed against the US. My reply was that there were several elements of seeming discrimination, starting with the inclusion of Andina and Exotica. I reviewed the Andina case and heard an admission by Letelier that he had not been aware of the facts. His argument was that Andina was “almost” Gran Minería and therefore had to be included as could be seen from the will of the Chilean people expressed in the Senate vote. Aside from giving tonnages, projections, profitability and comparisons with the French and German owned mines, I said it was self-evident that no Chilean legislator in the extant political environment was willing to protest an action against a US company that Allende proposed. The issue was why the GOC had included companies that had not yet had profits and that would have production in 1971 well below non-US mines with high profitability, a long history of exploitation and a low risk investment in technology. When I said that the treatment given to Cerro (Andina) was so punitive that it might have an adverse impact on US sources of capital, Letelier argued that the Ex-Im Bank could if it wished take a different tack and that a high degree of prudence would be interpreted as reflecting a political rather than a banking outlook. I took issue with these insinuations. If he wished to introduce political factors, I asked what were Cerro and Anaconda to conclude from the GOC’s refusal to cooperate

in any manner to resolve the immediate short-term financing problems of Andina and Exotica. In answer to his questions I provided the details of these two pressing situations and of the inflexible attitudes of Coldelco and the Central Bank; did the GOC wish to force the closing of these mines and thereby have a justification for interventors assuming the management, I asked; if they did, the companies could then default on their Ex-Im loans and provoke a call for full payment by that institution. Letelier argued that the companies should continue to handle their financing as in the past. However he agreed finally that it was unrealistic to expect the companies to put fresh non-guaranteed capital into Chile with the uncertainty surrounding past invested capital and that a refusal to take realistic account of short-term cash flow problems of the kind encountered by Andina and Exotica could be interpreted in the US in, as he put it, the “wrong way.” He confessed too that the treatment given Cerro when their reps came here to “negotiate” was a poor show, particularly in view of his earlier statement that no negotiations were possible until the Congress had acted. He concluded that Andina would have a chance to make its case with Allende and that the President was very anxious to have good rels with the US which was one of the reasons that Letelier was being “rushed” to Washington. (Incidentally he has received invitations from 26 US universities to speak about the Allende revolution and the GOC obviously anticipates an opportunity to make its case to US opinion in a way that we do not have here; indeed if we sought to make any public case in Chile, we would be battered by a barrage of invective and invention).

5. Letelier insisted too that the GOC would honor all its debts to the Ex-Im and therefore we had no cause for concern. There were two causes for disquiet, I observed. First, other US institutions were involved in the loans to the copper companies and it would be an error to do arithmetical sums that had loans outstanding to Ex-Im equal an acceptable settlement to the companies or to the US; similarly a totalling of OPIC obligations to the copper companies was not equal to an acceptable settlement. Secondly, the law in Congress said that loans to third parties would only be honored insofar as compensation was equal or higher; hence until the final settlement was reached between companies and GOC, if there were one, no banker, including the Ex-Im, had any certainty of receiving payment. Since he had said that Allende had total control of the eventual negotiations and that he could choose from zero to 100 on each of the many variables involved, the Ex-Im for bankers’ reasons would probably be prudent until it knew just which number the Chilean President would choose.

6. Letelier would not specify whether the GOC would prefer to compensate the companies in copper. He asserted Chile did not have to worry too much about selling its copper despite a temporary softening

of the market. He allowed that copper could offer more flexibility in negotiation than money. He agreed that we should not allow ideology to overshadow the fundamental reality that the sums involved in a copper negotiation if put on an annual basis were comparatively small. However he insisted that Allende had to take political factors into account in an unstated reference to the pressures within the UP from the purists. I had noted that if Chile honored all its obligations and paid compensation on equity from remaining 49 percent, within acceptable periods of time, the differences would probably be no more than \$40 million a year than if it paid nothing to anyone except the outstanding 12 year notes given to Anaconda.

7. When he said that Matus had been impressed by my constructive spirit re Bethlehem and that Almeyda and Toha had also expressed to him their desire to continue talking regularly to me, I ran through the Bethlehem facts and said that I could not fathom what appeared to be different approaches between CAP, MinMines, ENAMI and others. He said cryptically that Matus would get his way and that he wanted to deal with Bethlehem, but he would not go beyond. (On Feb 15, I was called by Matus who invited me to lunch again at CAP, Feb 17, with the Minister of Mines. I accepted and expect Bethlehem, Marconi-Flo and copper to be on the docket. Interestingly too, the Chilean media here Feb 17 played Letelier's gratuitous rebuttal, on his arrival in Washington, of the allegations in the American press about the lack of normal rels between the GOC and me).

8. When I said there would shortly be problems with ITT, he brought up the bad phone service of the company. I noted that it appeared to be a pattern for the GOC to find mismanagement in companies that it coveted and that I hoped the GOC could work out its problems amicably with that influential enterprise.

9. Letelier raised with me the William Buckley visit, repeating the protest registered with us by the Foreign Ministry earlier in the week and asserting that the President was "furious" with this misuse of a diplomatic passport. Letelier noted too that the GOC was aware that I had seen Buckley. To this he linked the AP's reporting in Chile of what *Asahi Shimbun* had written about the CAP negotiations with Nippon Steel in Tokyo, the GOC's conclusion being that a US news agency "had deliberately ignored what seven other Tokyo newspapers had reported" while selecting the one totally inventive report. Some in the GOC felt, he said, that a deliberate effort to indulge in an anti-Chilean campaign had once again been exposed.

10. In reply I repeated what we had told the FonMin re Buckley and asked Letelier if we had engaged in any duplicity since I had made certain that the President's office and all other persons in the GOC and the UP sought by Buckley had known prior to Buckley's arrival that he

was coming as a journalist. Moreover Buckley's activities and views well known to Chilean Emb in Wash. Letelier agreed that mine was a fair position, then he said we had to take into account the sensibilities here. I said that there were Americans who believed that Chileans expected the entire US to cater to their sensibilities while remaining immune to anyone else's. What were we to make of the Hernandez Parker inventions about the Allende-Meyer talk; that commentator had excellent rels with the GOC; was I and my govt to conclude that these fabrications were deliberately planted to create a misrepresentation of the US? Letelier said the story was a complete invention; it was his job to try to explain the diversity of a free US press but yet he wondered why the AP had selected the one harmful-to-Chile report from among so many. I suggested he ask the AP but that my guess would be that no one in the AP office had thought of anything more than the man-bites-dog measurement of news. If he wished, I would take to the Foreign Ministry every false story that impugned the US and its reps that appeared here daily in media controlled by the parties that comprised the govt; I had not done so because we certainly would not get as fair a hearing in the media of his country as he certainly would in ours and because there were too many more important issues on which to concentrate our respective efforts. It was for the GOC to affirm or deny reports of what its President had said to a US official representative; if it chose to say nothing, we could be forced to draw our own conclusions.

11. If OPIC or Dept have any special instructions or guidelines for Matus lunch, please transmit for opening of business Feb 17.

**Korry**

54. Paper Prepared in the Department of Defense<sup>1</sup>

Washington, undated.

## FMS Credit for Chile—FY 1971

*Problem:*

A decision is required on whether to:

Offer the planned allocation of \$7 million FMS credit for FY 1971 (or a lesser amount) to the Chilean Armed Forces.

*Discussion:*

The Chilean Armed Forces submitted on 6 March 1970 a written request to purchase the following items using FY 1971 FMS credit when approved by Congress:

<u>ITEMS</u>	<u>APPROXIMATE COST</u>	<u>ESTIMATED AVAILABILITY</u>
Airbase Ground Support Equipment	\$1,000,000	6 mos
106 mm Recoilless Rifles	\$ 500,000	18 mos
Gearing Class Destroyers	\$1,000,000	N/A
Jet Ranger Helicopters	\$ 400,000	3–5 mos
105 mm Howitzers	\$1,000,000	18 mos
C-130 Transport (Partial funding; approximately \$1 million additional to be paid in cash to complete purchase.)	\$3,200,000	3–6 mos
APPROXIMATE TOTAL	\$7,000,000	

Since the submission of the above list by the Chileans, there have been reports of strong Chilean interest in purchasing C-130 aircraft; although no official request has been made as yet to change the above list. It is possible that a request may be made to revise the equipment list to reflect an increased C-130 requirement as the only substantial FMS credit requirement.

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<sup>1</sup> Summary: In view of the request by the Chilean military for a credit of \$7 million to purchase military hardware on March 6, 1970, the Department of Defense prepared this paper for the SRG to review the advantages and disadvantages of different policy alternatives regarding foreign military sales to Chile.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-52, SRG Meeting, Chile 2/17/71. Secret.

Chilean FMS credit utilization over the past several years has been:

FY 68—\$8.0 million

FY 69—\$12.5 million

FY 70—No FMS credit available

The Chilean Mission in Washington is very knowledgeable and aggressive in pursuing its credit requests, and it may be expected to be pressing us for a decision soon.

### *Options*

There are three courses of action available: offer no credit; offer a very limited amount of credit for such items as spare parts; offer all or a substantial part of the requested credit permitting purchase of major item(s).

#### *A. Option 1*

Offer no FMS credit to Chile for FY 1971.

##### *Pro:*

—Would be consistent with policies in the economic area, i.e., no new loans.

—Would be a clear signal of disapproval of the Allende government's policies.

—Would be the most defensible course of action in the press or Congress, in that we would not be providing any military equipment to a Marxist Anti-US government.

##### *Con:*

—Would cause resentment in the Chilean Armed Forces and could sever our tenuous relations with them while there is still a possibility they might act against Allende.

—Could cause retaliatory action such as expulsion of the Military Group—an asset the SRG has previously decided to retain as long as possible.

—Could enable regime to claim US had initiated overt adverse policies against it.

—Would cause the Chileans to turn elsewhere for military equipment, with the real possibility that in the flush of resentment they would accept Soviet offers. The present Chilean military inventory is obsolescent, and replacement requirements will be large. The source of these replacements will have a major influence on the Chilean Armed Forces.

#### *B. Option 2*

Establish a very limited FMS credit for FY 1971 on the order of \$3.5 million; with no acquisition of major items.



*Pro:*

—Although the amount is not significant; it would signify to the Chilean military that the door is not closed.

—Would be reasonably consistent with economic policy, in that minor credit for spare parts for equipment already on hand is analogous to completion of ongoing development loans.

—Would be defensible in the press and Congress.

*Con:*

—Although not as abrupt an action as Option 1, it is unlikely that this response would be acceptable to the Chilean military, with possible resultant disadvantages stated in Option 1.

*C. Option 3*

Offer Chile the planned and requested \$7 million FMS credit (or a part sufficient to provide for major item(s)).

Under this option we would continue to discuss FY 1971 FMS credit with the Chileans and favorably consider those items of equipment which are not major or significant; requests for major items would be considered by the Ad Hoc Interagency Working Group/SRG.

*Pro:*

—Would preserve our contact with the Chilean military.

—Would tend to continue Chilean Armed Forces dependence on U.S. sources of supply.

—Would provide some time for maneuver considering availability and delivery times of most major items.

*Con:*

—Would be inconsistent with economic policies and could raise embarrassing questions as to why we would offer credit for military equipment but not for new economic or social development projects.

—Would cause objections from neighboring countries that U.S. is assisting a Marxist government.

—Would probably evoke some adverse press and Congressional comment.

**55. Paper Prepared in the Department of Defense<sup>1</sup>**

Washington, undated.

**M-41 TANKS FOR CHILE**

Forty M-41 tanks, funded under FMS credit, were purchased by Chile in FY 1969. Twenty of these tanks have been delivered. The remaining twenty were scheduled for delivery by 15 January 1971.

The SRG, on 19 November 1970, decided to hold in abeyance the delivery of the 20 tanks scheduled for January; this decision to be reviewed at a later date.

The tanks are presently being held in storage in the U.S. and are incurring storage charges. In the meantime, the Chileans are promptly meeting the FMS credit semi-annual repayment schedule, the last payment made in January 1971.

Both USCINCSO and Ambassador Korry have now recommended release of the remaining tanks to Chile. While the modest delay to date in delivering the tanks has not yet aroused an adverse reaction, prolongation would soon provide ammunition for charges of U.S. bad faith and unreliability at a critical time when continued association with the U.S. is likely to be under consideration within the Chilean military.

While delivery of the tanks to Chile might give some of our friends in Latin America (particularly Argentina) reason for concern, our Ambassadors should be able to assuage such concern by explaining the reasons for our decision, i.e.: 1) to strengthen our influence with the Chilean military services and thus attempt to harden resistance to Communist domination of Chile; 2) increase Chilean dependence on U.S. sources of supply for spares; and 3) preempt Communist suppliers of equipment from an association with the Chilean military services.

Recommend that the SRG approve delivery of the 20 remaining M-41 tanks to Chile.

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<sup>1</sup>Summary: This paper recommended that the Senior Review Group approve sending tanks to Chile that it had already purchased.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-52, SRG Meeting, Chile 2/17/71. Secret; Noform.

56. Memorandum for the 40 Committee<sup>1</sup>

Washington, March 15, 1971.

## SUBJECT

Progress Report on Preparations for the April 1971 Elections, Including a PDC  
Request for [*less than 1 line not declassified*] Campaign Funds

## I. Summary

This memorandum describes the actions taken by this Agency since 28 January 1971, when the Committee authorized financial support in the amount of \$1,240,000 to Chilean opposition parties for the April 1971 municipal elections [*less than 1 line not declassified*]. This memorandum also recommends that an additional [*dollar amount not declassified*] be authorized for electoral support of the Christian Democratic Party (PDC).

## II. Background on Elections

During February, the Marxist government of Salvador Allende launched a massive drive to recruit electoral support for Popular Unity (UP) parties, particularly among lower income groups. The Communist Party's municipal election effort has been especially impressive. The Communists, who now have access to government spoils, have been spending unprecedented sums of money to recruit and pay party organizers, roving entertainment groups and sign painters to supplement the efforts of their local candidates. In addition, the Communists are participating in UP efforts to recruit and organize the Popular Unity Committees (CUP) which serve as clearing houses for government patronage and favors (ranging from handing out powdered milk to helping UP loyalists get government jobs) and which are also active in the election campaign. CUP activity is particularly intense in areas where the PDC continues to control community organizations called Neighborhood Committees created under the Frei administration. The UP has been very successful in registering the 18–21 years old who will be voting in April for the first time. In late February President Allende told a political associate that he feared the UP would only receive about 47% of the total vote, and that if his calculations are correct the UP will have a much harder task in justifying the acceleration of its program

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<sup>1</sup> Summary: This progress report summarized actions taken in Chile since January 1971 when the 40 Committee authorized \$1,240,000 to support Chilean opposition parties.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A handwritten notation on the first page indicates the memorandum was approved by telephone by the 40 Committee on March 22.

than it would if the UP were to receive more than 50%. Allende also said he had not paid sufficient attention to the elections, blaming this on his preoccupation with organizing the new government. Despite Allende's fears, the majority opinion of Chilean politicians is that the UP will gain substantially in the municipal elections and that his government may even attract a majority of the voters. Ambassador Korry estimated on 5 March that the Communist Party will poll around 20% of the vote, the Socialist Party (including its various splinter groups) about 18% and the Radical Party upwards of 10%. Considering that the other three members of the coalition will pick up something, this is not a very encouraging assessment, but it underscores the need to bolster the opposition parties and to help them conduct electoral campaigns which will maintain the morale of their followers and evidence their continuing vitality.

### III. *Municipal Election Campaigns of Opposition Parties*

#### *National Party (PN)*

On 28 January, the Committee authorized the passage of [*dollar amount not declassified*] to the PN; [*3½ lines not declassified*] for support to PN candidates in the municipal elections. Of this sum, [*3½ lines not declassified*].

The overall campaign strategy of the PN is to build its image as a party of strength, determination and will to do battle with the UP, especially the Communists. Its principal propaganda thrust is embodied in its electoral slogan "Pongase firme Junto a Un Partido Firme—El Partido Nacional" (Put Yourself Firmly Behind a Strong Party—The National Party). While the PN sees the UP as its main enemy, it continues its long-standing rivalry with the PDC, which it hopes to displace as the strongest single party in Chile. As a result of Agency prodding its leaders have made some effort to mute differences with the PDC, but its attacks on the PDC have not ended completely. The PN hopes to gain about 25% of the vote, some of which will be at the expense of the PDC.

The PN sees unemployment as one of the most important national issues of the campaign, and much of its radio advertising is pegged to unemployment and to the loss of individual liberties under the UP regime. The National Party directorate has assumed responsibility for setting the tone of the campaign, for radio advertising, for the printing of a limited number of electoral posters for each PN candidate, and for fund raising. The party is engaged in a general get-out-the-vote campaign with a special appeal to women, emphasizing the bleak future for children under a totalitarian regime. The directorate has distributed funds to each local district, with the provinces of Santiago and Concep-

cion receiving the highest percentages; the local districts are responsible for getting voters to the polls on election day.

The PN is making effective use of commercial radio stations and newspapers for its paid propaganda, and has also taken steps to acquire its own media capabilities. [2 lines not declassified]. The Party now controls the news content of the radio and has three political commentaries at peak listening hours. The target date for the first appearance of the new PN newspaper "La Tribuna" is 15 March.

*Christian Democratic Party (PDC)*

On 28 January the Committee authorized the passage of [dollar amount not declassified] to the PDC: [1½ lines not declassified] for the support of PDC candidates in the municipal campaign, and [6½ lines not declassified].

The PDC national organization has deteriorated greatly since the September presidential election and is only now being reestablished for the April campaign. Internal contradictions between the left wing of the party, led by Tomic, and the moderate faction, led by Frei, have weakened the PDC and made it vulnerable to attack from both the left and the right. In addition, the party has been badly hurt by Popular Unity Committee proselytizing among lower income groups; there are numerous sectors where PDC organizers have been shut out and party supporters are physically afraid to display PDC propaganda. A local public opinion survey with nation-wide voter preference sampling was financed by the party during February; final results are not yet in but preliminary returns give the PDC a disappointing electoral percentage.

Despite its organizational weakness, the PDC election campaign has gotten off to a vigorous start in both radio and press. The party's major campaign theme, "Chileno, no Estas Solo" (Chilean, You are not Alone), is considered particularly effective by most observers and obviously appeals to voter uncertainty and latent fears about the Allende regime. The PDC is having difficulty in acquiring Radio Cooperativa because the Socialist Party is also competing for this nationwide radio hookup, but hopes to complete arrangements for its purchase in the very near future.

PDC leaders [1 line not declassified] and are doing their best to eliminate party feuding with opposition parties, particularly the PN.

*Democratic Radical Party (PDR)*

On 28 January the Committee authorized the passage of [dollar amount not declassified] to the PDR. [2 lines not declassified] and [dollar amount not declassified] for expenses in connection with the municipal election campaign. The PDR hopes to get about 140,000 votes, or approximately 6% of the national total in the municipal elections. The

PDR does not plan to hold public campaign rallies but is working quietly among its supporters and relying on personal contact to stress that PR members can vote without fear in the privacy of the voting booth. PDR propaganda is emphasizing illegal land seizures, Communist strength within the Allende government, and the fact that UP policies will create hunger and unemployment. The PDR has not yet bought Radio Yungay because it and other radio stations available for sale in the Santiago area are running at an increasing monthly loss. This small party is reluctant to assume responsibility for managing a station while deeply involved in the current election campaign. Instead, the party plans to purchase campaign time on several major radio networks, and will defer its decision regarding purchase of the station until after the election.

PDR leaders have been helpful in reducing frictions between PN and PDC campaign leaders. The party campaign is properly targeted at those radical party members who defected to Alessandri during the last presidential campaign, constantly reminding them that a vote for the Radical Party signifies an endorsement of the Allende regime.

#### *The Zaldivar Campaign*

[*less than 1 line not declassified*] the PN withdrew its candidate, Sylvia Alessandri, from the 10th Senatorial district in favor of the PDR candidate, Jorge Ovalle. [*2½ lines not declassified*] thus increasing Zaldivar's chances of winning in a two way race with the UP candidate, Adonis Sepulveda. Ovalle's withdrawal is, however, unlikely unless opposition leaders are convinced that Zaldivar can win a two way race. The reason for this is that these leaders feel that most of Ovalle's votes will not be transferrable to Zaldivar; that is, Radical Party and even PN voters may be willing to vote for Ovalle [*15 lines not declassified*].

#### *IV. PDC Request for [*less than 1 line declassified*] Election Funds*

As noted in the proposal submitted to the Committee on 28 January, the CIA Station recommended and Ambassador Korry originally concurred in an election support proposal in the amount of [*4 lines not declassified*]. This Agency's presentation of 28 January requested only [*dollar amount not declassified*] for the election campaign, of which [*dollar amount not declassified*] was allocated to the PDC.

On 5 March the CIA Station received a breakdown of PDC expenses through February together with projected estimates of campaign expenses for March and April. The Party believes that total campaign expenses will be about [*dollar amount not declassified*]. The PDC had expected that its fund raising campaign would net about [*17 lines not declassified*] since the party is running a strong public fund raising campaign which provides the aura of vigorous and successful fund raising. [*4 lines not declassified*]

Ambassador Korry and Acting Assistant Secretary of State Crimmins concur in recommending this [*less than 1 line not declassified*] support.

V. *Recommendation*

It is recommended that the 40 Committee approve the PDC's request for [*less than 1 line not declassified*] for the April election, bringing the [*less than 1 line not declassified*] authorization of funds for PDC electoral support to [*dollar amount not declassified*].

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57. **Joint Intelligence Memorandum<sup>1</sup>**

Washington, undated.

AN ASSESSMENT OF TRENDS IN CHILE  
19 FEBRUARY TO 18 MARCH

*Summary*

The Allende government's successful movement toward consolidating its control continues to be the most apparent trend in Chilean affairs. Allende reportedly believes that the Popular Unity (UP) program can be accelerated if the coalition wins a majority of the votes cast on 4 April in elections for all municipal officials and for his successor in the Senate.

Although they are competing with one another in many races, the UP parties are mounting strong electoral campaigns in an effort to erase effectively the minority image of the government elected last September with 36.4 percent of the votes. The Communist Party is particularly active, combining its superior organization and discipline with the official favors now at its disposal, and is apparently picking up strength among low income Chileans. The Socialist UP candidate for the Senate contest has a good chance of winning.

Allende remains the dominant figure. He has proven increasingly successful at leading his disparate coalition, cultivating the military, and convincing most Chileans by traditional means that he is bringing

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<sup>1</sup> Summary: This memorandum offered an assessment of political trends in Chile. Source: National Archives, Nixon Presidential Materials, NSC Files, Box 774, Country Files, Latin America, Chile, Vol. IV. Top Secret; [*handling restriction not declassified*] Sensitive; No Foreign Dissem; Background Use Only; Controlled Dissem.

them and the nation many benefits. His political opposition has found neither the formula nor the backing for coordinated action against him on most issues; the government avoids a showdown when it anticipates effective legislative opposition and seeks other ways to gain its political and economic ends. Indications of plotting against Allende remain scattered and vague, although for their own purposes his backers continue to claim it is widespread. Chilean military leaders believe they have Allende's approval to seek US military equipment and maintain professional ties with the US services. The implication is that these ties will not be broken on Chilean initiative.

While his government's overriding economic aim still appears to be the control of all the economic levers, Allende is concentrating on attacking specific problems such as inflation, unemployment and housing shortages. Populist economic measures are still being utilized to build domestic political support and Chilean officials are effectively presenting a favorable picture of their economic policies to other countries and to international organizations. The wave of rural land invasions has served the UP purpose in frightening landowners into cooperation with the government's extensive land reform program. Measures are now being taken to control the rural anarchy threatened by the revolutionary zeal of extremists who incited the peasants as well as to combat the desire of peasants to keep land for themselves once they get it.

The government's irritation over lagging copper production in recent months is reflected in the takeover of operations at the Chuquicamata and El Salvador mines on the grounds of "irregularities" in management. Labor unrest and inefficiency are probably the cause of the production decreases at several copper mines, but the government puts the blame on the US companies which retain minority interest in them. Chile is taking over the world marketing of most of its copper production on 1 April. Prospects for US companies still look bleak, but Allende and his officials are showing some signs of flexibility. A few US firms are seeking accommodation and the intention of one to invest in a mining venture with the *Allende government could have broad repercussions*. Money supply rose 22 percent between mid-December and mid-February, but price controls have been largely effective, with the consumer price index for January and February up 2.1 percent compared to a 12.2 percent rise in the same period last year. Chilean net international reserves declined more than usual in January, from \$343 million to \$308 million, despite an input of \$17.7 million in special drawing rights from the IMF.

Allende has re-emphasized the line that Chile "wants good relations" with the US but on Chile's terms. The US decision against the *Enterprise* visit after his public invitation has been interpreted by many



Chileans as insulting to the president and the nation, an impression encouraged by the government-influenced press. In other matters the oversensitivity that long has distorted the Chilean interpretation of US actions appears to have become almost obsessive.

The Chilean Government is tending carefully its relations with its closest neighbors—Peru, Bolivia, and Argentina—and is further expanding its ties with Cuba. It has made a special point of presenting its position in regional organizations—and has done so effectively. It has made successful bids to host both the UN Development Program meeting in 1971 and the UN Committee on Trade and Development meeting in 1972. The newly appointed ambassador to the USSR says he will sign an agreement for the Soviets to construct a fishing port under the 1967 credit. Diplomatic relations with East Germany will be established soon and a North Vietnamese trade and press delegation is in Santiago to set up offices.

Cuban intelligence officers reportedly are training an additional group of young Chileans in techniques for protecting the Allende government. During the month a report was received that the Chilean Communist Party has established a cadre school to train other Latin American Communists in Chile, probably in organizational techniques.

### I. Internal Political Trends

A. *Electoral Activities*: The Allende government is working hard to achieve a “popular victory” in the municipal elections of 4 April, to overcome the minority image cast by Allende’s election with 36.4 percent. Popular Unity (UP) coalition parties are aiming at an aggregate of 50 percent or more, but even a 45 percent tally for them would be touted and accepted by Chileans as a victory.

An active UP electoral campaign among low income Chileans is led by the Communist Party (PCCh), utilizing its superior organization and discipline and generous amounts of cash and government spoils. The thousands of local UP committees, most of them PCCh-controlled, are serving as clearing houses for patronage, recruitment centers, and other functions which make them a key element in this impressive electoral activity. A Christian Democratic (PDC) leader recently conceded privately that the UP had made inroads on former PDC strength among both urban and rural poor. Coalition candidates must run on their own party tickets and efforts by UP parties to reach “sweetheart agreements” to avoid damaging competition among themselves at the polls apparently have not had the hoped for success. The three largest UP members—the Socialist, Communist, and Radical parties—are contending with each other to strengthen their respective positions within the government.

Allende's successor in the senate will be elected at the same time. The UP candidate, Socialist Adonis Sepulveda, has a good chance to win in a three-man race. There has been close cooperation between the Christian Democrats' Andres Zaldivar and the Democratic Radicals' Jorge Ovalle who are trying to determine the most effective tactics against Sepulveda. Ovalle's reluctance to withdraw has been based on his belief that his vote would not be totally transferable to Zaldivar. The president made a five-day trip through his old district, Chile's three remote southernmost provinces, last month, further enhancing the UP's electoral prospects there.

B. *Allende's Speeches A Political Instrument*: The frequent presidential speeches are full of descriptions of what he has done to aid various Chilean groups better and faster than past administrations and to announce plans to fulfill his many promises. Allende emphasizes that he is fulfilling the UP program, neither violating nor exceeding it—a claim apparently directed at impatient critics in his own forces and at opposition accusations that he is going too far.

C. *The Government*: Allende's trips to northern mining areas as well as to the south were a prelude to the return of the presidential office from Valparaiso to Santiago at the end of the summer. He left the politically strategic port region reassured of its importance to his plans, including an extensive development program and the location there of a new Ministry of Maritime Affairs. Bills creating that post and a Ministry of Family Protection have been sent to Congress.

The government has withdrawn its bill creating neighborhood courts in the face of strong legislative opposition, but the UP is continuing to apply pressure against the judiciary. Renewed attacks by the administration on the Chief Justice of the Supreme Court were rebutted by him in a strong speech defending the judicial system. The administration apparently chose to bypass possible congressional opposition by postponing presentation of a bank nationalization bill.

D. *Talk of Constitutional Changes*: Recent speeches of Allende and of Communist Party leaders suggest that the UP is considering how to begin action toward its goal of constitutional revisions that were proposed in the UP presidential campaign program. These include a unicameral legislature and changes in the judicial and executive branches which could be to the UP's advantage. On 13 March one UP senator advocated early dissolution of congress by resort to a plebiscite and its replacement by a "popular assembly."

E. *The Popular Unity Coalition*: PCCh leaders reportedly are irritated over Allende's individualistic conduct of government without more consultation with the UP advisory political committee. The PCCh Central Committee, however, tried on 4 March to silence rumors of internal government problems by announcing its satisfaction with Al-

lende's administration. Despite Allende's suspicion of their ambitions to dominate the government, he agrees with the PCCh that the Chilean "revolution" must be gradual, systematic, and legal and that the government must attract significant support from the middle class.

The Radical Party hopes to strengthen its relatively weak position and to gain votes by posing as the "guarantor" within the UP of democratic freedom.

At the same time, the intention of the dominant extremist faction in the Unified Popular Action Movement (MAPU) to define the group formally as a Marxist-Leninist organization may cause older leaders to leave the MAPU—though they would remain in the UP. Agriculture Minister Jacques Chonchol reportedly is one of the latter.

F. *The Opposition*: The PDC and other opposition groups have found common ground on a few legislative actions such as efforts to impeach the Minister of Labor on grounds of responsibility for illegal government actions during farm take-overs. Congressional sessions have been infrequent in the past month, however, *and the UP now wants to recess the legislature until after the elections.*

Allende and the UP are clearly aiming at exacerbating existing PDC internal differences and strengthening the party's left wing, which favors collaboration with his government. Defeated PDC presidential candidate Radomiro Tomic is apparently considering withdrawal from the party and the left wing faction is responding favorably to overtures from "adult MAPU" members seeking renewed ties with their former PDC colleagues. Such overtures include offers of important official positions to capable young PDC technicians.

G. *Scattered Plotting Rumors*: There are a few indications that some civilians are considering the possibilities for a resort to violence or terror against the Allende government. The administration's intense concern over such a prospect makes it likely that any plotters, particularly those with connections with retired General Viaux, are being closely watched.

H. *The Military*: Allende's continued skillful handling of the military is evidenced in his reported agreement with the high command suggestion that no further military arrests be made in the Schneider case, in which several high-ranking officers were involved to some degree. His promises not to allow the existence of armed groups other than the armed forces and offers to put military officials in responsible positions in economic development institutions are further moves to reassure the military. He also makes a point of praising the armed forces in his speeches throughout Chile. Navy leaders reportedly are particularly enthusiastic about Allende's record to date and even less enthusiastic officers were critical of the US for cancelling the *Enterprise* visit which they viewed as an insult to the president.

The chiefs of the military services believe that Allende backs the modernization programs they want. They are requesting US equipment. These requests have carried the implication that if the US is not forthcoming, Chile will have to resort to “other suppliers.” This development is consistent with Allende’s other efforts to give Chilean military leaders the impression that he supports them and gives them latitude of action in maintaining professional ties with the US military. The implication is that these ties will not be broken on Chilean initiative.

Reports continue that some middle-grade officers are trying to coordinate some sort of uprising in the hope that it would set off widespread military reaction against the government. However, the officers involved are not key troop commanders, they are scattered, are in contact with imprisoned retired General Viaux, and lack common political aims as well as a real leader. All these factors limit the chance of any effective move in the time frame mentioned, which is by the 4 April elections. One officer who had considered action against Allende before he took office now says that he seriously doubts that any combination of economic or political crises would be sufficiently impressive in the foreseeable future to incite the military to move. There is no indication of the existence of the “dedicated conspiracy” he said was necessary to alter the Chilean situation.

## II. Economic Trends

A. *General*: The overriding economic aim of the Allende government still appears to be the gaining of control of all the economic levers—banking, credit, mining, foreign trade, labor, agriculture, and industry. Meanwhile, Allende is concentrating on attacking specific problems such as unemployment, inflation, and the housing shortage. The appointment of government representatives in US-managed copper mines is also a useful move to arouse popular support. He is continuing to stress populist economic measures to gain political support and his officials are seeking to present a reasonable picture of Chilean economic policies to other countries and to international organizations.

B. *Unemployment*: Allende said on 6 March that there are now 300,000 unemployed (in a labor force of about 3.2 million) and that this “inheritance” from the Frei administration must be overcome by a crash program that he will personally lead. Despite Communist claims that 40,000 jobs have been created by the UP government, the steadily rising joblessness could become a political liability for Allende. It is unlikely to have a decisive impact on the outcome of the April elections because of their proximity and because the UP argument that it is not responsible for this chronic problem will probably be accepted. There are reports that squatters are again occupying unfinished housing units in Santiago.

C. *Agrarian Policies*: There is evidence that the wave of rural land invasions that have affected much of Chile since Allende's inauguration were expected and welcomed by the government as the most effective means of weakening and frightening landowners into cooperating with the extensive program of agrarian reform. The rationale held true for the behavior of the farm owners, who petitioned Allende recently to regularize the chaotic situation by taking over the farms that exceeded the basic size stipulated in the agrarian reform law. Allende announced last week that 1,000 farms would be expropriated this year, nearly equal the total taken over during the six-year Frei administration.

The unrestrained zeal of the Movement of the Revolutionary Left (MIR) in inciting peasants, however, threatened to get beyond the administration's control. In addition, when they take some land, peasants often lose interest in the collective agricultural endeavor favored by the UP. The announcement of development plans for one remote rural area may be a government move to combat both rural anarchy and the desire of the peasants to own land of their own.

D. *Copper*: Statistics are inconsistent, but the Allende administration has complained that copper production has been running below the expected levels in recent months. There are reports that quality has suffered also and that discontent, carelessness and goldbricking are on the increase among copper workers and technicians. The government's "take-over" of operations at the Chuquicamata and El Salvador mines on 16 March was justified on charges of "irregularities" in management by US companies facing nationalization. This will now be a factor in negotiations. The Chilean Copper Corporation will take over the world marketing of most of the country's production on 1 April, probably utilizing the sales organization set up by the El Teniente Company, presently 51 percent Chilean-owned and 49 percent Kennecott-owned.

E. *Nationalizations*: Allende continues to stress his intention to take over large Chilean firms and the two biggest cement plants were intervened in mid-March on the grounds of labor difficulties. The prospects for foreign companies still look bleak although his administration has shown some signs of flexibility. *Willingness to permit cash advances to cover current expenses in some cases, the apparent differences in approach among various officials, and an interest in making Chile appear in the most favorable international light are some of the ingredients in creating a negotiating atmosphere that is constantly changing and volatile.*

Other US companies are receiving varying treatment and responding differently. Chile purchased an additional 18 percent of the local RCA subsidiary, giving the State 51 percent control on terms that RCA claims are acceptable. *The Marcona Company, which has not operated previously in Chile, has agreed to participate with the Allende government in a mining development project, a move which could have broad repercussions.*

Firestone is proceeding with construction of a tire plant in which it has 12 percent interest. Esso is under pressure to commit itself to provide fuel for the Cuban airline when service from Havana starts. A bill to nationalize oil distributing companies has reportedly been submitted to congress.

F. *Money and Banking*: By mid-February the money supply had risen 22 percent over that of mid-December. This rate threatens the government's goal of holding the increase to 70 percent for all of 1971. US firms in Chile report that their dollar remittances are going through, but that requirements for precise documentation is slowing their handling. The acquisition of privately held bank shares by the government has slowed and government holdings now are about 30 percent of the total with the already extended purchase period due to expire soon.

G. *Foreign Trade and Balance of Payments*: Chilean net international reserves declined more than usual in January, from \$343 million to \$308. An even sharper decline was averted by the receipt of \$17.7 million in special drawing rights from the International Monetary Fund. There are many indications that the USSR and Chile have reached an agreement that part of the unused 1967 Soviet credit will be used for the construction of a fishing port, probably south of Valparaiso. Some of the credit may also be used to build a lubricating oil plant, possibly with Romanian help. Chile has announced that a Communist Chinese commercial mission will soon arrive to negotiate purchases of some 10,000 tons of nitrate and 25,000 to 30,000 tons of copper.

### III. Trends in Foreign Relations

A. *Relations with the United States*: Commenting on President Nixon's foreign policy message to congress, Allende this month re-emphasized the line that Chile wants good relations with "the most powerful nation in the hemisphere," but on Chile's terms. He added that he knew his comments, both positive and negative, would be weighed and analyzed in Washington.

The US decision against the *Enterprise* visit after Allende's public invitation has been interpreted by many Chileans as insulting to the president and the nation, an impression encouraged by the government-influenced press. In other matters the oversensitivity that long has distorted the Chilean interpretation of US actions appears to have become almost obsessive.

B. *Relations with International Organizations*: Allende and his representatives to recent meetings of the Inter-American Committee on the Alliance for Progress and the Inter-American Development Bank stressed Chile's right to its own choice of economic policies and of ground rules for future foreign investment in the country. Minister of Economy Pedro Vuskovic's speech to CIAP was an effectively pre-

sented argument on Chile's position. In addition, Allende recently said that the inter-American system is in a crisis, citing arguments of other Latin Americans that the US "seeks to maintain a situation under which it exercises hegemony."

Chile has been successful in its bid to host the 1972 meeting of the UN Trade and Development group (UNCTAD). This will be a useful addition to the Allende government's broadening of its international image, although facilities are inadequate and the expenses heavy for a small country. Officials are also pleased with the nearly certain selection of anti-US former foreign minister Gabriel Valdes as chief for Latin America of the UN Development Program (UNDP), which will meet in Chile in May. Chile has suggested to Colombia that the US be excluded from the UN Economic Council for Latin America (ECLA), which has headquarters in Santiago.

*C. Relations with Western Europe and Japan:* Chilean efforts to retain as strong economic ties as possible with both areas appear to be effective. On 15 March the president of Sumitomo Bank of Tokyo received personal assurances from President Allende of his interest in closer economic, political, and cultural ties with Japan. The Belgian cabinet reportedly has decided not to protest possible nationalization of Belgian firms in Chile unless proposed compensation was unrealistically low. Belgium and other members of the European Economic Community believe that Chile is moving toward socialist restructuring of the economy and society but will continue aid and trade on a coordinated basis on the grounds that the field should not be left to the USSR and other Communist countries. The West German representative in Belgium said that new aid from his country for Chile depends on what Allende does about recognizing East Germany, a more reserved position than Chile had counted on.

*D. Relations with Latin American Neighbors:* Allende is still carefully tending relations with Argentina, although Agriculture Minister Chonchol's discussions with Argentine students in early March during a visit to Mendoza drew a formal complaint from the Livingston government. The chief of the Argentine air force, who is also a member of the military junta, has accepted an invitation to Santiago. Chilean officials were careful to brief the Argentine ambassador in advance on their plans for developing an extensive area along the border where armed irregulars have been reported. The program involves cooperation of Chilean police and armed forces units as well as economic measures.

Allende is also making new approaches in cultivating relations with Peru and Bolivia. In several recent speeches he has mentioned the desirability of organizing with them multinational industries under the Andean Pact. Top Chilean Communist Party leader Volodia Teitelboim

talked with General Torres as the personal emissary of Allende on the negotiations to restore full Chilean-Bolivian diplomatic relations. Chile is presently purchasing several thousand barrels a day of Bolivian petroleum and work was begun this month on a 280-mile road from the Chilean port of Iquique to the Bolivian city of Oruro.

In a speech on 21 February Allende said that Chile would not “export Popular Unity,” but that he hopes popular front movements developing in Latin America would be inspired by the Chilean UP victory and “have a happy future.”

The government reportedly is forming an intelligence unit within the foreign ministry and representatives have already been assigned to Lima and Brasilia. This may be part of the new counterespionage organization being created with the assistance of Cuban intelligence advisers. Some ministry officials assume that it is primarily concerned with investigating Chilean embassy personnel and exiles in other countries.

*E. Relations with Cuba:* On 25 February Chile and Cuba signed a bilateral civil air agreement for service between Santiago and Havana to begin within three months. The weekly passenger flights of the Chilean Government airline to Havana will continue on to Western Europe, while the weekly flights of Cubana to Santiago will refuel in Lima. The Chilean navy’s training schooner *Esmeralda* was given an all-out welcome on its first visit to Havana, including a three-hour call by Fidel Castro. A Cuban freighter arrived at Valparaiso on 28 February to deliver the third shipment of Cuban sugar.

Additional young Chileans are being trained by Cuban intelligence officers to defend the Allende government, according to a clandestine source. The group, known as the National Liberation Army (ELN), is sponsored by hard-line PS Secretary General Carlos Altamirano. It is distinct from the better known MIR, although both are PS offshoots. The ELN chief has received extensive training in Cuba and the group’s Cuban advisers say that the ELN hopes Uruguayan Tupamaros in exile in Chile can provide training for the action units.

*F. Relations with the Soviet Union:* Chilean ambassador-designate to Moscow Guillermo del Pedregal announced that his first act would be to sign the agreements covering construction of a fishing port and other projects to utilize existing Soviet credits. In an interview on Soviet television on 28 February, Allende said that the USSR ranked first among Socialist countries with which Chile wanted greater cultural and trade exchanges and that Chile needs Soviet aid and technical assistance. About the same time *Izvestiya* attacked US press reports that a Soviet military base would be built in Chile, calling it an attempt to discredit Soviet economic aid and to distract attention from US bases in Latin America.



G. *Relations with Other Communist Countries*: Chile will establish diplomatic relations with East Germany, perhaps while a high-level official delegation is attending the Leipzig Fair.

North Vietnamese officials are now in Chile to open a press service office and a trade mission. A protege of Gabriel Valdes has been nominated as ambassador to Peking.

#### IV. Chilean Support for Latin American Subversives

During the month a report was received that the Chilean Communist Party has established a cadre school to train other Latin American Communists, probably in organizational techniques.

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### 58. Memorandum for the 40 Committee<sup>1</sup>

Washington, April 2, 1971.

#### SUBJECT

Final Progress Report on Preparations for the 4 April Elections in Chile

#### REFERENCE

Memorandum to the 40 Committee dated 15 March 1971, entitled "Progress Report on Preparations for the April 1971 Elections, including a PDC Request for Additional Campaign Funds"

#### I. Summary

This memorandum describes the actions taken by this Agency since 15 March 1971, when a memorandum on the April 1971 elections was prepared for the Committee. In addition to reporting progress since 28 January 1971, when the Committee authorized financial support in the amount of \$1,240,000 to Chilean opposition parties, the referenced memorandum included a request from the Christian Democratic Party (PDC) for an additional [*dollar amount not declassified*] for the April elections which was subsequently approved by the Committee. All of the election funds authorized by the Committee have been passed securely to leaders of the three opposition parties.

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<sup>1</sup> Summary: This memorandum provided a progress report on actions taken in preparation for the April 4 elections in Chile.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971-72. Secret; Sensitive; Eyes Only. The March 15 reference memorandum is Document 56.

## II. *Background*

On 4 April some three million Chilean voters will go to the polls to elect 1,653 municipal councilmen. In addition, the 10th Senatorial district will elect one Senator to fill the seat vacated by President Allende. Despite disclaimers, both the Allende government and the political opposition generally regard the election as a plebiscite. Most observers, including the U.S. Embassy, believe that Allende's Popular Unity (UP) coalition will receive a minimum of 44% and a maximum of 54% of the popular vote. Most current estimates are that Allende will not fall significantly below 50%, and that he may well receive the absolute majority he seeks. Individual opposition parties are campaigning strongly, but distrust, competition and even hatred between these parties continues to be a basic problem even though all three claim to be aware of the gravity of the electoral issues involved. The PDC has been particularly effective in exploiting the "Copper Scandal", charging that high government officials are implicated in illegal copper sales deals which the government then tried to cover up by inventing stories about an international conspiracy to depress the market price of copper. In spite of this scandal, which has tarnished the UP's revolutionary image, Chilean voters generally appear apathetic and inclined to view Allende as a father-figure who will be able to control the Communist and extremist forces within his government coalition.

## III. *Municipal Election Campaigns of Opposition Parties*

### *Over-all Election Guidance*

[1 paragraph (15 lines) not declassified]

### *National Party (PN)*

The PN has received the [dollar amount not declassified] authorized for its election campaign. Overall campaign strategy continues along the lines reported in reference with propaganda in all media stressing unemployment, inflation, personal security, and PN strength. The PN is now attempting to stimulate a high voter turnout, urging the electorate to match Marxist discipline with democratic discipline and pointing out that abstention is the accomplice of Marxism. PN rivalry with the PDC continued despite strong efforts on the part of the Station with the individual Party leaders involved. The PN has been spearheading congressional efforts to impeach Labor Minister Ojarcé, a Communist, and was understandably piqued by the PDC's reversal of its earlier promise to cooperate with the PN on this effort. The first issue of the new PN daily "La Tribuna" appeared on 19 March. [2½ lines not declassified] The new paper provides a badly needed addition to opposition media capabilities.

*Christian Democratic Party (PDC)*

The PDC has received the [*dollar amount not declassified*] authorized for its election campaign. [*9½ lines not declassified*]

PDC propaganda continues to focus on loss of personal liberties and political freedom, representing the PDC as the defender of democracy and traditional Chilean institutions. The party is doing a good job of publicizing rural unrest and campaign clashes and violence, and has also been emphasizing unemployment and the economic chaos which is already leading to shortages of basic consumer items. The "Copper Scandal" is being fully dramatized and exploited but preoccupation with this issue led to a Party decision not to cooperate with the PN in that Party's efforts to impeach the Labor Minister and reopened inter-party rivalries. Despite the PDC's strong efforts, it remains doubtful that the PDC will be able to maintain even the vote level it achieved in the presidential campaign. The results of a public opinion poll conducted by the PDC were so discouraging that the percentages are known only to a handful of national leaders. The key question remains the extent to which the PDC has retained voter support among low income groups.

*Democratic Radical Party (PDR)*

The PDR has received the [*dollar amount not declassified*] authorized for the elections. As reported previously, a decision regarding the PDR purchase of a radio station will be deferred until after the election. The PDR continues to use both public media and personal contact to attract Radical Party voters. [*less than 1 line not declassified*] a popular women's leader has been actively organizing democratic women, concentrating on those who might otherwise vote for the Radical Party instead of the PDR, and is convinced that her efforts have been successful in stimulating women to vote for "democracy rather than Communism."

IV. *The Campaign of PDC Candidate Zaldivar in the 10th Senatorial District*

In pursuing its efforts to line up PN and PDR support for Zaldivar, thus increasing Zaldivar's chances of winning in a two way race against UP candidate Sepulveda, the Station has had to work its way through many confusing, intricate and often conflicting accounts of significant developments bearing on the possible withdrawal of PDR candidate Ovalle. [*2½ lines not declassified*] The original problems lay in the bitter rivalry and mutual distrust between the PN and the PDC, but it now appears that Ovalle himself has decided to stay in the race despite official assurances from PN leaders that they would not oppose his withdrawal. In spite of Zaldivar's fine campaign performance, prospects are now that Sepulveda will win even though the democratic

parties may gain the “moral” victory of a larger total vote for their two candidates. However, even at this late date, there is still a remote possibility of Ovalle’s withdrawal from the race.

V. Other [*less than 1 line not declassified*] Activities

[*less than 1 line not declassified*] complex has published a series of information reports which are critical analyses of developments in Chile. These are distributed inside Chile and have been enthusiastically received abroad, where they have received wide press play. [*6 lines not declassified*] All of these [*less than 1 line not declassified*] publications are essentially objective but are carefully tailored to contain a subtle anti-government slant.

An economic study on Chile, factual but emphasizing unfavorable developments, was prepared by a [*less than 1 line not declassified*] research firm [*1 line not declassified*]. The study has just appeared and has received wide distribution among leading businessmen and journalists in some 54 countries. The press release announcing its publication was picked up and replayed by international news services such as UPI and Reuters and was published by newspapers in various parts of the world including the PDC paper “La Tarde”. The firm has already received complimentary letters from such prominent U.S. newsmen as David Lawrence, Arthur Sulzberger and Stirling Slatpey and from leading firms such as King Resources, Anaconda, Kennecott, Continental Can, and many others. A Chilean Government Agency has requested copies.

[*1 paragraph (11½ lines) not declassified*]

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**59. Conversation Between President Nixon and the President’s Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, April 6, 1971.

[Omitted here is discussion unrelated to Chile.]

Nixon: What do you think of the Chilean election? The local election strengthened Allende.

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<sup>1</sup> Summary: Nixon and Kissinger discussed the recent elections in Chile.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 245–6. Secret. According to the President’s Daily Diary, Nixon and Kissinger met in the Executive Office Building from 10:06 to 10:35 a.m. (Ibid., White House Central Files) The editors transcribed the portion of the conversation printed here specifically for this volume.

Kissinger: Exactly what I thought. It shows how crooked, you know—

Nixon: Well, I think he's fixed them, too. I don't trust him.

Kissinger: No, but he has this effective [unclear].

Nixon: He's been playing it smart.

Kissinger: He controls all the media now.

Nixon: Oh, yeah. Yeah, yeah, yeah.

Kissinger: Look, he's got the television. He's got the press.

Nixon: I know. I got it. There's no press. There's no opposition press. Everything, he's got.

Kissinger: And the left-wing of his—

Nixon: You—you're way ahead of me. I didn't realize that. Of course. Of course. It's a fascist state.

Kissinger: And the left-wing of the Catholic is distinguished from him only because they're Catholic. And this is—you had Frei pegged all along. I—

Nixon: Has he joined him?

Kissinger: No, he hasn't joined him, but he has almost the same program, except that he's a Catholic, so that—

Nixon: Do they acknowledge that?

Kissinger: —Frei is now on the right-wing of his party. The left-wing of Frei's party is already, is practically on the Allende side. But, last year, when the State Department was trying to get us, to keep us, to stay on the sideline—I don't mean Bill [Rogers], because he was addressing this through Charlie Meyer—that time they were telling us if we could string Allende along till the provincial elections, they could knock him down then, because the economy would be bad by then.

Nixon: Yeah. Incidentally, [unclear] give him a year. We're still keeping our tough policy with regard to Chile, aren't we?

Kissinger: Yeah.

Nixon: Are we?

Kissinger: In a way.

Nixon: Yeah.

Kissinger: But there's no enthusiastic support. Are we doing enough?

Nixon: Well, what's the problem?

Kissinger: They're not getting any loans, Mr. President. He's played a masterful game, that Allende—

[Unclear exchange]

Kissinger: I don't know. I'd like to have my staff pull together all the papers they've written and [have] an analysis made, which also

suggests a new policy—a new policy because our people were, were almost as opposed to Alessandri as they were to Allende.

Nixon: No shit.

Kissinger: And they were so determined—for example, Anaconda wanted to put money into the election, and they wouldn't let them do it.

Nixon: For Alessandri?

Kissinger: Yes.

Nixon: Goddamnit.

Kissinger: They wanted to keep the option open for the Christian Democrat [Tomic], who never had a chance.

Nixon: Well, wasn't that the guy the Ambassador [Korry]—?

Kissinger: That was a [unclear] Senator.

Nixon: Where did the Ambassador—? Look, he was for Frei, wasn't he?

Kissinger: He was for Frei.

Nixon: Oh, I know. That's why I never had any confidence in him. I—with all of his damn writing about—Goddamnit, he was for Frei, because he's, basically, a liberal Democrat.

Kissinger: He's been—

Nixon: He's still there?

Kissinger: He's being pulled out.

Nixon: Is he?

Kissinger: Yeah.

*[45 seconds not declassified]*

Nixon: Maybe he'll write a bestseller.

Kissinger: He writes well.

Nixon: Well—oh, right. I'll say. All right, tell him to give him another post. Tell—

Kissinger: Tell Flanigan?

Nixon: Tell Flanigan to find any post that he can, preferably one in Asia.

[Omitted here is discussion unrelated to Chile.]

# 60. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, April 12, 1971, 2205Z.

1953. Pass OPIC. Subject: Outlook for Copper Compensation.

1. A number of recent straws in the wind reinforce my conviction that successful negotiations between the GOC and the three US copper companies are already well advanced and that the realistic margin for serious difficulty is comparatively small.

2. Having already publicly committed his government to assumption of obligations to the EXIM and to other international creditors (Feb 21 at Chuqui), having publicly stressed his awareness of the intimate connection between OPIC, the copper companies and relations with the US (Feb 21), and having publicly emphasized on many occasions his desire for "the best relations" with the US, Allende has now told the country that he will have realistic negotiations with the US copper companies once the Congress has acted on the constitutional amendment. He chose a select audience to make this point, a meeting of all the journalists of the left (septel); to me, at any rate, his point was very clear. After stating that he was not motivated by any revanchist spirit, Allende declared:

Qte We are ready to talk. It is clear that this conversation is strengthened when the government has the legal instruments that permit it to do so in better conditions because it represents the will of the people. This is the case with the constitutional reform to nationalize the copper mines. But, logically, once the modification of the constitution is realized, we shall talk with the representatives of the copper mines (sic). We do not wish to usurp anything from anyone. But neither do we wish to give windfalls or advantages to anyone. First the interest of Chile, second the interest of Chile and third the interest of Chile. I should tell you, for example, in response to a question put by a correspondent representing a North American paper, that conversations with the representatives of Guggenheim are underway to arrive at an accord concerning the bonds issued by Corfo when the (mixed nitrate company) Soquimich was formed. Well, this would signify a payment of a determined number of millions of dollars in a term of 15 to 18

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<sup>1</sup> Summary: In this telegram, Korry recounted Allende's public declaration to maintain good relations with the United States and his desire to enter into realistic negotiations with U.S. copper companies concerning compensation for expropriation. Korry offered an optimistic view of the prospects for negotiations.

Source: National Archives, RG 59, Central Files 1970-73, INCO 15-2 CHILE. Confidential; Priority; Exdis.

years. We have launched conversations and I believe that we shall arrive at an accord and this accord will be made known very quickly and that it will mean that one-third or one-fourth will be paid in cash. It is beneficial to the representatives of Guggenheim and is beneficial for the popular government which is demonstrating that a dialogue carried out clearly and without prejudice permits the attainment of solutions and that with it, we shall be taking another step towards a fundamental wealth such as nitrate, plus iron, plus copper. Unqte.

3. As in his previous public utterances on the subject, Allende is responding directly to the points made earlier to his ministers or such quasi-ministers as CAP's Matus. He is responsive to arguments that are commonsensical from a Chilean analysis of its situation, that are forthright in presentation yet reasonable in formulation and sensitive to Chilean preoccupations. What has impressed me is the speed with which Allende provides his answers to questions put in private, in this case as in all previous instances, within a few days time.

4. Another response of his that emanated from my conversations with Almeyda April 2 and March 29 has occurred in the copper bill itself. While the legalistic caveats are still in force, it is a considerable step forward to have the Congress insinuate that the 51 percent accords will be respected (Santiago 1921). This move towards resolution of a fundamental issue was, I would hazard the guess, not merely the consequence of a PDC initiative but of an implicit understanding between the PDC and the govt. Almeyda understood that I was telling Washington that I had considered the UP's pre-election opposition to the PDC amendment to be a breach of faith with me in view of the understanding that I had had with the MinMines Cantuarias re Bethlehem. Thus the two major elements of a copper settlement, recognition by the GOC of third party debts and of its 51 percent commitments, are shaping up well, whatever the legal loopholes may still be.

5. Still another fulfillment of a promise made to me by the GOC has materialized in the form of negotiations between Andina and the govt. Thus far the conversations have been taking place at an extra-official level that are preparatory in nature for formal talks I would expect to begin very shortly between the GOC and Cerro. Andina's president Figueroa came to the residence over the weekend to "congratulate" me on the changes made by the House in the legislation, to ask how it was done and to lament his failure to gain from that same body the elimination of Andina from the bill. He confessed that he had gone against my suggestions by putting the weight of Andina's effort on his impossible aspiration for exclusion, while deliberately foot-dragging the direct negotiations. Now that he recognizes his lobbying with the PDC and the PN was futile, he was won acceptance from Cerro to accelerate immediately (today) the real-world direct negotiations.



Thus far these talks have been carried out by his general counsel, Puga, with Andina's Communist board member Farru. The parameters of term for full compensation of Cerro's equity and debt have been adumbrated (a minimum of seven years, a maximum of 15); sales of copper, technical assistance, acceleration of the so-called "U" subordinated obligations and other topics have been considered by the two negotiators, neither of which has authority to commit his principals and thus not worthy of detailing here. But since Almeyda, Cantuarias and others have pointedly asked me at social occasions if matters were not progressing with Andina, the point being to stress their fulfillment of a pledge, I assume the GOC is authorizing each point advanced by their unofficial rep and that Cerro reps will soon arrive.

6. I have always regarded, as Dept aware, Andina as special case within the very special copper theme. There was no reason to doubt that the GOC had accepted the arguments articulated at my first lunch with Cantuarias months ago and that it would move to prove its bona fides with us and with the international community in relatively timely fashion. Nonetheless, Andina is an important building block in the construction of a solid structure, the apex of which is formed by Kennecott, Anaconda and ITT. The sooner an Andina settlement can be reached, the better I believe it will be for those three companies and for overall US interests.

7. There is a legitimate question as to whether the GOC shares this view of timing. Allende's language (para 2 above) could be taken literally to mean that he does not wish to start talks with Kennecott and Anaconda until Congress completes its action on the bill. Final enactment by the joint session only comes after the legislation has been approved finally by each house and after a 60-day cooling-off period. It is at that time that the President receives the bill for consideration of his additive, substitutive, suppressive vetos or his signature into law. Thus a literal interpretation would signify a negotiating period of Anaconda and Kennecott in August or September. I am inclined to believe the GOC would be willing to launch talks as soon as the Andina negotiations are completed and a final legislative text has been approved by each of the two houses. That could mean early May.

8. In ordinary personal circumstances, I would seek to impel such acceleration without hesitation. The longer that Anaconda's and Kennecott's properties are legally managed by those two companies, the more they will run into the inevitable problems of short-term financing, Chilean personnel placement, production difficulties; thus the greater will be the opportunities for serious misunderstanding, for blaming foreign devils, for debilitating mistrust. Also, I would anticipate that Allende would in the interim be seeking financial commitments of one kind or another in the US from private or public sources or from inter-

national institutions in which the US has some influence. Whereas I have believed a resolution of the problems involving US companies should be our overriding priority, a delay could obfuscate this goal and lead willy-nilly to damaging interactions of issues that we should strive to keep separate. When and if we settle the ITT and copper problems, a case-by-case examination of Chilean requests for credits would be justified. But to stumble into a kind of global quid pro quo negotiation would convert dialogue into delirium for both govts. For the moment, I intend to seek information on these matters:

A. Is Allende prepared to negotiate earlier or later re Kennecott and Anaconda?

B. Is there any prospect for further legislative improvements in the Senate where PDC Senator Aylwin has been considering further amendments? What effect would it have on timing?

C. Can the copper companies' discomfort with their management contract responsibilities offer an opportunity to convert these into consultancy arrangements and at the same time be the basis for broader negotiations?

Korry

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## 61. Memorandum of Conversation<sup>1</sup>

San José, Costa Rica, April 16, 1971.

### SUBJECT

U.S.–Chile Relations

### PARTICIPANTS

The Secretary of State

Charles A. Meyer, Assistant Secretary for Inter-American Affairs

Clodomiro Almeyda M., Foreign Minister of Chile

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<sup>1</sup> Summary: In his conversation with Rogers and Meyer, Almeyda stressed the importance of maintaining good relations with the United States. Rogers reiterated the point, noting that the United States did not expect its friends to always agree with it.

Source: National Archives, RG 59, Central Files 1970–73, POL CHILE–US. Confidential. Drafted by Barnes; approved in S. This conversation took place in the Secretary's suite at the Gran Hotel Costa Rica in San José where he was attending the OAS General Assembly meeting.

The Secretary opened by saying that in the speech he had delivered on the previous day, he had given an outline of U.S. policy towards Latin America: the U.S. wanted to cooperate and have good relations with any Latin American country which felt the same way. He said that the Foreign Minister represented a new government, which was perhaps still charting its course, but that he would appreciate any indication as to what Chile's policy towards the U.S. was going to be.

The Foreign Minister replied that his government had no intention of doing or saying anything that might lead to a deterioration in the good relations it had with the U.S. There would inevitably come a time when discussions would be necessary on specific issues, such as the copper mines, and his government's intention was to strive to maintain a framework of good relations within which such specific issues might be discussed.

The Secretary said that the U.S. also wanted to maintain good relations with Chile. It indeed maintained very friendly relations with several socialist countries, and in fact, these relations were better than those existing between these countries and the Soviet Union. He expected differences to arise between the U.S. and Chile, but hoped that this would not become an anti-American policy on the part of the Chilean Government. He said that U.S. policy with respect to Chile would depend on whether a) the U.S. concluded that the Chilean Government had embarked on an anti-American course and b) that judgment would be based both on what Chile said but more importantly on its actions.

The Foreign Minister said that Chile disagreed with some U.S. policies, e.g. Vietnam, and others, but this reflected a difference of opinion and no anti-American sentiment. He was sure that the U.S. disagreed with, for example, Chile's decision to recognize the People's Republic of China, but that he did not interpret this as anti-Chilean feeling.

The Secretary asked in the light of the Foreign Ministers OAS speech whether Chile would prefer to have an OAS without the U.S.

The Foreign Minister replied that on the contrary, the OAS could become a very useful forum for constructive dialogue between Latin America on the one hand, and the U.S. on the other. It would make no sense to speak of having an OAS without the U.S. as a member, the Foreign Minister said.

The Secretary stressed that the U.S. did not expect its friends to always agree with it, or to refrain from criticisms, but that the tone and intent of the criticisms were of paramount importance.

The Foreign Minister said that his Government had proved that it had no intention of taking advantage of events to do or say things that would lead to a deterioration in relations. Proof of this attitude was the Chilean Government's calm reaction to the dismantling of the Easter

Island installations and to the cancellation of the visit of the U.S.S. *Enterprise*.

The Secretary said that U.S. experience in dealing with socialist governments had shown that they spoke the same language ideologically. The difference between the various socialist countries lay in their actions. Both Chile and the U.S. would have to judge each other in the light of the actions taken by each, leaving ideological considerations to one side. It was interesting to note that several long-established socialist countries of Eastern Europe had approached the U.S. in the quest of increased contacts and investments, saying that the lack of these contacts and investments was the reason why their systems had not worked better.

The Foreign Minister replied that his Government was not opposed to foreign investments as such. The copper mining industry was in a separate category. He saw no contradiction between Chilean state ownership of the mines and new American investments, provided the latter were mixed in nature, and that the Chilean Government retained control of the “nucleus” of the Chilean economy.

The Secretary pointed out as he had in his OAS speech that the U.S. was not promoting U.S. private investment in countries that did not want it. What was objectionable was for a country to request private investment and then later to criticize the U.S. for doing what it had been requested to do.

In conclusion, the Secretary said that complete frankness was to be essential in communications between the U.S. and Chile, since frankness was the only way in which inevitable differences could be smoothed over. He suggested the advisability of communicating over differences in such a way as to avoid their being aired in the press.

The Foreign Minister expressed his agreement with this approach, and advised the Secretary to read his address to the OAS General Assembly carefully, since it outlined Chile’s policies clearly.

The Foreign Minister referred to Ambassador Letelier’s invitation to the Secretary to visit Chile and reaffirmed that invitation to visit at an opportune time.

**62. Memorandum for the 40 Committee<sup>1</sup>**

Washington, April 21, 1971.

**SUBJECT**

Status Report on Chile in the Wake of the 4 April Elections

**I. Summary of Election Results**

A. Final election returns confirm predictions that President Salvador Allende's Marxist-oriented parties would fare well in the municipal elections, even though his Popular Unity (UP) coalition failed by a hair to capture their coveted popular majority of 50%. Government parties collectively (including the splinter Socialist USP which supports the government but is not a member of the UP) won 49.74% of the vote while the opposition (including independent candidates) obtained 48.90%. The remaining 1.36% of the vote comprised blank or voided ballots. An official printed bulletin issued by the Chilean Ministry of Interior excludes the independent, blank and voided ballots, allots each party higher percentages and shows the UP receiving 50.86% and the opposition 49.16%. This claim is gimmickry designed for propaganda purposes and is being contested by opposition parties.

B. Allende's authority within the UP has been strengthened by the elections, as was expected, and he has already warned the opposition that he will seek approval of his policies by plebiscite if opposition congressmen try to block his legislation. The opposition, however, has regained its confidence and now has both the will and the ability to resist because they, as does Allende, view the election results as a stand-off when they really expected a conclusive Allende victory.

C. A breakdown of municipal election results by party is as follows:

**Popular Unity (UP)**

Socialist Party (PS)	22.39%	(381 councilmen)
Communist Party (PCCh)	16.97%	(230 councilmen)
Radical Party (PR)	8.00%	(138 councilmen)
Social Democratic Party (PSD)	1.35%	( 11 councilmen)
Popular Socialist Union (USP)	<u>1.03%</u>	<u>( 6 councilmen)</u>
<b>TOTALS</b>	<b>49.74%</b>	<b>(766 councilmen)</b>

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<sup>1</sup> Summary: This memorandum provided a post-April 4 status report which argued that, despite the fact that the UP coalition gained nearly 50 percent of the vote in the April elections, the opposition regained confidence in itself.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A handwritten notation at the bottom of the first page reads, "Group discussion 26 May 71."

### Opposition Parties

Christian Democratic Party (PDC)	25.62%	(510 councilmen)
National Democratic Party (PADENA) (supported by PDC)	0.48%	( 2 councilmen)
National Party (PN)	18.12%	(346 councilmen)
Democratic Radical Party (PDR)	3.80%	( 56 councilmen)
Independents	0.88%	( 9 councilmen)
TOTALS	48.90%	(923 councilmen) <sup>2</sup>

D. The above figures warrant the conclusion that the opposition ran a well-targeted and reasonably successful campaign by virtue of getting more individual municipal candidates elected than did the UP (923 as opposed to 766). Carmen Frei, former President Frei's daughter and the PDC standard-bearer in the municipal elections, won the highest national vote total, followed closely by National Party President Sergio Jarpa. Overall, these achievements helped to offset the opposition defeat in the separate 10th District Senate race, where UP candidate Adonis Sepulveda obtained 49.62% of the vote, winning more than the combined total of votes cast for his two opponents, Andres Zaldivar (PDC—32.08%) and Jorge Ovalle (PDR—15.17%). Zaldivar won a considerably higher proportion of the vote than the PDC obtained nationally for whatever consolation that was worth to the PDC.

## *II. Post-Election Political Trends*

### *A. The UP*

(1) The Communists have been supplanted by the Socialists as the principal force in the UP coalition. The PCCh's 16.9% is little more than its historic growth rate, and the PCCh's inability to move forward significantly despite its superior organization demonstrates both an ingrained resistance to Communism which has been built up in the electorate over the years and the success of the anti-PCCh electoral campaign waged by both the PDC and the PN. Allende and the PCCh itself are ascribing the PCCh's lack of progress to these PDC/PN attacks.

(2) The Socialist Party with 22.39% of the total vote was the biggest gainer, since it had received only 12.2% in the 1969 congressional election and 13.9% in the last municipal election in 1967. The PS is obviously the beneficiary of Allende's personal popularity and the traditional "honeymoon" era of a newly-elected president. Socialist predominance in the UP may reduce the depth of Chilean ties to the USSR,

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<sup>2</sup> These are the official figures released by the Ministry of Interior, but the Ministry obviously has made an error since only 1,653 (rather than the 1,689 listed) can be given seats. [Footnote is in the original.]

but it may also tend to anesthetize those sectors of the opposition whose primary concern has been the threat of a PCCh takeover in Chile. The PS victory also increases the likelihood of Chilean support to revolutionary groups in other countries.

(3) The big loser in these elections was the Radical Party (PR), once the center fulcrum of Chilean democracy, which sank to an all-time low of 8%. Despite its electoral losses, PR votes once again gave the required cutting edge to Allende's political power, and its presence in the UP coalition continues to provide the cloak of respectability that Allende both craves and needs. In his first post-election press interview, Allende recognized this when he made clear that there will be no change in the government's internal structure and that "the Radicals will continue to keep three Ministers because the system will continue as it has so far." Opposition parties will continue to try to split the Radicals away from the UP, but this goal will be difficult to achieve.

### *B. The Opposition*

#### *(1) General*

There is no doubt that the April elections were held at a time most favorable to the UP, which had taken a number of very popular actions while the negative economic effect of inflationary measures (such as increasing the money supply by some 80% over a year ago) had yet to become apparent. Despite these disadvantages and the strong personal appeal and charisma of Allende, opposition parties did much better than expected. The PDC remains the largest single party in Chile. The PN continues to be a significant political force and provides the opposition with a desirable centrist personality. All opposition parties could gain at UP expense if the country moves into an economic crisis in the months ahead. As stated before, the election results have restored the opposition's confidence in its political viability despite a strong current of pessimism during the elections.

#### *(2) The PDC*

The PDC, still the strongest single party in Chile, obtained a total vote of 26%, which is not far below the 28.1% received by Tomic, PDC candidate in the 1970 presidential elections.

The PDC leaders believe the inconclusiveness of the municipal elections, in terms of Allende's desire for a clear majority mandate, has reduced the appeal of the UP among potential PDC defectors. At the same time, they realize that the next goal of the UP will be to split the PDC by attracting its leftist sector into the government. Intelligence reports indicate that Allende plans to make a public call for the PDC to join the UP in working "for the benefit of the country", branding those who refuse as "obstructionists" and offering government posts and other favors to those willing to defect to the UP. There will probably be some defections from the left wing of the PDC to the UP which conceiv-

ably could provide the UP with control of the Senate. On the other hand, the PDC as a whole has emerged from the election with a clear anti-Marxist orientation and would probably become more cohesive and effective in this respect if its more radical left-wing leadership departs.

Since the election, PDC contacts have indicated party determination to continue its efforts to strengthen the PDC's organizational structure, particularly among women, peasant, labor and neighborhood groups, and to further boost its media and propaganda capabilities.

(3) *The PN*

The PN was quite content with its 18.12% of the total vote and particularly jubilant about the PN being able to win this voting percentage without the appeal of a national figure such as Alessandri (who was supported by the party in the 1970 presidential election).

The PN is planning to strengthen the party organization in anticipation of the 1973 congressional elections. In the meantime, its leadership will continue to attack strongly the Communist Party, using its radio and newspaper ("La Tribuna", whose circulation is growing steadily and has now reached 7,000 copies daily) to blame the Communists for everything that goes wrong in the economy and elsewhere. [2 lines not declassified]

(4) *The PDR*

The PDR, a splinter party generally considered to be without any political future, was able to obtain 3.8% of the total vote, or almost half the total vote of its parent Radical Party which forms part of the government coalition and might have been expected to gain as did the other UP parties. The PDR will continue to provide a haven for Radical Party members disenchanted with their party's leftist leadership and discouraged by its poor electoral performance.

### III. *Effectiveness of Support to Opposition Parties*

In January 1971, when the Committee authorized financial support of Chilean opposition parties for the April municipal elections [*less than 1 line not declassified*] it was widely accepted that the UP might well achieve its goal of a popular electoral majority; with most, it was a question of how fine a majority. That prospect made it important that the opposition parties be enabled "to make a vigorous electoral effort to maintain the morale of their supporters, evidence party vitality, and strengthen those factions within their respective parties which are willing to make a united effort to maintain democratic freedoms". At least in Chilean eyes, these objectives have all been achieved. Specifically, the fruits of U.S. Government financial assistance have been:

—To deny Allende the clear popular majority he sought. He will now have to reconsider his concept of national plebiscites to push



through revolutionary programs since he cannot be sure of winning the support he needs. He has already done so in the case of his much publicized desire for a unicameral congress.

—The political opposition has successfully challenged the UP. The most timid sector of Chilean society (the monied and privileged, many of whom were prepared to leave Chile if the UP received 51% of the vote), has now become more optimistic and is to a large extent remaining in the country. They are encouraged not only by the results of the election but by the demonstrated willingness of the opposition parties to fight.

—The opposition parties have regained their confidence and have both the will and the ability to resist the UP. Official figures released by the Ministry of Interior indicate that opposition elected 923 municipal councilmen as compared with 766 councilmen elected by the UP.

—The opposition parties now have media capabilities which will be of great and continuing value in opposing the UP. The PDC is about to complete the purchase of Radio Cooperativa, and PN is continuing to make effective use of the newspaper “La Tribuna” and of Radio Agricultura.

[2 paragraphs (11½ lines) not declassified]

The future is not necessarily bright, as Allende will attempt to fulfill his promise to “make haste slowly but implacably” in carrying out his revolution, but at the least the opposition is buying time and remaining viable.

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### 63. Conversation Between President Nixon and the President’s Assistant for National Security Affairs (Kissinger)<sup>1</sup>

Washington, April 23, 1971.

Kissinger: Mr. President, we have one problem with an ambassador, which you may have to step in to. It’s Korry, sir. He’s just written you a long letter complaining bitterly about his mistreatment.

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<sup>1</sup> Summary: Nixon and Kissinger discussed how to handle Korry.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 487–7. Secret. According to the President’s Daily Diary, Nixon and Kissinger met in the Oval Office from 11:56 a.m. to 12:19 p.m. (Ibid., White House Central Files) The editors transcribed the portion of the conversation printed here specifically for this volume.

Nixon: By whom?

Kissinger: By, essentially, Rogers and us.

Nixon: What did we do?

Kissinger: Second—well, it's—he says he's tried to carry out his orders faithfully, and he's taking a beating as a result of it. [William F.] Buckley, who was down there to see him, has written us a letter.

[Omitted here is a brief exchange with White House Press Secretary Ronald Ziegler.]

Kissinger: I hold no brief for him [Korry] except that he needs the money, and that he has a hell of a lot of information of what we did down there. Bill is furious with him for something he did—for recommending that AID be moved out of the State Department—and he's being tough. But I hold no brief for him except that I think we ought to keep him employed until after election—

Nixon: And he's [unclear].

Kissinger: Yeah. He just knows too damn much. He's emotionally highly unstable.

Nixon: I agree with you. I think it's a problem that—what the hell are you going to do with him when he gets out and starts writing his books?

Kissinger: I'd make him an ambassador somewhere.

Nixon: You mean move him out of there [Chile], Henry?

Kissinger: Well, he is being moved out of there. That's already decided—out of Chile. It's already been announced. That can't be reversed. And I tried. And he's an unstable guy. I don't—I don't like him particularly. In fact, I don't like him, period.

Nixon: Yeah. I know. I know what you mean, but—

Kissinger: Let me see whether I can work something out there.

Nixon: Yeah.

[Omitted here is discussion of the Soviet Union, Vietnam, and other matters unrelated to Chile, portions of which are printed as Document 188 in *Foreign Relations*, 1969–1976, vol. XIII, Soviet Union, October 1970–October 1971; and as Document 190, *ibid.*, vol. VII, Vietnam, July 1970–January 1972.]

**64. Memorandum for the 40 Committee<sup>1</sup>**

Washington, April 27, 1971.

SUBJECT

Chile: PDC Request for Financial Support [*less than 1 line not declassified*]

1. In a memorandum to the 40 Committee dated 28 January 1971 and concerned with financial support of the Chilean opposition parties and the purchase of media outlets, [*8 lines not declassified*].

2. We are now prepared to support the Chilean Christian Democratic Party's (PDC) request [*5 lines not declassified*] this support will help bolster the political opposition to the Allende government, a goal which is consistent with the objectives set forth in the Central Intelligence Agency's Covert Action Annex to "Options Paper on Chile" (NSSM 97).

[*3 paragraphs (30 lines) not declassified*]

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<sup>1</sup>Summary: This memorandum informed the 40 Committee of support for the Christian Democratic Party's request for financial support to aid in the continuation of the newspaper [*text not declassified*].

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A handwritten notation at the bottom of the first page indicates that the information paper was distributed to the 40 Committee principals on April 28.

**65. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, April 28, 1971, 1935Z.

2256. Pass Mills/Salzman of OPIC. Subject: Meeting With Allende (Castro Cancelled?).

1. At Carabinero anniversary celebration afternoon April 27, Min Interior Toha took me aside to say President wished me to come to his home evening May 3. Later Allende came over to me to repeat this message to which I replied that happily I did not need to bring a pingpong racquet. (Meeting would be unpublicized since those are ground rules I specified long ago with Toha.)

2. Aside from planning an agenda for this meeting (on which addressee inputs invited) I would deduce that Castro is either not going to be in Chile Monday night or that Allende wishes me to believe he won't. It is also conceivable that Allende believes Edward the bald would be an appropriate act to follow Fidel the bearded.

3. I have talked in the past 24 hours to three persons of reasonable objectivity who have seen Allende the past fortnight. Aside from specifics that can be included in other reporting, I am struck by their deduction that Allende is reverting to form in personal habit. He is drinking heavily; he is nocturnally engaged in the state of his affairs; he is not dealing in a serious manner with precise affairs of state. Twice he received visitors in his pajamas, covered a la Napoleon with a luxurious cape of blue that did not clash with a complexion that revealed his recent indulgences.

4. In all conversations, Allende plays the tune his visitors wish to hear. In the past fortnight he has said to one, for example, that Min Agriculture Chonchol must go, to another that many wished to see Chonchol removed but who could replace him; and to a third that removal would provoke more problems than it would resolve. To those who are willing to accept socialism in Chile in a form approximating the Swedish or Austrian models, Allende expounds at length on his preoccupation with the economy, employing the word "crisis" over and over and blaming undisciplined "functionaries" for general and specific problems. He has a flair for the dramatic, as I have noted before, that he displayed in one of these recent interviews, by suddenly telephoning

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<sup>1</sup> Summary: In this telegram, Korry reported that Allende was not adequately attending to the details of state and concluded that, despite the President's considerable political abilities, Allende's behavior would hurt Chile in the long run.

Source: National Archives, RG 59, Central Files 1970–73, POL 15–1 CHILE. Confidential; Immediate; Exdis.

the head of the state railways, an engineer who happens to be named Castro, and declaimed (more or less textually): “Mr. Castro, I hear that you have scheduled a train of 12 carriages plus dining and sleeping cars to transport (so many) hundreds of your employees to a demonstration at Salta. Mr. Castro, you are an engineer, you know something about numbers, you must then know what the costs are. The President of the Republic expects you to do your sums in a professional manner.” Receiver then slammed down.

5. Allende is a brilliant politician who understands Chile and Chileans but he has only a half-grasp of his true economic problems. To achieve greater employment, less decapitalization in all significant sectors and less of a loss of skilled technicians, he must take effective corrective actions soon. Soothings of each group is his style but the indigenous professionals require substance to invest in the future. From my other conversations the past 24 hours with Minister Economy Vuskovic, his Deputy Garreton, Toha and others, I would venture the guess that they will try to move in a pragmatic direction with the active support of the Communists. Indeed it is their economic fears upon which I have been playing in my efforts to arrange acceptable deals for US companies. Of course, for us, this is a transitional negotiation period, as for Chileans, I repeat what I reported in Santiago 2236 prior to talking to recent Allende visitors: he has neither the temperament nor the intellectual experience to sustain systematic management and he has internal contradictions both as to his person and his government that will not be easily reconciled.

**Korry**

# 66. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, May 5, 1971, 2330Z.

2394. Pass Eyes Only for Mills/Salzman of OPIC. Subject: Happy Hour With Allende. Ref: Santiago 2353.

1. Allende's invitation to have drinks with him came after I had sidestepped suggestions from him and from his ministers that I should request an audience. It was my judgement that a structure of viable understanding had first to be established by events rather than words. I did not wish to hear pious generalities or dissemblings that might make page one of the *New York Times* but had no significance for our real problems; nor did I wish to utilize a first contact to recite well-worn homilies on US investment. I believed that by operating through select intermediaries, specifically Interior Minister Toha, Foreign Minister Almeyda, and subsequently Carlos Matus, we could mutually establish the rhythm of a normal relationship and the lyrics of pragmatic arrangements that would key Allende's ear to specific chords or discords.

A. Moreover, these channels afforded a screen of protection from the "package" approach that intrudes almost inevitably in such situations—the temptation to trade off one problem for a package of them, to exchange settlements of immediate issues for aid, trade, or what have you. Since our immediate problems involved American companies, the GOC and the USG had to concoct eventful signals that could be translated into a language of contracts for those US firms. Then, too, the Unidad Popular experience had to mature sufficiently so that Allende, as its President, had some specific understanding of his economic challenges and so that his willingness to believe in crude international conspiracies was gradually displaced by a keener awareness of the market laws that govern the standard of living of his people; the law by definition must have the implication of sanction.

B. Finally, the Chilean likes to think of himself as the paradigm of astuteness which men of Allende's stripe interpret as getting the other fellow to commit without committing yourself. Being "astuto" is hand-maiden to Chilean "convivencia" and its obverse aversion to confrontation.

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<sup>1</sup> Summary: In this telegram, Korry reported that in his meeting with Allende the President was cordial and stressed that he wanted to maintain ties with the United States. For his part, Korry emphasized to Allende that the United States had not tried to squeeze Chile economically.

Source: National Archives, RG 59, Central Files 1970–73, POL CHILE–US. Secret; Priority; Exdis. Reference telegram 2353 from Santiago, May 4, is *ibid.*, INCO 15–2 CHILE.

2. Allende did not seem the least put out by my having waited him out. On the contrary, he did not indulge in dramatic posturings nor did he expend much breath on his clichés regarding our relations. He had not gone to his office that day (Monday), the official excuse being that he was at work on his state of the union message for May 21 delivery to Congress; I would say he had celebrated over the weekend his superb politico-forensic performance of May first. Settled into his armchair, drinking steadily throughout the 75 minutes (I would reckon eight to ten ounces and it was not his first walk to the well that day), mild of tone and somewhat glazed of eye, he had none of the bantam-cock strut and strum of his public appearances. He fell silent in the presence of his servant whose exit he awaited on three occasions to conclude a statement; perhaps this caution was for effect since it is conceivable that our conversation was being permanently recorded. I would echo the judgement of “superficial” that a recent Polish Communist media commentator made in assessing Allende a fortnight ago to our Embassy in Caracas. And without parroting the description of “liar” that my West German colleague has applied, I would say that truth like the law, free press and other bourgeois values, are instruments Allende measures as contributions to the revolution he avows is imperative for not only Chile but all LDCs. I did not choose to contradict him on many of his blatant mis-affirmations since I wished to use the meeting for the specific purpose of advancing our actual or imminent negotiations.

3. Allende provided me with my opening at the outset when he asked “how are things” and I replied that thanks to him, I no longer was running an Embassy but an advisory service for all the US companies he was taking over. I said that I knew he wished to have a frank talk that would serve to ease his problems and therefore wanted him to know what I had on my mind.

4. He said he wanted a forthright chat. He repeated in desultory pro forma way that Chile would never be used as a base against the US, that he wanted the best of relations with all people, that he was an admirer of Lincoln, that he had visited the US four times, that he knew a great deal more about our country than was suspected.

5. I said the Embassy had not only promptly reported all these affirmations but that we had identified him as a convinced socialist, a humanist and an excellent politician with a very deep perception of Chilean characteristics. Nowhere were these qualities more evident than in his May first speech.

6. He said he had laid the facts on the line with the Chilean public, that if they did not produce they would pay the price. I commented he had identified the true problem. His problem would fundamentally be management and bureaucratic parochialism that could result in mismanagement. That term did not have ideological significance; rather it

had productive implications. Chile could have the revolution it wished, but if it hoped to be successful it had to take into account the laws of the market place including access to capital, technology and markets; moreover it had to remember that men needed incentives. Management of the country's resources involved the future of US companies.

7. In particular I was concerned by copper since that metal could more than any other commodity affect our relations. He interrupted to say he was prepared to sell as much Chilean copper as the US desired. I said I had assumed that to be the case but that my preoccupations were of a different order. I ran through quickly his Feb 7 and 21 speeches, Vuskovic's remarks re nationalized enterprises to CIAP, my ministerial contacts and my relations with Matus and the Bethlehem accord. I said we had been exchanging signals; sometime the initiative came from the Chilean side, sometime from ours. Interests and dignity demanded a clear dialogue to avoid miscalculations and to foment an authentic effort to arrive at solutions acceptable to both parties.

8. I noted we had had good reason to be concerned by the original language of the copper bill; there were still parts that if applied could perturb our relations. However, the Cerro talks were underway and I was confident a settlement could be reached. I wished to know if the GOC were prepared to enter the second round next week as Cerro expected and I hoped. I also wished to know if he shared my view that a Cerro accord would be another significant block in the structure we had mutually been erecting to permit negotiations promptly to begin with Anaconda and Kennecott. I noted some Chileans had been speculating as to the advantages of awaiting union developments in our copper industry; others thought it would be advantageous to avoid talks in the 60-day cooling-off period and then apply the law unilaterally. I considered such possibilities myopically dangerous. Chile's chances of achieving an economic success rested first on copper production and secondly on international confidence. The sooner it resolved the copper question, the better for him, the better for us.

9. Allende said of course there would be a second round with Cerro. He wanted me to continue my contacts with Matus; they were important. As for the big two, it was nonsense to try to have Chile base its policy on a possible strike in the US mines. The talks with the two companies would begin once there was a Cerro accord and an agreed congressional text. The GOC did not wish to be punitive nor provoke problems with any US company; the interests of both parties had to be taken into account. I repeated to him my understanding of the foregoing and he confirmed it.

10. Allende then recited the imperatives of socialism for all LatAm. He said he did not expect me to comment as he lashed Brazil for its anti-Chilean posture and for what he said were the irreconcilable forces



fermenting within the country. Doubtless having in mind his success in seating the Cardinal of Chile on his May first platform in the midst of all the visiting Communist dignitaries, he said the GOB's conflict with the Church showed how impossible it was to stem the popular tide and the real aspirations of the people. The military experience in Argentina was another display of futility. Of course, he was a good friend of Castro, a very close friend, but the Chilean and Cuban situations were distinct. I cut in to say that President Nixon had made the distinction too. He said Castro had not written him a letter after the elections, advising him on how to deal with the US, but that an intimate friend (presumably his daughter Beatriz) had brought a message from Fidel cautioning Allende to take care to try to maintain the best possible relations with the US.

11. I said that I was disturbed by the actions of those who sought to depict the US as involved in a conspiracy against Chile. (See forthcoming septel about my concern re increasing anti-US propaganda in media.) I recalled that when I had gone to Almeyda in mid-November of 1970 to formulate the ground-rules for a viable relationship, I had told the FonMin that I knew the govt would be making a major effort to link us to the Schneider murder (on which a Cuban movie in circulation here blames the CIA) and similar deeds and that I welcomed the vigor the GOC would expend because it would then be satisfied that all the chatter was a canard. However, there was a new line in circulation to the effect that the US was squeezing Chile financially and by sabotage at the mines. Hence I wished to recite the facts:

- A. There had been no interruption in US commitments of any kind.
- B. Chile had removed almost all its deposits from the US but American banks had continued to give substantial loans and credits.
- C. Exim had, contrary to CAP's suspicions, not interfered in expenditure of any approved loan and Matus and Levine of CAP had so told me.
- D. Aid was continuing to disperse some \$30,000,000 in pipeline.
- E. Two IBRD loans had been approved with US support after Allende's inauguration. We had not interfered with the IBRD program.
- F. All significant US corporations had continued to work normally after Sept 4, 1970, and had avoided provocations as I had then urged.

12. I said I wished to elaborate on this last point since someone had supplied the President with erroneous info for his May first speech. Contrary to his statement that some 240 Anaconda technicians had quit their jobs, the facts were that the total had been 85, that of this number only 43 were Amcits, eight were Chileans and the remainder from other countries. Today 34 of the total were still on the job and would remain if the GOC so desired. Allende said that was a good idea. I said

the others had left because of mishandling by his functionaries and that in all copper cases, the US technicians, in their own interests, had been making a valiant effort to produce copper. At Teniente, Kennecott had brought in its own technicians to resolve problems artificially created by govt functionaries and had succeeded in raising production to 600 tons a day; at Rio Blanco, production was on target; and in the Anaconda properties there were problems at Exotica but as the name signified, it was a strange ore body that required expert geological and chemical guidance. If Chile wanted it, Anaconda would certainly provide it on a transitional or longer term basis, as would the other companies. Moreover, Anaconda was well advanced in securing \$100,000,000 in foreign credits for desperately needed working capital for the year at its joint venture mines (with Central Bank guarantee and with assurance that it would then receive its \$18,000,000 in pending dividends). None of this added up to conspiracy.

13. Allende who had been nodding his assent then gave me my only surprise. He said that he had a copy of our evacuation plan dated Nov. 25, 1970. I said if he were referring to what every Embassy in the world is required by administrative rules to do—the preparation of plans to evacuate under emergency conditions—it signified nothing. Moreover, I said the date for our Embassy sounded very wrong. Could he have meant an earlier period? No, he said, Nov. 25 and if you wish I shall get you a photostat. Can you imagine, he said, in the context of other events, the effect that this document had? I replied it depended upon the meaning people strived or not to put into every event, but that I could assure him it had no rpt no significance and that I was unaware of any such document. Moreover, such a document was not widely distributed. “I have good service, don’t I?” he laughed. (See septel this matter) I recalled that I had been very careful in what I said to his ministers and to Matus and that I had never indulged in misleading comments. Allende said he could so attest since both Toha and Almeyda had said I had been scrupulous in sticking to facts that had proved out and that they both had learned to respect me. He added that Djuka Julius, his good friend the editor of *Politika* in Belgrade, had also given him the same reading on me.

14. He asked why I was leaving. He wished me to know that he had never said a word against me or against President Nixon. Never. Never. My role in the Bethlehem negotiations had been very appreciated; my contacts with Matus had importance for the Cerro talks. Could I stay long enough to deal with the major copper problem? The GOC was in no hurry to see me leave.

15. I replied that my departure had nothing to do with policy, that as long as I was here, I would use my good offices to seek to avoid

problems that could complicate our relations. I expressed my appreciation for his confidence.

16. Allende then brought up the *Enterprise* and I rebutted that along lines known to the Dept. He lamented that US Ambassadors had cut themselves off from him, that the last substantive conversation with one was in 1958. I offered some reasons but refrained from recalling his rebuff to Amb Dungan when he created a cause celebre by handing over his letter to the press.

17. I outlined briefly the Ford case and he again agreed, including a specific promise to receive Thursday the visiting executives. No company could be forced to lose money, I said, but Ford wished to stay in Chile if a transitional or long-term alternative could be arranged. If not, they would reluctantly shut down.

18. I noted that ITT's problem was coming to a head but that Telco President Holmes was handling the matter and I hoped it would not require USG involvement because of our insurance policy. "A good friend of mine," Allende said of Holmes.

19. Since I had heard visitors arrive some time before, I suggested I leave. He asked if I could dine with him and Matus next week. I accepted with pleasure. He said Chile would pursue a pragmatic course with the US and avoid provocative actions or expressions. Such a policy coincided with my government's I said. As I left, I greeted the two waiting callers—Central Bank President Inostroza and CAP General Manager Flavian Levine, a combination that led me to conclude that their theme was the \$7,000,000 per month deficit of CAP because of exchange rate and other GOC policies affecting sales and production. In sum, they may have put the exclamation point to my case.

**Korry**

**67. Memorandum for the 40 Committee<sup>1</sup>**

Washington, May 20, 1971.

**SUBJECT**

Request for Funds to Satisfy Immediate Short-Term Debts of the PDC

1. On *[number not declassified]* May 1971, *[name not declassified]* a leader of the Frei wing of the Christian Democratic Party (PDC) met with Ambassador Edward M. Korry to discuss the party's outstanding indebtedness resulting from the municipal elections campaign, *[6 lines not declassified]* These debts are in addition to the *[dollar amount not declassified]* the party still owes from the 1970 presidential campaign.

2. The PDC fears that unless the short-term debts from the municipal elections are cleared, the party and certain of its leaders will be vulnerable to legal action by the Chilean Government and subject to political blackmail, particularly by the Communist Party. *[less than 1 line not declassified]* top PDC leaders are devoting full time to an attempt to resolve the current financial crisis. PDC parliamentarians have been requested to contribute their government salaries to the PDC treasury and have asked the government for advances on their pay to help alleviate the problem. He emphasized the extreme vulnerability, both to individual party leaders and to the PDC collectively, that the bad debts represent. For example, *[name not declassified]* has issued some *[dollar amount not declassified]* in protested or to-be-protested checks. The extreme left has been publicizing the rubber checks issued by PDC leaders and the preferential treatment they received from the State Bank and private banks in the form of loans without collateral, while low-income Chileans were denied this convenience until the Allende Government changed banking policies. The Marxists are not saying these funds were dedicated for political purposes; rather, they wish to create an impression of personal misuse.

3. In responding to this request from the PDC, Ambassador Korry is attempting to draw a clear distinction between those debts incurred

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<sup>1</sup> Summary: This memorandum stated that without a quick infusion of funds, the Christian Democratic Party (PDC) would be much weakened and vulnerable and recommended approval of the funds. The memorandum promised a proposal to the 40 Committee for long-term support to the Chilean opposition.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation at the bottom of the first page indicates that the 40 Committee approved the immediate passage of funds on May 20. Another notation at the bottom of the first page states that the Committee approved an additional transfer of funds on May 26 and wanted a report on why the National Party did not ask for more funds.

by the Tomic forces in the September 1970 presidential election [*dollar amount not declassified*] and those incurred by the Frei wing during the April 1971 municipal elections. The Ambassador feels that this underwriting of the repayment of the municipal election debt isolates the Tomic debt as a separate problem for the PDC.

4. [1 paragraph (14 lines) not declassified]

5. Ambassador Korry has requested approval in principle to cover the entire short-term debt of the PDC, [2 lines not declassified] The Santiago Chief of Station has concurred in this request. Assistant Secretary of State for Inter-American Affairs, Charles A. Meyer, Mr. William V. Broe of CIA, and Mr. Arnold Nachmanoff of the NSC Staff recommend that the 40 Committee:

a. approve by telephonic vote the immediate passage of [*dollar amount not declassified*] to the PDC; and,

b. withhold approval of the balance [*dollar amount not declassified*] requested by the Embassy until the 40 Committee can meet on the matter. This deferral would provide sufficient opportunity for the 40 Committee to consider the full implications of the U.S. Government underwriting the entire [*dollar amount not declassified*].

6. A comprehensive covert action proposal, which will encompass longer term support to opposition elements including the PDC, will be submitted for the Committee's consideration in the near future.

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**68. Memorandum From Arnold Nachmanoff of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, May 20, 1971.

**SUBJECT**

40 Committee: Chile—Request for Funds to Satisfy Immediate Short-Term Debts of the PDC

The memorandum at Tab A requests telephonic approval from the 40 Committee members for an emergency request to provide immedi-

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<sup>1</sup> Summary: Nachmanoff briefed Kissinger on the need for a quick infusion of funds to the PDC to pay its short-term debts and recommended that he approve the funds.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. Sent for action. Tab A is Document 67; Tab B is attached but not published. Haig initialed approval of both recommendations for Kissinger on May 20.

ately [*dollar amount not declassified*] to cover bad debts by the PDC resulting from the recent municipal election campaign.

An exchange of CAS Channel cables on this subject between Ambassador Korry and State/CIA is at Tab B.

The PDC has asked Ambassador Korry for funds to help the Party and some of its leaders to cover about [*dollar amount not declassified*] of short-term debts, [*dollar amount not declassified*] of which are already overdue. These debts are in the form of bad checks and letters of credit, and doctored invoices. The Party is attempting to raise funds from its own sources, but with little success thus far. Ambassador Korry and the Station Chief believe that the PDC and its leaders are extremely vulnerable to legal action and political blackmail by the extreme left as the debts fall due.

Korry and the Station Chief therefore have requested approval in principle to cover the entire short-term debt with immediate authority to pass [*dollar amount not declassified*] to the PDC to cover those checks already in default. They believe the security risk in introducing these funds is manageable (although CIA believes future funding will be increasingly risky if the PDC does not develop additional channels of funding [*less than 1 line not declassified*]).

Assistant Secretary Meyer, Bill Broe (CIA) and I met yesterday to discuss the request. We have agreed to recommend to the 40 Committee immediate approval for the [*dollar amount not declassified*] needed immediately. However, we felt that since there is no immediate operational requirement for the remaining [*dollar amount not declassified*] (those debts will fall due in mid-June and subsequently), and because we have some questions about the desirability of covering 100% of the PDC debt, we would recommend that we defer approval of the remaining amount so that the 40 Committee can meet and discuss this issue.

Alex Johnson, Admiral Moorer and Attorney General Mitchell have already given their telephonic approval to the proposal to pass [*dollar amount not declassified*].

#### RECOMMENDATIONS:

1. That you approve the immediate passage of [*dollar amount not declassified*] to the PDC.
2. That you agree to consider the question of the remaining [*dollar amount not declassified*] requested by Korry at an early meeting of the 40 Committee.

69. **Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, May 26, 1971, 1835Z.

2780. Pass OPIC Eyes Only for Salzman. Subject: Summary Cable Events May 26.

1. In interest of speed, following is recap of significant events which will be reported as time becomes available.

A. Allende met with Bradford Mills and me for 80 minutes morning May 26. After Mills made OPIC case, Allende spent almost full hour presenting Chilean point of view in cordial yet not very encouraging manner for Kennecott and Anaconda. My view is that meeting was worthwhile, that it represented continuation of dialogue, future of which will require much effort and sophisticated tactics on our part if worst is to be avoided.

B. Allende heard from top Chilean executive of El Teniente, Pedro Campino, yesterday a detailed, candid and objective account of how GOC is running that enterprise into the ground and endangering future of country. Allende kept silent throughout, was visibly impressed by facts and terminated meeting by asking that Haldeman come to see him. Haldeman appointment now fixed for May 31.

C. Executive Secretary of Fomento Fabril (Chilean equivalent of NAM) informed me today that organization's future president, Orlando Saenz, was convoked by MinEcon Vuskovic May 24 to be informed that 200 leading Chilean industrial enterprises would be nationalized within next few weeks. Saenz observed quite accurately to Vuskovic that the total number of "industrial enterprises" in Chile was only 200 at the most and that "thousands" of others that Vuskovic mentioned were not industrial enterprises but small workshops.

D. During foregoing conversation, the 14 leading textile enterprises of Chile were asked to voluntarily sell out totally at prices fixed by GOC. Because owners did not immediately comply, the 14 (controlling 55 percent of all textile production in the country) were each simultaneously occupied by their workers. The GOC, in the name of law and order, then requisitioned the plants to impose de facto nationalization. The same process will be used if necessary in the other 186 Chilean en-

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<sup>1</sup> Summary: Korrry reported that negotiations between Chile and the Kennecott and Anaconda copper companies were not proceeding well. He then discussed the increasing pace of the socialization of the Chilean economy.

Source: National Archives, RG 59, Central Files 1970-73, INCO 15-2 CHILE. Confidential; Immediate; Exdis.

terprises if their owners do not comprehend the message from the textile industry.

E. Although the Communist Party and the leaders of the Communist-dominated CUT (Confederation of Trade Unions) had been privately negotiating with Fomento Fabril (FF) in recent weeks to agree to a change in the labor law that “immobilizes” workers in a plant (preventing their dismissal except for the most extraordinary provocation), MinLabor Oyarce (Communist) yesterday informed FF there would be no change even though he acknowledged that the PCCh had favored it two weeks ago. Oyarce threatened managers with reprisal if there were any lack of cooperation with GOC. FF had been seeking a two-year moratorium in the law that would permit hiring to raise production to meet the demand caused by the flood of govt money to the public but wanted to have a legal possibility of layoffs when demand eased.

F. Allende held a press conference May 25 in which inter alia he said he had intervened personally in the Cerro negotiations and that the basis for an accord existed.

G. Am meeting early this afternoon with ITT execs and will tell them that I (rather than disclose Mills’ presence here) told Allende about the dimensions of OPIC’s coverage of ITT and its significance to bilaterals.

2. Comment: While we shall pursue the settlement of our bilaterals in a pragmatic and I trust productive manner, there should be no doubt in anyone’s mind that the pace of Allende’s road to socialism is being markedly accelerated. The possibility exists that if production remains insufficient, the govt, utilizing the same insidious instruments of so-called legality, will choose a few examples among the (non-Marxist) workers to convince their confreres that GOC will brook no resistance to its production drive. Since there will surely be an effort to blame the US for all that may go wrong with the economic process despite Allende’s ultra-flattering references to me in his conversation with Mills, it is imperative in my view that we manage our affairs in a way that will provide the basis for a sound defense. Allende lamented to Mills that the US was not granting credit. Since it was his monologue on his time and territory, it was neither appropriate nor opportune to challenge this point or others that were far more debatable. While I have scant doubt as to where Allende’s road will lead Chile, the US signposts along the way have to be selected with refinement and lettered with delicacy. More on the specifics in other messages.

**Korry**



## 70. Paper Prepared by the Ad Hoc Interagency Working Group on Chile<sup>1</sup>

Washington, May 29, 1971.

### OPTIONS PAPER ON PROPOSED EXIMBANK FINANCING OF BOEING AIRCRAFT FOR LAN-CHILE

#### I. THE ISSUE

What should be the USG response to a Chilean request for Eximbank participation in financing the sale of Boeing aircraft to the Chilean government airline?

#### II. BACKGROUND

LAN-Chile, the Chilean government airline, has agreed in principle to purchase from the Boeing Aircraft Company one 727–100C, one 707–320C, and one 707–320B for delivery in July 1971, March 1972 and May 1972, respectively. Purchase price including spare parts, support equipment and transitional training, would be approximately \$26 million. The transaction would be contingent on an Eximbank seven-year export supplier credit for 40 percent of the purchase price (or about \$10.4 million), plus an Eximbank guaranty for an additional 40 percent to be financed by a group of private U.S. banks. The GOC would guarantee the 80 percent credit portion of the purchase, and LAN-Chile would pay 20 percent down.

The GOC has stated formally to us that it intends to use the 707's on the proposed LAN-Chile services between Santiago and Frankfurt via Havana and other stops. On the other hand, there is a recent intelligence report which suggests the possibility that the GOC might consider using other than Eximbank-financed aircraft on its Cuba service.

Chilean Ambassador Letelier on May 7 asserted to Assistant Secretary Meyer that, according to Boeing representatives, Eximbank would find it difficult to proceed with the loan project for reasons “not pertaining to the operation in itself—presumably political considerations.” He further stated (as recorded in the Aide Memoire which he left behind on that occasion) that “in accordance with the purposes many times expressed by the heads of state of the United States as well as

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<sup>1</sup> Summary: This paper outlined the advantages and disadvantages of the Export-Import Bank providing funding for the Chilean national airline to purchase Boeing aircraft and presented options for the SRG's consideration.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-56, SRG Meeting, Chile 6/3/71. Secret; Nodis. Drafted by Fisher and Girdler.

Chile in the sense that both governments wish to maintain the most profitable and friendly relations, the GOC does not want to have to face a negative answer or an excessive delay on the part of the Eximbank in a regular operation which has an adequate economic and financial basis advantageous for an important American industry . . . The operation could strengthen the Chilean purpose to continue using U.S. material and technology in aviation. Thus, the GOC would rather have this matter submitted to the highest authorities of the U.S. and have their pronouncement before starting any formal negotiations with the Eximbank." He went on to request an answer by the end of May.

At that time Letelier stated that should the proposed deal with Boeing fall through, Chile would turn to Britain for VC-10's (but not to the Soviet Union) as alternatives to the Boeing. For their part Boeing representatives, perhaps reflecting the severity of conditions in the U.S. aerospace industry, have been unusually aggressive in pursuing this potential sale.

On May 17 Letelier told Ambassador Korry in Santiago that Eximbank's action in this case would be critical to the evolution of U.S.-Chilean relations, and that Allende adhered to this view in the strongest fashion, asserting, according to Letelier, that "If they refuse normal trade with us, then how can we interpret their desire as other than hostility?"

Ambassador Korry at the same time cabled that "independent of and prior to Letelier's raising of the Boeing problem with the Department and with me, we had concluded here that if an acceptable Cerro deal was reached and if we wished to contain the Kennecott and Anaconda problems we would recommend that the Eximbank go forward with LAN. We believe the measure stands on its own commercially; we believe that the GOC will not renege on its Ex-Im commitments; we believe that it will have positive, although not necessarily optimal, impact on the remaining copper negotiations; we believe that in the light of acceptable Cerro, Bethlehem and other similar accords, a negative position would belie our President's declaration that we are willing to have the kind of relations Chile wishes to have with us; we believe such negative impact would serve to make anti-Communist Chileans more receptive to the populist nationalism which fuels Allende's road-to-Socialism strategy; in this latter group we include military as well as civilian elements."

### III. DISCUSSION

#### *General Considerations.*

#### *Effects on Basic Relations with Chile.*

The immediate question is the relationship between the decision on the Eximbank credit for aircraft and the imminent negotiations be-

tween the GOC and the major American copper companies. The GOC, while mindful of the larger policy problems facing the USG on the Eximbank application, probably calculates with respect to the copper negotiations that the \$20.8 million in credit and guarantees it is seeking from the Eximbank in this transaction is convincingly modest in comparison with the several hundred million dollars at stake in the copper negotiations.

A negative decision on the Eximbank credit for aircraft would adversely affect the copper negotiations, where U.S. interests of such absolute and symbolic importance are at stake as to make copper the core element in our relations. Such a sequence of developments would acquire a downward momentum with serious and lasting consequences. A favorable disposition toward Eximbank financing for aircraft would by no means assure success in the copper talks, but it would improve the atmosphere both for copper and for other issues ahead in our relations with Chile. (The copper aspect is further discussed later in this paper.)

Beyond copper, another aspect touching on the fundamentals of our relations with Chile is the fact that the GOC quite evidently looks on the Eximbank–Boeing case as a test of the USG's readiness to allow Chile access to capital resources under U.S. influence under any circumstances.

Existing policy guidance provides that "the Export-Import Bank should issue no new credits to Chile and should reduce its export guaranties and insurance for Chile gradually and selectively."

There are implications both with respect to the copper negotiations in the shorter run and in the matter of access to U.S. financing in the longer run, which give to the decision on the Eximbank loan for aircraft certain watershed characteristics.

The GOC has chosen circumstances and timing favorable to itself to try to force a quick definition by the USG of its fundamental intentions toward Chile. In the political sense, Allende is in effect challenging President Nixon's declaration that we are prepared to have the kind of relations with Chile that it is prepared to have with us.

A negative decision on the requested Eximbank financing, by adversely affecting the copper negotiations and by persuading Chileans that they have no hope of any USG financing, would have the effect of showing us in an openly negative posture. This would come at a time when it is important that Chile, and not the U.S., bear the onus for changes for the worse in Chile and in our relations.

The Allende government since taking power has acknowledged the correctness of our relations with it and publicly reiterated from time to time its own desire to maintain good relations with the United States.

More recently there has been an accumulation of signs that Allende is feeling the pinch of reduced commercial bank lines of credit in the U.S. and that this together with evidences of Eximbank unwillingness to consider credits for Chile is raising the likelihood of open accusations that the USG is beginning to pursue a deliberately hostile economic policy toward Chile.

Specific cases which seem to bother the GOC include lack of interest by Chase Manhattan Bank in guaranteeing part of a purchase from Japan of a tanker vessel; negative responses from most of the members of a ten-bank consortium to GOC invitations to re-schedule over a long term at low interest and without GOC guarantees defaulted loans which had been guaranteed by the now-intervened A. Edwards Bank in Chile; Eximbank's unresponsiveness to soundings on new credits for expansion of the Chilean government steel company, for the state railways, and other applications totaling over \$16 million; and decreasing availability of Eximbank commercial guarantees and insurance for U.S. exports to Chile.

Sensitivity to these strictures is undoubtedly heightened by the GOC's intensifying economic problems, most of which are of its own making and which result from its studied alienation of the entrepreneurial sector, its disincentives to private investment, its discouragement of efficient management, and its resort to inflationary measures to provide immediate, politically advantageous increases in consumption by the working class.

We can expect the GOC to overlook, consciously or unconsciously, its own culpability for the drying up of foreign capital sources and to use every available means to lever out of the western financial community the capital it needs to help accomplish the transformation of Chile into a socialist society.

We can also expect that at least some elements within the government coalition will be prepared to press for a confrontation with us in the belief that they can attribute it to the U.S. and that the benefits they can derive from it would outweigh the gains available from continuing correct relations.

An appearance of unrelieved refusal by U.S. sources to consider any further Chilean capital needs would give some encouragement to those who want to convince the world that Chile is a victim of USG policy. Even those Chileans who have no enthusiasm for a confrontation with the U.S. would probably regard refusal of the Boeing aircraft financing as a significant negative signal from the USG. Some could be persuaded that it was a conclusive sign of the unwillingness of the USG to respond to Allende's invitations to have "normal relations."

On the other hand, anything more than the bare minimum required to maintain the correctness of our treatment of Chile and serve

our own immediate purposes would give unnecessary aid and comfort to forces embarked on a course inconsonant with our own.

In a very real sense, then, we are again faced with the problem of maintaining a public posture which is "correct but cool, to avoid giving the Allende government a basis on which to rally domestic and international support for consolidation of the regime."

*Position of Eximbank.*

Eximbank's exposure in Chile is shown in the following table:

	7-1-70	3-31-71
Loans	\$ 378,436,000	\$ 370,695,000
Guarantees	27,276,483	19,659,000
Export Credit Insurance	13,339,290	10,548,000
Gross Total Exposure	\$419,051,773	\$400,893,000

Eximbank loans to Kennecott and Anaconda in Chile outstanding as of 7-1-70 were \$72,205,000 and \$57,121,000, respectively.

Eximbank in recent weeks has discouraged Boeing from pursuing the aircraft financing project for Chile, in accordance with guidance and with its own banking considerations. Consulted specifically on how it might view the LAN-Chile project entirely apart from political considerations, Eximbank took the following position:

Provided the GOC acknowledged and assumed all debts to Eximbank of U.S. companies expropriated in Chile, Eximbank would be prepared to consider the LAN-Boeing application on economic-banking merits.

While Eximbank obviously cannot prejudge the economic-banking merits, there is no conclusive *prima facie* case against the loan.

Eximbank is of course prepared on this basis to cooperate in execution of USG policy with respect to Chile. It should be remembered that granting of this credit would require Eximbank to consider a number of other important loan projects in Chile.

*Other General Considerations.*

Sale of the aircraft would benefit not only Boeing and the depressed U.S. aerospace industry, but the U.S. balance of payments.

In addition, we have learned that McDonnell-Douglas and Boeing are pressing for Eximbank agreement to finance a prospective sale to an internal Peruvian airline operated by the Air Force (SATCO) of either two DC-9's or two 727's, worth between \$12 and \$13 million. Inasmuch as we have followed a restrictive policy on Eximbank lending to the Government of Peru somewhat similar to that with respect to Chile, the decision in the Peru case will obviously have some bearing on the Chilean one in that the Chileans will be alert to any difference in our treatment of the potential Peruvian case.

Apart from these general considerations, there are two special aspects to this problem, copper and Cuba, which are discussed below.

### *Copper*

The GOC clearly will relate the LAN Chile application to Eximbank directly to the copper negotiations, and Letelier gave Ambassador Korry the personal comment that the Boeing matter would have either a very negative or some positive effect on the Big Two.

Existing USG guidance on prospective copper investment expropriation provides that as the situation begins to develop “we would continue to apply present economic restrictions, but would be prepared to relax or intensify them depending on Chilean responses and the outlook for obtaining favorable results.”

The GOC has led up to the crucial matter of disposing of the major U.S. copper investments in Chile by (a) adopting a harsh constitutional amendment which could easily be interpreted in punitive ways so as to produce little or no compensation to the investors; and (b) negotiating, under the shadow of expropriation, agreements to buy out several other smaller American investors outside the copper mining industry, on terms which have seemed either satisfactory or not excessively unsatisfactory to the owners. These include Bethlehem, Armco, Northern Indiana Brass, Ralston Purina (yet to reach final terms), and RCA. Most of the investors named had investment insurance with the USG Overseas Private Investment Corporation (OPIC), which in several cases assisted actively from behind the scenes in the negotiations, and is transferring its insurance coverage to the resulting buy-out agreements. Talks have begun with ITT (the largest single U.S. investor in Chile with about \$150 million in the Chilean Telephone Co.), IBM, First National City Bank, and Bank of America. Ford is discussing with the GOC its withdrawal from Chile, with the GOC resentful of Ford’s actions thus far.

Although the GOC chose to include by name Cerro’s copper investment in Chile, Andina, in the constitutional amendment mentioned above, it also chose to recognize that the Cerro case differs from the other two major investors, Kennecott and Anaconda, in that the Cerro investment is a new one, in a property which is only now going into production, and on which Cerro has thus far received virtually no return. On May 19 representatives of the GOC agreed to buy out Cerro’s interests in Chile on terms close to the level at which Cerro was prepared to state it had been fairly treated. Allende has assured Ambassador Korry that the GOC will sign the agreement soon.

There remain Kennecott and Anaconda, against which Chilean emotions and the risk of punitive treatment run high. Allende has said that the GOC would be ready to start talks with Kennecott and Ana-

conda during the 60-day so-called “cooling-off period” between passage by Congress of the constitutional amendment on copper and its entry into effect. Congress passed the amendment on May 12, but as yet we have no information of a GOC invitation to either company to start talks.

We could seek to use Eximbank consideration of the loan as leverage on the GOC in the copper talks by making approval conditional on a satisfactory settlement or on satisfactory progress. However, because of the delay which this would entail, the GOC might well promptly conclude that our answer was negative, with consequent adverse effects on copper. Additionally, dilemmas could arise for us in trying to evaluate what was “satisfactory” and in avoiding direct USG–GOC bargaining.

#### *Cuba.*

LAN-Chile is committed to include Havana in its commercial air service to and from Europe. The Chilean Embassy has informed us officially in writing that LAN-Chile would use the two 707's in this service. LAN-Chile has said the same thing publicly. (A recent TDCS quoted the new Chilean Ambassador to Cuba as saying, “Boeing . . . has refused to sell unless it receives a guarantee that the planes will not be used on the Cuban run . . . (and) most likely the older planes will be used on the Cuban run . . .”)

The deliberate official and public emphasis on LAN-Chile's intention to use the new aircraft for service to Cuba comes close, in our judgment, to saying that the basic decision on this is not negotiable, the above-cited intelligence report notwithstanding. Subordinate points with respect to service to Havana might be negotiable.

#### *Legal Aspects.*

The Export-Import Bank Act of 1945 bars credits in connection with the purchase of any product by a Communist country or any agency or national thereof, or principally for use in a Communist country. Chile is not a Communist country as defined under the law, and the Act would appear to post no bar to Eximbank financing of the proposed transaction. Eximbank would, however, require that Chile certify that the aircraft would not be principally for use within Cuba.

The Cuban Asset Control Regulations would impose no restrictions on the proposed transaction, since no transfer of a property interest to Cuba is involved in the sale of the aircraft to LAN-Chile. Treasury concurs in this view.

Existing foreign assistance legislation, including PL-480, provides that no assistance under the FAA shall be furnished, nor any PL-480 sale made, to any country that does not prevent ships or aircraft of its

registry from transporting equipment, materials or commodities to or from Cuba so long as Cuba is governed by the Castro regime. (In the Iberia case mentioned below, personal baggage, mail, and humanitarian parcel post packages were interpreted as not constituting “equipment, materials or commodities” within the meaning of the legislation.) This prohibition means that the USG could not obligate funds (e.g., make new project or loan agreements) made available under the FAA. The \$20 million in the loan pipeline would not be legally affected, nor would the \$6.8 million in Food for Peace contemplated for distribution in Chile by voluntary agencies. The AID grant program projected for 1972 of \$1.25 million is primarily for USAID staff and would remain available to the extent needed for winding up programs. The \$150,000 contemplated for special development activities is similarly obligated on a project-by-project basis so that new, separate projects would be barred. The President may waive the prohibition on furnishing of assistance if he determines that furnishing of assistance is important to the security of the United States.

OAS Resolutions (9th MFM–1964) require that “the governments of the American States suspend all their trade, whether direct or indirect, with Cuba, except in foodstuffs, medicines, and medical equipment that may be sent to Cuba for humanitarian reasons; and that the governments of the American States suspend all sea transportation between their countries and Cuba, except for such transportation as may be necessary for reasons of a humanitarian nature.” There is no binding OAS resolution regarding suspension of air transportation to Cuba. However, there exist resolutions of the OAS (12th MFM–1967) requesting states that are not members of the OAS to restrict their “sea and air transport” to Cuba and recommending to member states that they strengthen their controls on travel to and from Cuba.

#### *Policy Aspects.*

While as set forth above there is no explicit legal barrier to Eximbank financing of aircraft to Chile even when intended for service to Cuba, there is no question but that such a transaction would be in conflict with our general stance on Cuba. A particularly sensitive problem is the potential use of the LAN-Chile service by Latin American revolutionaries traveling into Cuba for training and out of Cuba to practice violent subversion elsewhere in the hemisphere. Significant segments of Congress and the public would find this highly objectionable. On the other hand, segments of Congress and the public which have been quick to attack what they see as evidence of a too-hostile USG attitude toward Chile would criticize our refusal of the loan on such grounds as basically ill-intentioned toward Chile.

There would be a clear anomaly in our financing aircraft which has an intended purpose—i.e. service involving Cuba—at odds with the



U.S.-backed OAS position on Cuba. This could be dealt with by requiring as a condition of the loan that LAN-Chile not use the Boeing aircraft in any kind of service to Cuba. In view of Chile's unequivocal commitment to the installation of Cuba service with new aircraft, however, as mentioned above we believe the GOC would reject such a condition as discriminatory, arbitrary, politically motivated against Chile and an infringement on its sovereignty.

There would also be an obvious incongruity in our financing aircraft which might be put into a kind of service—i.e. the carriage of cargo to or from Cuba—which would legally require us to withhold new aid to the purchasing country. One way of dealing with this would be to make it an absolute condition of the loan, invoking general Cuba policy grounds, that LAN-Chile give assurance that it would not carry cargo to or from Cuba. The GOC could either accept the condition, or reject it as discriminatory and an infringement on its sovereignty and abandon the loan application. Another way to deal with it would be simply to remind the GOC that unless it is prepared to forego additional further aid from the U.S. it could not carry cargo to or from Cuba. In this case it is our judgment that the GOC would receive this as a positive, forthcoming response, and would either give assurance against carrying cargo (and thereby acquire a certain expectation of further additional aid from the U.S.), or decline to give the assurance, asserting its freedom to carry cargo and its readiness to forego further additional aid from the U.S.

The Spanish government airline *Iberia's* DC-8 flights to Cuba constitute a precedent (of which the GOC is doubtless aware) for Eximbank financing of aircraft serving Cuba while the purchasing country receives U.S. aid. We have an unwritten undertaking from *Iberia* that it will not carry cargo to or from Cuba.

#### IV. OPTIONS

##### *Summary*

The following seven options encompass three gross categories of choice:

- a prompt, unequivocal “no” (option A).
- conditional responses, related to both Cuba and copper (options B, C and D).
- conditional responses, related to Cuba only (options E, F and G).

With respect to making responses conditional on copper, it is understood that, while ideally we would await final copper settlements before agreeing to the aircraft loan, favorable developments in the talks could persuade us to respond with the loan approval at some earlier point, this to be decided by the SRG.

The three graded conditions on Cuba offered for choice in both sets of responsive options are:

- that Chile not fly Eximbank-financed aircraft to Cuba.
- that Chile not carry cargo on any flights to or from Cuba.
- that Chile accept a ban on further US aid if it carries cargo on any flights to or from Cuba.

It is understood that a favorable decision under any of the options would be subject to reversal by a serious adverse development in US-Chilean relations.

*Option A.* Decide now against Eximbank participation. (This would be the option most consistent with present policy.) In order to head off possible Chilean argument or willingness to negotiate, explain the decision on the grounds of both general OAS Cuba policy and general economic/banking criteria.

Advantages

—It would avoid an increase in the already large USG financial exposure in Chile.

—It would avoid USG involvement in the establishment of a new air service to Cuba.

—It would reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

Disadvantages

—It would have a strongly adverse effect on the copper negotiations, and give impetus to deterioration of our relations over the long term.

—It would tend to confirm growing GOC suspicions and lead toward open accusations against the USG of a deliberately hostile policy of economic pressure, contrary to positions taken publicly by President Nixon.

—It would deny the US economy the benefit of the sale.

*Option B.* Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that the aircraft will not make stops in Cuba, there is no non-banking impediment to the loan project; authorize Eximbank to begin processing the loan, but defer a final decision on it until there is clarification of the outlook for the copper expropriation problem.

Advantages

—It would offer the possibility of some leverage in the copper talks.

—If (as if likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and thus

- avoid an increase in the already large USG financial exposure in Chile.

- avoid USG involvement in the establishment of a new air service to Cuba.

- reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

- relate the Eximbank decision to Cuba policy and help counteract criticism of the decision in Chile and elsewhere

- If (as is unlikely) the GOC accepted the ban on flights to Cuba, it would avoid direct USG involvement in a new air service to Cuba.

- If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

- It would make available to the US economy the benefit of the aircraft sale.

#### Disadvantages

- The GOC might well promptly conclude from the delay while the copper situation developed that our answer was negative, with adverse effects on the copper negotiations and our future relations.

- The copper situation may fail to clarify in ways justifying any decision.

- Tying the Eximbank loan for aircraft to the copper negotiations could push us toward direct USG–GOC bargaining.

- If (as is likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and

- arouse strong criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

- deny the US economy the benefit of the sale.

- adversely affect the copper negotiations and our future relations.

- If (as is unlikely) the GOC accepted the ban on flights to Cuba, it could (depending on copper)

- increase the already large USG financial exposure in Chile.

- relax pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

- in any event make it more difficult to explain a denial of the loan.

*Option C.* Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that its aircraft will not carry cargo to or from Cuba, there is no non-banking impediment to the loan project; authorize Eximbank to begin processing the loan, but defer a final deci-

sion until there is clarification of the outlook for the copper expropriation problem.

#### Advantages

—It would offer the possibility of some leverage in the copper negotiations.

—If (as is possible) the GOC rejected the ban on cargo to and from Cuba, it would cause the loan to fail and thus

—avoid an increase in the already large USG financial exposure in Chile.

—avoid USG involvement in the establishment of a new air service to Cuba.

—reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

—relate the Eximbank decision to Cuba policy, and because of the reasonableness of our position, help in counteracting criticism of the decision in Chile and elsewhere.

—If (as is possible) the GOC accepted the ban, it would limit to a visible and at least symbolic degree Chile's breach of OAS policy on Cuba.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

#### Disadvantages

—The GOC might well promptly conclude from the delay while the copper situation developed that our answer was negative, with adverse effects on the copper negotiations and our future relations.

—The copper situation may fail to clarify in ways justifying any decision.

—Tying the Eximbank loan for aircraft to the copper negotiations could push us toward direct USG–GOC bargaining.

—If (as is possible) the GOC rejected the ban on cargo to or from Cuba, causing the loan to fail, it would

—arouse some criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

—deny the US economy the benefit of the sale.

—adversely affect the copper negotiations and our future relations.

—If (as is possible) the GOC accepted the ban on cargo to Cuba, it could (depending on copper)

—increase the already large USG financial exposure in Chile.

- relax pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

- involve the USG in the establishment of a new air service to Cuba.

- in any event make it more difficult to explain a denial of the loan.

*Option D.* Inform the GOC that, if its aircraft carry cargo to or from Cuba, it must be prepared to forego further US aid, but that there is no other non-banking consideration bearing on the loan project; authorize Eximbank to begin processing the loan, but defer a final decision until there is clarification of the outlook for the copper expropriation problem.

#### Advantages

- It would offer the maximum possibility of some leverage in the copper negotiations.

- Of the three copper-conditioned options, this would strike the most positive, auspicious note for the copper negotiations and our future relations.

- If (as is possible) the GOC excluded cargo from its flights to and from Cuba in order to remain legally eligible for further US aid, it could, depending on copper, limit at least to a small symbolic degree Chile's breach of OAS policy on Cuba.

- By omitting a prior condition on Cuba, and depending on copper, it could deprive the GOC of grounds to claim our treatment was discriminatory, arbitrary, politically motivated or an infringement on its sovereignty.

- If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

#### Disadvantages

- The GOC might well promptly conclude from the delay while the copper situation developed that our answer was negative, with adverse effects on the copper negotiations and our future relations.

- The copper situation may fail to clarify in ways justifying any decision.

- Tying the Eximbank loan for aircraft to the copper negotiations could push us toward direct USG–GOC bargaining.

- Depending on copper, the loan could be approved and

- increase the already large USG financial exposure in Chile.

- involve the USG in the establishment of a new air service to Cuba, with no apparent limitation on it.

—relax the pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

*Option E.* Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that the aircraft will not make stops in Cuba, there is no non-banking impediment to the loan; request Eximbank to begin processing the loan with a view to providing a preliminary commitment as soon as normal banking procedures would permit.

#### Advantages

—If (as is unlikely) the GOC accepted the ban on flights to Cuba, it would avoid direct USG involvement in a new air service to Cuba. In addition,

—Prompt processing of the loan request without awaiting copper developments would strike a positive, auspicious note for the copper negotiations and our future relations.

—Prompt processing of the loan request would deprive the GOC of grounds for accusing the USG of a deliberately hostile policy of economic pressure, contrary to positions taken publicly by President Nixon.

—Keeping the Eximbank loan for aircraft separate from the copper negotiations would reduce the risk of our being drawn into direct bargaining with the GOC on copper.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

—If (as is likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and thus

—avoid an increase in the already large USG financial exposure in Chile.

—avoid USG involvement in the establishment of a new air service to Cuba.

—reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

—relate the Eximbank decision to Cuba policy and help counteract the criticism of the decision in Chile and elsewhere.

#### Disadvantages

—It would deny to us the possibility of using the Eximbank loan request to obtain some leverage in the copper negotiations.

—If (as is unlikely) the GOC accepted the ban on flights to Cuba, it could

—increase the already large USG financial exposure in Chile.

—relax pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

—in any event make it more difficult to explain a denial of the loan.

—If (as is likely) the GOC rejected the ban on flights to Cuba, it would cause the loan to fail and

—arouse strong criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

—deny the US economy the benefit of the sale.

—adversely affect the copper negotiations and our future relations.

*Option F.* Inform the GOC that, provided it agrees to furnish, as a condition of the loan, assurance that its aircraft will not carry cargo to or from Cuba, there is no non-banking impediment to the loan project; request Eximbank to begin processing the loan with a view to providing a preliminary commitment as soon as normal banking procedures would permit.

#### Advantages

—If (as is possible) the GOC accepted the ban, it would limit to a visible and at least symbolic degree Chile's breach of OAS policy on Cuba. In addition

—Prompt processing of the loan request without awaiting copper developments would strike a positive, auspicious note for the copper negotiations and our future relations.

—Prompt processing of the loan request would deprive the GOC of grounds for accusing the USG of a deliberately hostile policy of economic pressure, contrary to positions taken publicly by President Nixon.

—Keeping the Eximbank loan for aircraft separate from the copper negotiations would reduce the risk of our being drawn into direct bargaining with the GOC on copper.

—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

—If (as is possible) the GOC rejected the ban on cargo to and from Cuba, it would cause the loan to fail and thus

—avoid an increase in the already large USG financial exposure in Chile.

—avoid USG involvement in the establishment of a new air service to Cuba.

—reinforce the pressures coming to bear on the GOC from scarcity of capital from western sources.

—relate the Eximbank decision to Cuba policy, and because of the reasonableness of our position, help in counteracting criticism of the decision in Chile and elsewhere.

#### Disadvantages

—It would deny to us the possibility of using the Eximbank loan request to obtain some leverage in the copper negotiations.

—If (as is possible) the GOC accepted the ban on cargo to Cuba, it could

—increase the already large USG financial exposure in Chile.

—relax pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

—involve the USG in the establishment of a new air service to Cuba.

—in any event make it more difficult to explain a denial of the loan.

—If (as is possible) the GOC rejected the ban on cargo to or from Cuba, causing the loan to fail, it would

—arouse some criticism in Chile and elsewhere that our imposition of the condition was discriminatory, arbitrary, politically motivated against Chile and an infringement of its sovereignty.

—deny the US economy the benefit of the sale.

—adversely affect the copper negotiations and our future relations.

*Option G.* Inform the GOC that, if its aircraft carry cargo to or from Cuba, it must be prepared to forego further US aid, but that there is no other non-banking consideration bearing on the loan project; request Eximbank to begin processing the loan with a view to providing a preliminary commitment as soon as normal banking procedures would permit.

#### Advantages

—Among all options, this would strike the most positive, auspicious note for the copper negotiations and our future relations.

—If (as is possible) the GOC excluded cargo from its flights to and from Cuba in order to remain legally eligible for further US aid, it could limit at least to a small symbolic degree Chile's breach of OAS policy on Cuba.

—By omitting a prior condition on Cuba, it could deprive the GOC of grounds to claim our treatment was discriminatory, arbitrary, politically motivated or an infringement on its sovereignty.

—Keeping the Eximbank loan for aircraft separate from the copper negotiations would reduce the risk of our being drawn into direct bargaining with the GOC on copper.



—If the loan went through, it would require the GOC to acknowledge and assume all debts to Eximbank of US companies expropriated in Chile.

—It would make available to the US economy the benefit of the aircraft sale.

#### Disadvantages

—It would deny to us the possibility of using the Eximbank loan request to obtain some leverage in the copper negotiations.

—Approval of the loan would

—increase the already large USG financial exposure in Chile.

—involve the USG in the establishment of a new air service to Cuba, with no apparent limitation on it.

—relax the pressures coming to bear on the GOC from scarcity of capital from western sources and increase Chilean expectations for additional Eximbank and AID inputs.

## 71. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, June 1, 1971, 1815Z.

2868. Subject: Exim–Boeing–LAN Chile. Ref: State 093739.

1. My recommendation is that the Exim financing of LAN Chile be executed promptly and unconditionally.

2. Before expanding on rationale for said recommendation, we should eliminate from our thinking any suggestion (para 4 reftel) that the GOC would accept a “condition”, informally or formally, not to use the planes for the Cuba–Europe run. There is no chance whatsoever. However, if its equipment and operational needs permitted (which I doubt but Boeing would know), LAN might be pragmatically persuaded to switch its older Boeings to the Cuba route while using the new ones for other routes.

<sup>1</sup> Summary: In this telegram, Korry recommended that the Export-Import Bank approve the financing of Chile’s purchase of Boeing aircraft without reservation. He stressed that the Bank proceed without attaching the condition that the Chilean Government not use those planes to travel the Cuba–Europe route.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–56, SRG Meeting, Chile 6/3/71. Secret; Immediate; Exdis.

3. It is my understanding that LAN Chile's in-hand Boeings (aside from those currently rented at high cost from Lufthansa) were also acquired with Exim financing and without any conditions; therefore, they could theoretically be used for a Santiago–Havana run, pending acquisition of other aircraft.

4. The British Ambassador's regular questioning as to our view of the Exim financing request would appear to be indicative of the UK interest in selling the VC–10.

5. There is a reasonable chance we could work out an informal understanding with the GOC about cargo to Havana but my assessment is that any specific loan pre-condition would be rejected out of hand as an unwarranted clamp on the country's sovereignty. Given Allende's known feelings on this subject, not to mention the ideological tenets of the PS and the PCCh, I do not see any possibility of acceptance of "political" conditions.

6. The critical questions from which we cannot shrink go beyond the bilateral context and even Cuba. Having refused a "normal" Exim operation, as the media here would present it and as all political parties, opposition as well as governmental, would interpret it, we would then appear to have justified the GOC's exercise of Chile's sovereignty in its assessment of "fair" compensation for Anaconda, Kennecott and possibly ITT. Failure to provide Exim financing for this comparatively small amount of money would surely tend to push the GOC towards harsher treatment of the big two of copper who in any event are being maneuvered by the Marxists into the status of a "special case" per IPC in Peru. If the GOC is going to trigger the OPIC insurance claims and the consequent calls on the US Congress, treasury and taxpayer for the funds, then at the minimum, Allende should assume full responsibility for having pulled the gun. He is certain that his presentation of Chile's case against the big two of copper, when presented to Latin and world opinion in the form of dividends and return on investment in recent years, will generate wide comprehension, sympathy and support, even in the US. If we were to strengthen that presentation and its global resonance by having provided gratuitously a pretext per rejection of Exim financing of Boeings, the USG position would be so undermined that even affected stockholders of the American companies concerned might well blame the USG.

7. Beyond that preoccupation is the question of the role of private investment in our overall foreign policy at a time when aid funds are not easily forthcoming from Congress and when the function of private investment overseas is designed to have multiple effect on the degree of pluralism in any country. Could OPIC survive the congressional grilling that would inevitably be the consequence of a substantial call on public funds to cover insurance claims? Without OPIC, or with a se-

verely crippled OPIC, would any private companies invest in Indonesia, Botswana or Surinam or other large mining ventures in LDCs under present consideration? Or even industrial activities of any significance? The issue is further complicated by the congressional interest that has been aroused by the Lockheed and Penn Central cases so that the overall environment at home is not the most propitious for assessment of an issue that does have broad implications for US foreign policy.

8. I am not rpt not suggesting that if the LAN Chile financing were forthcoming we could abort the aforementioned gloomy scenario. I would only go so far as to say that Exim financing would improve the climate for negotiation of the specific nationalization cases here and that it would avoid isolating ourselves once again into the immobility that the Hickenlooper and other amendments have forced upon us elsewhere in this hemisphere. Allende's undoubted appeal in Latin America stems from those three trends about which I first wrote so much upon arriving here—nationalism, populism and statism. A rejection by the Exim and the consequent events here would combine to reinforce these three elements just as Allende's election has already done throughout this continent.

9. I have another speculative thought in mind which I ventilate here because it has some connection with the matter under consideration. I have been much intrigued by the sequence of events that led that Communist tactical genius, Senator Teitelboim, to visit Cuba in April when Castro's planned visit to Chile was being cancelled. Last week the head of the Socialist Party, Senator Altamirano, traipsed to Havana for meetings with Castro and then went on to Moscow this week despite his preferences for Peking which he also will visit. My own reading of what is happening in Chile and in Cuba suggests to me that the Castro Bay of Pigs anniversary outburst against the US, our President and the OAS was directed more to a growing problem within Cuba and among Marxists in LatAm than to its apparent targets. Just as the Communists here have had their tactical way in every significant political event of importance under the Allende regime (for example, Allende over the past weekend rejected publicly and roundly the Mirista (Castroite) tactic (septel)) so, too, I would guess that the Communists in Cuba, acting in harmony with Moscow and the PCCh, are stepping up their efforts to bridle Castro. I believe they are exerting greater pressure now to cool his extremist foreign policy and concentrate on a more "business-like" (to use the Soviet term applied to Chile) approach to the problems of production. Castro must now be seen by Moscow, as by the PCCh, as a high-material-cost, low-political-return Caribbean version of the Sukarno investment. With their new Santiago model chugging along remarkably well on the political track and with the eco-

conomic problem here only about to be confronted, the Soviets, their PCCh advisors and perhaps their party in Cuba would probably like a more sophisticated performance from Fidel so that the Cuban-Chilean combination can be more effective in achieving the Kremlin's two immediate LatAm goals—the elimination of US influence and the coalescence of popular anti-traditional forces. If Altamirano, the “mature” expression within the Socialist Party of Chile of the MIRista (Castroite-Guevara) tactic has, even temporarily, acquiesced to the Allende-Communist-Soviet view in Chile, I would guess that a simultaneous effort is underway to bring Castro into line. The division of the left in LatAm has, despite the “objective coordination” that Regis Debray and others note between urban guerillas and established popular parties, been too haphazard and disorganized a tactic for Soviet tastes. The Allende model, with its ultra-successful Communist manipulation prior to and after his election, is much more suitable for a distant power with the USSR's experience, responsibilities and strategies. Castro's collaboration, arranged by Teitelboim early in 1970 for the specific purpose of getting Allende elected, would seem to me to be even more essential now as China edges into this part of the world.

10. If these celebrations on Cuba have any solid basis, then how we deal with Allende at this juncture will affect several subsidiary ARA equations as well as the larger calculus of US foreign policy objectives. My advice is to risk a modest loan and the domestic political backlash in turn for fortifying a longer-term goal of a stable world order and for the immediate tactical advantages in a bilateral game that has more than usual implications for our overall strategy.

**Korry**

72. Paper Prepared in the Department of Defense<sup>1</sup>

Washington, undated.

CHILEAN MINISTRY OF DEFENSE REQUEST  
FOR FMS CREDIT ASSISTANCE IN  
PROCURING ARMY AND AIR FORCE EQUIPMENT*Situation:*

Within the past two years, the Chilean Air Force has expressed an interest in purchasing the C-130H transport aircraft and a modern replacement fighter aircraft. More recently and following a period of negotiations with the aircraft manufacturers, the Chilean Air Force decided to procure, if credit could be obtained, three Lockheed C-130H transport and 12 Northrop F-5 fighter aircraft. The aircraft manufacturers were unable to arrange commercial credit on terms acceptable to the Chileans to finance the aircraft.

During the February visit to Chile by Admiral Zumwalt and party, the CINC Chilean Air Force, General Ruiz, requested FMS credit assistance in financing procurement of the aircraft. He emphasized that the Chilean Minister of Defense had approved the purchase proposal and that he would like to move quickly to consummate the purchase.

Subsequently, messages from the Embassy, DAO and MILGP, Santiago reported General Ruiz's continuing queries regarding a USG response on credit assistance and his increasing anxiety to move quickly with the aircraft purchase now that the Minister of Defense has approved. They also underscored General Ruiz's stated position that he would have to go to third sources for assistance if he were unable to obtain FMS credit assistance to procure the aircraft in the U.S.

The Embassy/MILGP was instructed in mid-March to inform General Ruiz that his request was receiving attention and a response will be forthcoming as soon as possible.

An options paper on the Chilean Air Force request was prepared by the Ad Hoc Interagency Group on Chile and submitted on 8 May 1971 for SRG consideration.

On 14 May 1971, however, a message from COMUSMILGP Santiago forwarded a new priority list of equipment received in writing

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<sup>1</sup> Summary: This paper detailed the advantages and disadvantages of U.S. assistance to Chile to purchase military equipment and presented options for the SRG's consideration. The paper included a section on how such assistance would affect U.S. relations with other South American nations.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-56, SRG Meeting, Chile 6/3/71. Secret.

from the Chilean Ministry of Defense. The F-5 aircraft was not included on the list, two instead of three C-130 aircraft were indicated and additional Army and Air Force equipment was listed in order of priority. The list is as follows:

<i>PRIORITY ONE</i> —Paratroop Equipment—Army	Approximate Cost
600 Parachutes T-10	\$400,000
600 Parachutes T-10A	
200 Parachutes G-13	
200 A-7A Equipment	
100 A-21 Equipment	
100 Armament Bags	
600 Parachute Carrying Bags	
40 Parachutes C-12D	
30 Parachutes G-11A	
200 Controllable Parachutes	
40 A-22 Equipment	
<i>PRIORITY TWO</i> —Two (2) C-130H Acft—AF	\$9,500,000
<i>PRIORITY THREE</i> —Five (5) UH-1H Helicopters with Spares—Army	\$2,500,000
<i>PRIORITY FOUR</i> —Four (4) T-37C Acft—AF	\$3,000,000
<i>PRIORITY FIVE</i> —Four (4) Bell Jet Ranger Helicopters—Army	\$1,500,000
<i>PRIORITY SIX</i> —Three (3) HU-16B Acft—AF	\$800,000
<i>PRIORITY SEVEN</i> —Four (4) C-47 Acft—Army	\$450,000
<i>PRIORITY EIGHT</i> —Ammunition, Rockets and Aerial Bombs—AF	Must specify
<i>PRIORITY NINE</i> —Ground Support Equipment for above Acft—AF & Army	Must specify
<i>PRIORITY TEN</i> —Twenty (20) M41A3 Tanks— Army	\$900,000
<i>PRIORITY ELEVEN</i> —Ammunition (10,000 Rd Cal 75mm and 10,000 Rd Cal 76mm).	\$350,000
TOTAL	\$19,400,000

Ambassador Korry has reported that the Chilean Ambassador to the United States, while on his recent visit to Santiago, informed him that the GOC had made a deliberate decision to omit the F-5 from the list because of a decision to give top priority to the C-130s and because soundings in Washington had led to the conclusion that now was not the time to push further for the F-5s. At the same time, General Ruiz requested that the USAF provide a total of six flying hours to two Chilean pilots for flight performance evaluation of the F-5 aircraft at Williams AFB, Nevada. The USAF has agreed to provide the flight time for an FMS cash cost of approximately \$5,000 with the clear understanding that the provision of this service in no way commits the USG to a subse-

quent approval of a request for aircraft procurement. General Ruiz has accepted the offer to provide the requested evaluation flights on an FMS cash basis. He also advised that following the flight evaluation of the F-5, the two pilots would proceed to Israel and then to France where arrangements have been made for them to make a flight evaluation of the Mirage aircraft. Following these flight evaluations, the Chileans are to make a decision as to which fighter aircraft will be selected for procurement.

With the receipt of the new priority list indicated above removing the F-5 from FY 1971 consideration, the aforementioned options paper on credit assistance for the C-130 and F-5, previously submitted for SRG consideration was withdrawn.

*Background:*

On December 19, 1970, the SRG decided to defer action as long as possible, while avoiding a negative reply, on any Chilean request for C-130 or F-5's. On February 17, 1971, the SRG approved a FY 1971 FMS credit level for Chile of \$5 million. In its discussions, the SRG recognized the possibility of using this credit to finance a Chilean Air Force purchase of C-130 aircraft. The C-130 is a four-engine turboprop transport configured for cargo and troop lift. With a payload capacity of 45,000 lbs, the aircraft is highly versatile in mission performance ranging from military airlift to civic action.

For comparison of FMS treatment being given Latin American countries, the most accurate figures are the present allocations of FMS direct credit, excluding guaranteed commercial loan potential. These are (in millions of dollars): Brazil 15, Argentina 13 (includes guaranteed private credit), Venezuela 10, Chile 5, Uruguay 4, Guatemala 4 and Colombia 3.

*Discussion:*

Through our Embassies in Buenos Aires and Rio we have consulted the Argentine and Brazilian governments on the Chilean request to us. We have also asked Embassies Lima, Caracas and Asunción for their views.

The Argentine government said that its military was concerned over possible offensive use of the troop-carrying equipment but understood that the USG had many other factors to consider and did not go beyond registering the worry in this regard. (Embassy Buenos Aires recommended against FMS credit sales to Chile.)

The Brazilian government only took note of the matter, asserting insufficient time for internal consultation. Our Embassy thought that we will probably receive informal comments during the next few days, but that it did not have the impression that further formal views were

likely to be forthcoming. It suggested that the GOB apparently does not wish to share responsibility for an affirmative decision nor contribute to a negative one.

Embassy Lima thought that the GOP might consider Chilean acquisition of parachutes and C-130's potentially more menacing than F-5's since Peru has Mirages because of their suitability for desert operations near Peru's southern border. The Embassy emphasized its concern over our treating Chile better than Peru, mentioning the additional factor of legislative restrictions regarding military sales to Peru. Embassy Caracas saw no particular reaction resulting from sale of parachutes and C-130's to Chile. Embassy Asunción forecast highly critical reaction from the GOP. Our soundings of our five Embassies brought out the strong common theme that our favorable decision on any important FMS request would require us to move immediately to give significant additional amounts to the respective countries in order to avoid serious effects on our relations. There was agreement among the Embassies that there would be considerable public attention to the transaction with Chile and debate over our motives.

Another factor bearing on the total program level concerns the worldwide FMS credit program ceiling of \$340 million imposed by Congress in approving the FY 1971 FMS legislation. While the FMS ceiling of \$75 million for Latin America established by Congress has been waived by Presidential decision, FMS credit programs approved for the region must continue to be accommodated within the \$340 million ceiling. Present estimates at this late point in the fiscal year indicated that an FMS program level for Chile exceeding \$10 million could not be accommodated within this overall ceiling.

The Chileans' new priority list, without the fighter aircraft and with a variety of both Army and Air Force equipment, may reflect to a large extent a desire on their part to test U.S. intentions regarding future military relations by listing only those items which have been made available previously to other Latin American nations. This is particularly true with respect to the C-130 transport for which the Chileans have expressed a continuing interest over the past several years.

Chile's alternatives to the equipment contained in their priority listing are all available in Europe or the Soviet Union. While the equipment request probably reflects a desire by the Chilean military to preserve its U.S. orientation, a negative response on the part of the U.S. would certainly result in a turn to alternative sources.

A direct FMS credit of \$5 million for Fiscal Year 1971 will obviously not be sufficient to purchase all the equipment requested (approximately \$20 million), but if \$5 million in funds were used to guarantee private credit, then a total credit of up to \$20 million could be



offered if the Chileans were able to obtain a commercial loan, guaranteed by DOD, with acceptable repayment and interest terms (DOD guarantees require a 25% credit reserve). Such an arrangement would result in Chile having one of the largest credit programs in Latin America.

Under present circumstances, however, the maximum feasible FY 1971 FMS credit program level for Chile is apparently \$10 million. We would not be able to accommodate in FY 1971 the total equipment requirements indicated in the priority listing. Within a \$10 million credit guarantee program level, however, all of the items in priority listings one and two—i.e., the paratroop equipment and the two C-130's—could be procured (assuming a DOD-guaranteed commercial loan could be obtained). Should a \$10 million guaranteed commercial loan not be attainable at terms acceptable to the GOC and direct FMS credit be required, the total credit program value would be limited to the approved credit level of \$5 million. This would cover all of the items in priority one and one of the two C-130 aircraft in priority two. In the latter case, an offer of credit for the purchase of one C-130 in FY 1971 would probably require approval in principle for the other in FY 1972, contingent upon the availability of funds, since a minimum of two aircraft would be required to maintain a meaningful lift capability.

Due to FY 1971 FMS credit limitations, the remaining priority listings would be deferred for consideration, if the Chileans request, as a part of the FY 1972 program when funded.

*Options:*

1a. Offer DOD-guaranteed commercial loan assistance for the purchase in FY 1971 of priority listings one and two with the total credit program not to exceed \$10 million (this would be sufficient to cover the total cost of the two priorities). The offer would include the provision that should the GOC not be able to arrange a DOD-guaranteed commercial loan, a direct FMS credit of \$5 million would be made available for purchase of items in priority listing one and one of the C-130 aircraft in priority listing two in FY 1971. Credit assistance for the remaining C-130 aircraft in priority listing two would be approved in principle for FY 1972, contingent upon the availability of funds.

*Advantages:*

- Would help maintain useful relations with the Chilean military.
- Would partially meet legitimate Chilean military requirements.
- Would favorably influence climate of bilateral relations.
- Would help maintain credibility of our correct posture.
- Would provide for continuing dependence of Chilean military on U.S. spares and advisory assistance.

*Disadvantages:*

—Would undercut our efforts to convey to other governments our concern about developments in Chile.

—Would cause some problems in our relations with Argentina, Brazil, Paraguay, Peru and Venezuela, especially their military forces.

—Would arouse criticism in Congress and other domestic sectors.

—Would contribute to the military capability of a country with a Marxist, anti-US government.

1b. Offer direct FMS and/or DOD guaranteed commercial credit for a total program of no more than \$5 million for purchase of items in priority listing one and one of the C-130 aircraft in priority listing two in FY 71. Credit assistance for the remaining C-130 aircraft in priority listing two would be approved in principle for FY 72 contingent upon the availability of funds.

*Advantages:*

—Would indicate, although to a lesser degree, U.S. desire to maintain cooperative relations with Chilean military.

—Would be less likely, with a smaller program level, to:

—Cause concern among Chile's neighbors.

—Arouse criticism in Congress and other domestic sectors.

—Undercut our efforts to convey to other governments our concern about developments in Chile.

*Disadvantages:*

—Would still arouse some criticism in Congress and other domestic sectors.

—Might adversely affect our relations with Argentina, Brazil, Paraguay, Peru and Venezuela, especially their respective military forces.

—Would, because of the low program level, probably result in Chile's turning elsewhere for military equipment.

—Might, even with a smaller program, undercut our efforts to convey to other governments our concern about developments in Chile.

1c. If either a. or b. above is approved, advise the GOC that the remaining items on the priority list will be considered for FY 1972, if desired, when the FY 1972 program is funded.

*Advantages:*

—Would clearly indicate to the Chileans that US desires to maintain cooperative relations with them.

—May preempt an early turn to third country sources for the equipment.

*Disadvantage:*

—Could be interpreted by Chileans as U.S. commitment to provide assistance in procurement of remaining items (although this could be minimized by clear statement that decision not possible until funding approved).

2. Respond negatively to the Chilean equipment request.

*Advantages:*

—Would clearly demonstrate to other countries our concern over developments in Chile.

—Would avoid criticism which would attend our adding to military strength of country with a Marxist, anti-U.S. government.

*Disadvantages:*

—Would seriously harm bilateral political relations.

—Would weaken relations with the Chilean military.

—Would severely reduce the Chilean military dependence on U.S. spares.

—Would come close to eliminating Chilean military dependence on U.S. advisory assistance.

—Would arouse criticism on part of those—including members of Congress—who since Allende's election have sought to discover USG treating Chile in manner inconsistent with U.S. policy pronouncements.

—Would provide other nations, possibly including Eastern Europe, opportunity to become military suppliers to Chile.

—Would be perceived in Chile and elsewhere as an undeservedly hostile U.S. act, winning sympathy for Allende and undercutting credibility of U.S. representations to other governments on Chilean matters.

**73. Minutes of a Meeting of the Senior Review Group<sup>1</sup>**

Washington, June 3, 1971, 3:09–4:06 p.m.

**SUBJECT**

Chile

**PARTICIPANTS**

Chairman—Henry A. Kissinger

*State*

Mr. John N. Irwin

Mr. Charles A. Meyer

Mr. Samuel D. Eaton

*Defense*

Mr. G. Warren Nutter

Mr. Armistead Selden

Col. John C. Smith

*JCS*

Admiral Thomas H. Moorer

Brig. Gen. Joseph Belser

*CIA*

Mr. Richard Helms

Mr. William Broe

*Treasury*

Mr. John R. Petty

Mr. John J. McGinnis

*NSC Staff*

Mr. Arnold Nachmanoff

Lt. Col. Bernard Loeffke

Mr. Keith Guthrie

Mr. Mark Wandler

**SUMMARY OF CONCLUSIONS**

1. *Export-Import Bank Credits for Boeing Aircraft.* This issue will be referred to the President for decision by June 10. Any principal who may disagree with the President's decision will retain the option of seeking an appointment to present his views personally to the President.

The Senior Review Group agreed that in presenting this issue to the President for decision, the objective should be to establish a general policy on extending credit to the Allende regime. This policy should take into account pending expropriation of U.S. firms, the Allende Government's steady progress toward establishment of a Marxist regime, and the impact of U.S. policy on public opinion in the United States and Latin America.

2. *Future Restrictions on Export-Import Bank Credits.* The NSC staff will consult Export-Import Bank to determine what alternative might

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<sup>1</sup> Summary: At this Senior Review Group meeting, participants discussed the possibility of extending credit for the purchase of Boeing aircraft, future restrictions on Export-Import Bank credits to Chile, and the possible sale of U.S. military equipment to Chile.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-56, SRG Meeting, Chile 6/3/71. Secret; Nodis. This meeting took place in the White House Situation Room. All brackets are in the original. The summary of conclusions is printed in *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973, Document 233.

be available for future restriction of credit to Chile in the event the President decides to approve the Boeing aircraft credits.

3. *Foreign Military Sales (FMS)*. This issue will also be referred to the President for decision.

Dr. Kissinger: We have two issues concerning Chile to discuss. One is Export-Import Bank financing for the Boeings. The other is the FMS issue. Apparently the Chileans and Ambassador Korry consider the Boeing matter of great policy significance. It poses two issues: (1) whether we should make an exception to our restrictive credit policy and (2) whether we should make our response conditional on some sort of assurance about using the planes to provide service to Cuba.

This time we have seven options. Option 1 is to say no to the Chilean request. Then there are three options which would make credit conditional on developments in the copper negotiations and on how the planes are used in service to Cuba. Finally, there are three options that would make credit conditional only on assurances regarding air service to Cuba. Two of these options don't ask the Chileans to do anything in regard to the Cuban air service; but we inform them of our legal provisions for aid suspension if they carry cargo to Cuba.

Is this a fair statement of the issues?

Mr. Meyer: That was very well done.

Dr. Kissinger: What do you think we should do?

Mr. Meyer: Our preference is Option G. Under this option, we would provide the credit and make an exposition to the Chilean Government of what they would lose if the planes were used in freight service to Cuba.

Dr. Kissinger: I have one technical question. If we give the Chileans any of these "maybe" answers, can we string them along [on providing the credit] long enough to know how the copper negotiations come out?

Mr. Meyer: No. This is partly because of Boeing's requirements. In order to put the planes in production for delivery by the May 1972 date specified by the Chileans, they have to know what we are going to do by the middle of this month. This is partly tied to LAN's operating problems, as they have to have the 707s available when the lease expires on the 707 they are currently using.

Dr. Kissinger: Are the copper negotiations going to take long?

Mr. Meyer: A go-ahead signal has to be given to Boeing before June 15, or the Boeing/LAN deal is not going to work.

Mr. Irwin: Our presumption is that the results of the copper negotiations will be known this fall. Yet delivery of the planes will not be until March or May of 1973.

Dr. Kissinger: How would it be possible to stop the planes?

Mr. Irwin: The difficulty is that if we did stop them, we would be hurting Boeing and the copper companies.

Mr. Petty: What are the prospects that by fall there will be other expropriation cases under way?

Mr. Meyer: The Chileans' intentions are to take over all American investments. They have just announced plans to expropriate ITT's properties.

Mr. Petty: Then we will still have a snootful of problems in the fall.

Mr. Meyer: Yes.

Dr. Kissinger: Then the question is whether our decision on credits could enhance the prospects for a satisfactory copper settlement or whether it might provide the Chileans a pretext for doing what they were going to do anyway.

Regardless of what we do Allende is moving toward a Marxist/Leninist regime as quickly as his domestic situation permits. We are no appreciable restraint on him. The limiting condition up to now has been the domestic situation in Chile and not anything we have done. Our maintaining a correct posture hasn't slowed him down.

I am asking if this is not the case. I am just being the devil's advocate.

Mr. Meyer: He is moving as fast as the domestic situation permits; yet, up to this point he is still preoccupied with establishing his international legitimacy.

Dr. Kissinger: (to Selden) What is your view?

Mr. Selden: He is moving just as fast as he can, and faster than I thought he would. If his domestic economic situation gets worse, I look for him to move even faster.

Dr. Kissinger: That would be an argument for going ahead with the credit to prevent him from moving so fast.

Mr. Selden: I suppose you could say that.

Mr. Petty: The issue is going to come to a head before the planes are delivered. The economic outcome is not going to be affected much by these Export-Import Bank credits.

Dr. Kissinger: Thus, it amounts to whether we would be better off by not triggering what they are going to do anyway. The question is how to place ourselves in the best tactical position in dealing with this. I don't think anyone believes there's a chance Allende will slow down.

Mr. Irwin: That's right. Also we should consider what effect these credits will really have on the copper negotiations.

Mr. Petty: We can't control the communications media in that country. They can tell what they want to tell when they want to tell it.

Mr. Nachmanoff: There are some opposition media. Allende doesn't have that much control.

Mr. Eaton: There is some internal pulling and hauling within the Chilean Government on how to proceed.

Dr. Kissinger: What is the Defense position?

Mr. Selden: We think we should agree to furnish the loan if they promise not to stop in Cuba. Then we should begin processing the loan but defer a final decision until we see how the copper negotiations are going. However, I gather from what Charlie Meyer says that we may have to move faster because of Boeing's problems.

Mr. Meyer: I talked to the Boeing people. They say they don't want to create a political problem, but that they have a cash and a manufacturing problem and that they have to get started by mid-June if they are going to do this.

Mr. Selden: The Chileans may get us off the hook by not accepting the conditions we stipulate [on service to Cuba].

Dr. Kissinger: My impression from reading the papers is that they won't accept either condition and certainly not both. Thus, the practical consequence of what you [Selden] are saying is a turndown.

Mr. Selden: Yes.

Dr. Kissinger: (to Petty) What do you think?

Mr. Petty: We should turn the Chileans down. We should not even offer the credit conditional on no stops in Havana. There is a precedent for the Export-Import Bank to turn down credits because of expropriations by the requesting country. This was done in one case in Algeria. It was a hard-won decision.

Dr. Kissinger: Forget about Havana. If we turn them down, it's better to do it on the expropriation issue.

Mr. Nachmanoff: (to Petty) Was this Algerian decision before or after expropriation actually took place?

Mr. Petty: The issue is sufficiently clouded. Hell, they already passed the legislation providing for the expropriation. Who are we kidding about this?

Mr. Nachmanoff: But they have negotiated with one company.

Mr. Eaton: What we do on the credits is likely to prejudice how the expropriation is resolved.

Dr. Kissinger: (to Helms) What is your view?

Mr. Helms: What merit does this deal have for Boeing? Are they hungry? Relaxed? What would it mean to the American economy?

Mr. Petty: Boeing wants to be rewarded for their SST statement.

Dr. Kissinger: If I mention SST, I know the President will turn it [the credit] down.

Mr. Helms: As I see it, granting the credits may do some good in the copper negotiations if the Chileans choose. I don't think they are going to pay any attention if we suggest conditions involving Cuba. If the sale is not going to help the U.S. economy, then it boils down to a question of how much we want to gamble on the copper negotiations.

Dr. Kissinger: (to Moorer) What do you think?

Adm. Moorer: They will certainly get aircraft anyway. If we deny them the Boeings, they will get others.

Dr. Kissinger: What others?

Mr. Meyer: VC 10's from England.

Adm. Moorer: It appears that we have no leverage when you get right down to it. There is an economic advantage in having Boeing and other American aircraft present in the areas. If there's no gain for us in denying them the aircraft, we ought to let them have them.

Dr. Kissinger: On that basis, all our restrictions would be useless.

Mr. Petty: There are not many products for which we are the unique world supplier.

Mr. Nutter: This matter can give us some political trouble if the Chileans continue to proceed in the direction they have been going.

Mr. Selden: What are the OAS restrictions that apply in this case?

Mr. Meyer: They are phrased in terms of bottoms. However, under our law any country that does not prevent aircraft or ships of its registry from transporting equipment, materials or commodities to or from Cuba so long as Cuba is governed by the Castro regime sacrifices the opportunity of obtaining further U.S. aid. Thus, our aid restrictions would be equally applicable if the Chileans used British aircraft.

Mr. Selden: Is Chile aware of these restrictions? It will look funny to be giving the Chileans aid so that they can violate our law.

Mr. Meyer: Our law [on cutting off bilateral aid to countries whose flag carriers take cargo to Cuba] does not apply to Export-Import Bank credits.

Dr. Kissinger: The restrictions simply mean that Chile sacrifices further opportunity for aid if the planes stop in Cuba.

Mr. Nutter: And this would also be true, wouldn't it, even if they gave assurances that the planes wouldn't be used on the Cuban run.

Dr. Kissinger: Suppose we give them the Export-Import Bank loan. This will set a precedent. How will it be possible to maintain that this particular loan is okay, but that others would be different?

Mr. Petty: The Export-Import Bank has a full in-box of credit applications.

Dr. Kissinger: That's what I mean. Suppose that we turn this request down and grant others. Could we do that?



Mr. Petty: I don't see how we can justify making a distinction between this request and others.

Mr. Helms: There must be plenty of ways we could justify turning down other Chilean requests if we choose to do so. There is no built-in requirement for consistency in the Government.

Dr. Kissinger: But the Bank may be more consistent than the Government.

Mr. Meyer: The Export-Import Bank is subject to pressures from other U.S. manufacturers who will want to sell to Chile. We'd like to get a ruling on this issue.

Mr. Petty: The Bank has some important legislation pending in Congress right now. They are in a vulnerable position.

Dr. Kissinger: We need to make a decision by June 15.

Mr. Irwin: To take care of Boeing.

Dr. Kissinger: That means we have 11 days.

Mr. Nachmanoff: Could we clarify just what kind of decision is required? I think we need a preliminary commitment rather than a final decision.

Mr. Meyer: Any favorable decision carries the implication that we will go through with the credit.

Mr. Petty: (to Meyer) I thought you said that there was some production line problem for Boeing.

Mr. Nachmanoff: Export-Import Bank could back out this fall for banking reasons, if the copper negotiations turn sour. Boeing would then of course have to find other customers for the planes.

Mr. Meyer: The market is not good for those planes.

Mr. Petty: That's right. With the development of such planes as the Lockheed 1011, the demand for 707's has tapered off sharply.

Mr. Meyer: Boeing's problem is one factor.

The Chileans have indicated they do not intend to talk with a smile to the USSR about this [purchase of commercial aircraft]. They might try to purchase VC-10s from the British. But they want Boeings. This will also help strengthen LAN-Chile's commercial ties.

I think the Chilean Government has created a fish-or-cut-bait [by requesting credits to purchase Boeings].

Mr. Irwin: They are damned smart.

Dr. Kissinger: This would apply on all Export-Import Bank loans.

Mr. Meyer: Not necessarily.

Mr. Irwin: I sort of agree with Dick [Helms]. I don't see why our decision on this request necessarily determines what we say in response to future requests.

Dr. Kissinger: On what grounds is the Bank going to turn down other loans?

Mr. Selden: What happens if we turn them down on Boeings but go ahead with military sales?

Mr. Meyer: That might seem inconsistent.

Dr. Kissinger: Except that we have a theory that we want to work with the Chilean military as much as we can. We want to be sure that the Chileans don't get an entering wedge with the Boeings. Can we justify the theory?

(to Mr. Irwin) Your proposal is that we grant the loan and call their attention to the consequences for aid under our legislation if the planes are used in the Cuban service. We might stop the loan later if conditions warranted.

Mr. Irwin: That's right.

Dr. Kissinger: (to Mr. Selden) Your recommendation is that we exact a proviso that the planes not make stops in Havana and then hold up processing of the loan.

Mr. Selden: Yes.

Dr. Kissinger: That is really an elegant way of turning them down.

(to Adm. Moorer) Tom, you would just as soon go ahead with the loan.

Adm. Moorer: Yes.

Mr. Meyer: It would help if we could somehow depoliticize these credit decisions.

Dr. Kissinger: What you mean is that they should be made on strictly commercial grounds.

Mr. Meyer: Yes.

Mr. Petty: There are lots of loan requests at the Inter American Bank. If we go ahead with this request, we would in effect be saying "open sesame."

Dr. Kissinger: In effect that would undo the Presidential order on restricting loans to Chile.

Mr. Meyer: Every decision we have to make will be something that the Chileans bring up on an ad hoc basis. These decisions are going to get more and more difficult. Whatever we do is not going to affect the situation much.

Dr. Kissinger: What incentive do we have to help Allende? Suppose he turns out to be a very strong Marxist? What would we say?

Mr. Meyer: We would say that he did it by himself. At least that's what was agreed to at our meetings last year.

Dr. Kissinger: We said last fall that he would be in a mess by October and that the best way to weaken him was to pursue a course of cutting off international credit.

Mr. Irwin: I would be interested to hear from others what effect they think these credits may have on the copper negotiations.

Mr. Nutter: I don't see any end to that sort of approach. They will just keep on saying: "Make this loan, and things will go better."

Dr. Kissinger: What is involved is whether the President will give up his policy on credit to Chile. We can't have a meeting of this group to decide on every God-damned loan the Chileans decide to request. We don't really care about three Boeings, and the Cuban problem is subsidiary. The basic thing is that with these expropriations coming up and the Chilean Government going to a rather strict form of Marxism, we need to decide whether it is in our interest to maintain normal credit policies.

Mr. Irwin: There is a political issue. In the press and nationally, people feel we have followed a correct policy toward Chile. A turn-down would be seen as a shift and might diminish the public acceptance of our policy.

Dr. Kissinger: Our policy may have the acceptance of the *Washington Post* and the *New York Times*, but most people in this country don't even know where Chile is located.

Mr. Petty: There are some financial and economic arguments that one could make to justify turning down the credit.

Mr. Irwin: They would not be convincing.

Mr. Meyer: The Cuban issue is confused by the fact that the Export-Import Bank did provide financing for DC-8s that Iberia is using on the Cuba run.

Mr. Eaton: If the Export-Import Bank didn't want to make any more loans after this one, it could use the argument that its exposure in Chile is too high.

Mr. Petty: That is a difficult argument to use. It might mean closing the door on [a possible future sale] by Douglas or by some other American manufacturer. We will be asked why we should favor Boeing over, say, Westinghouse. The answer, I suppose, would be that the priority was decided by the country itself [Chile].

Mr. Nutter: The political argument [against granting the credit] has economic implications. Chile is not a very good credit risk. With these expropriations and the fact that they are turning Marxist, there is a question when the Export-Import Bank would get the money back.

Mr. Petty: In the copper negotiations, Kennecott got a sweet settlement. If Cerro and Anaconda are looking for the same thing, it will be too expensive for Chile.

Incidentally, I think there was some intelligence item about the Chileans' shifting their liquid assets from the United States to Belgium. Is there anything to that?

Mr. Helms: I am not familiar with such a report.

Dr. Kissinger: What will the Chileans do if we turn them down?

Mr. Meyer: They said they would look to England. However, they attach great [political] significance to our decision.

Dr. Kissinger: I think we have exhausted this subject. We will have to get a decision from the President.

Mr. Irwin: (to Dr. Kissinger) I want to return to your remark about the *Washington Post* and the *New York Times*. It is not only that these papers have been generally favorable to our Chilean policy. Throughout the country there hasn't been any criticism.

Dr. Kissinger: That's only because its not yet dawned on people what's going on.

Mr. Nutter: There may be some later.

Mr. Meyer: There will be criticism in Latin America.

Dr. Kissinger: What will be the reaction?

Mr. Meyer: They will ask: "What are you going to do for us?"

Mr. Irwin: There will be more criticism if we don't provide the credit. There will also be more support for the Chilean expropriations.

Dr. Kissinger: The big decision the President has to make is about our general attitude toward providing credit to Chile and how we position ourselves with relation to public opinion vis à vis Chile. The question is whether we should draw the line now or later. Allende is trying to propose this.

Mr. Petty: If this is going to the President for decision, you have to point out to him that an affirmative decision means changing the Export-Import Bank's policy on expropriation.

Dr. Kissinger: But Chile hasn't expropriated.

Mr. Petty: That's just a technical point. Their intentions are clear.

Mr. Irwin: They are certainly going to expropriate, but we have no evidence that they are not going to provide compensation.

Mr. Petty: [If we grant this credit], we will be getting far ahead of what Export-Import Bank has done.

Dr. Kissinger: Can you make the reverse argument, that is, that if they provide adequate compensation, we will give them credit?

Mr. Petty: That would follow. That's why I made the point earlier that there will be other expropriation cases besides copper coming up.

Dr. Kissinger: I understand the issue. We have to get a Presidential decision. There is both domestic and Latin American public opinion to consider. (to Mr. Irwin) Your position is that it would be best for us not to be in the position of having forced the issue with Chile.

Mr. Irwin: Yes. There will be a lot of criticism in the country if we turn them down on this issue.

Mr. Nutter: Why on this issue rather than on others?

Mr. Meyer: Because Chile has not proceeded other expropriations.

Mr. Irwin: They're inevitable, though.

Dr. Kissinger: I will try to get a Presidential decision by the middle of next week. If he makes a positive decision and anyone wants to appeal or if he makes a negative position and anyone wants to appeal, I will try to arrange an appointment.

Mr. Irwin: The main thing is to present all the issues to him.

Dr. Kissinger: I will do my best.

Mr. Irwin: Like Dick [Helms], I still feel that what we do in this case would not be a precedent for future credit requests.

Dr. Kissinger: Do you mind if we explore the question of setting a precedent with Henry Kearns? We would find out what other stopping points there might be further down the road. Or you can do it if you prefer.

Mr. Irwin: Why don't you do it?

Dr. Kissinger: (to Mr. Nachmanoff) Will you request this information from Henry Kearns this afternoon and also circulate the paper?

Mr. Irwin: There is a provision [which says that when an extraordinary situation exists, the Export-Import Bank can cancel the undisbursed amounts of authorized loans]. (Mr. Irwin read the text of the provision.) Thus, if there were expropriation without adequate compensation, we could legally act on the grounds that an extraordinary situation exists. This, of course, brings in Charlie Meyer's point about Boeing's being stuck with the planes.

Dr. Kissinger: If we approved the loan now and then cancelled it in the fall, the political price we would have to pay then would be more than it is now.

Mr. Irwin: That is true, except that later we might have a clearcut case of expropriation without compensation.

Dr. Kissinger: We have to get a policy decision. We can't waste the time of this group with every bloody Chilean loan. Then once we have a policy decision, we can worry about whether we have the option of retightening our credit restrictions.

Now let's turn to military sales. It seems that if a country has a communist government and a non-communist army, we end up slobbering all over them. Have any generals or admirals been to Chile in the last two weeks? If not, you're neglecting them. I'm not sure we aren't giving these guys [the Chilean military] an incentive to support the Allende Government. Are they as well off as they were under the previous government? Our theory has been that we continue to provide military aid in order to keep in touch with the Chilean military, but

they show no sign of opposing Allende, who gives them no reason for opposing him.

Mr. Selden: Our only hope is the military. We must remain in touch with them until we know that all possibility that they might oppose Allende is gone.

Adm. Moorer: It all depends on whether you are looking at the Chilean situation over the short or long range.

Dr. Kissinger: What is happening there reminds me of the German military under Hitler in 1933–35. Allende gives them a few things here and there, treats them nicely, and just keeps suckering them along.

Mr. Helms: The situation is very parallel.

Dr. Kissinger: He flatters them and gives them what they want; but he will hit them when he is firmly established.

Mr. Selden: This is just something we have to gamble on.

Dr. Kissinger: As I understand it, the \$5 million in FMS that has been approved can be used to generate \$10–20 million in credit. What in hell do the Chileans want with paratroops?

Mr. Meyer: They give the Argentines heartburn.

Dr. Kissinger: What have we done for other Latin American countries that is comparable to this?

Mr. Selden: (to Col. Smith) You can tell us what we are doing in Brazil.

Col. Smith: In Brazil we are providing \$50 million. It is not all credit. Most of it is cash.

Dr. Kissinger: How much FMS is Brazil getting this year?

Col. Smith: \$15 million this year.

Dr. Kissinger: And Chile is getting \$10 million?

Col. Smith: You have to distinguish between the program level and the amount of credit furnished.

Dr. Kissinger: Just give us comparable figures.

Col. Smith: The program level in Brazil is \$15 million. But it could be expanded up to \$60 million of credit.

Dr. Kissinger: What about Argentina?

Col. Smith: \$13 million.

Dr. Kissinger: You mean program level, don't you?

Col. Smith: Yes.

Mr. Irwin: That means it could go up to \$52 million.

Dr. Kissinger: Does any Latin American country that is friendlier to us than Chile claim to be suffering?

Mr. Nutter: In Brazil we might offer up to \$72 million.

Mr. Meyer: Do you include Peru as a friendly country? They're getting practically nothing from us.

Dr. Kissinger: As a normal case, Peru would be a friendlier government than Chile. It has a nationalist military government. Except for the one case [IPC], it has no quarrel with us, Peru doesn't have a doctrinaire government, and it's not trying to transform society.

I have been impressed with Allende's performance so far. He has not made a mistake. He will have a one-party state established by mid-term.

Mr. Nutter: Getting back to FMS, the total program in Latin America this year will be \$80–90 million, almost all of it credit.

Dr. Kissinger: For Chile there will be \$5 million, or at most \$10 million. (to Mr. Nutter) Are you for this?

Mr. Nutter: We are for a modest program. \$10 million is the program ceiling.

Dr. Kissinger: (to Mr. Irwin) What about you?

Mr. Irwin: We are in favor, although for 1972 we look with some reluctance on the tanks.

Mr. Nutter: We're only talking about 2 C–130s. I suppose we'd be able to draw the curtain somewhat if they promised to help in the copper negotiations and then didn't do it.

Mr. Irwin: That would be a hard judgment to make.

Dr. Kissinger: I don't see that this question is going to determine the fate of the world. I will formally present it to the President but imagine he will reluctantly decide to go ahead.

Do we have to have senior [military] personnel in Chile all the time? When are we sending someone else?

Mr. Selden: Warren Nutter and General Chapman are making a trip to some Latin American countries other than Chile.

Mr. Irwin: If we turned down the military items, it wouldn't go well with the military. But we wouldn't be put into the position where we would be blamed to the same degree if we turned down the Boeing deal.

Dr. Kissinger: I don't know the Chilean military. Would they get the point and tell Allende: "You have gone too far."?

Mr. Selden: If they don't get the equipment from the U.S., they'll simply go somewhere else.

Dr. Kissinger: Is the issue whether they get \$5 million or whether we let them establish a larger program?

Mr. Meyer: Do they know they are getting \$5 million?

Adm. Moorer: They do not.

Mr. Irwin: What if our program were held to \$5 million rather than \$10 million?

Mr. Nutter: We're willing to go along with that. We could provide the paratroop equipment and one C-130.

Dr. Kissinger: What would they get with \$10 million.

Mr. Nutter: We could provide the other C-130. There's also the question of getting loans and extra credit.

Mr. Petty: Do we know whether the commercial banks would supply this extra credit? Most are still having problems with the Banco Edwards. Even though the government guarantees the loan, the financial reward may not be enough. I think they might have a tough time leveraging this.

Dr. Kissinger: Then we might wind up with \$5 million.

Mr. Meyer: You may be interested in a May 26 Reuters item. (Mr. Meyer read the item, which quoted a statement by Allende to the effect that Latin American states should not use arms to resolve their differences and that an arms race would be a negative and harmful factor in relations among them.)

Mr. Nachmanoff: That statement was specially directed against the President's decision to waive the \$75 million ceiling on military assistance to Latin America.

Mr. Irwin: I think there is less problem for us in extending credit for arms than for Boeings.

Mr. Petty: You could make a case for either.

Mr. Selden: (to Adm. Moorer) Have the Chilean military been extremely friendly?

Adm. Moorer: They have always been. The real question is whether or not we are going to support them.

Dr. Kissinger: And what they would do if we didn't support them.

Adm. Moorer: Yes. However, they are going to buy equipment somewhere.

Mr. Selden: What they now have is mostly U.S. equipment. I saw the destroyers and cruisers the Chilean Navy has. They are entirely dependent on us for spare parts. Without us they couldn't get away from the dock. They indicated to me that they didn't want to sever their ties with the U.S.

Dr. Kissinger: What does it buy us? While Allende establishes a hostile government, the military get funds but never move against him. All we get is psychic satisfaction.

Mr. Selden: If they never move, maybe we were wrong.

Dr. Kissinger: Since we have already approved \$5 million, there really isn't much to decide. As a historian I would be amazed if Allende



were not to build a popular base and a police force so that in one year it will be impossible to overthrow him and the military will be totally impotent. Does anyone want to argue against that?

Mr. Irwin: I agree. However, I think he will run into economic problems. We should let him do himself in so that we will not have others blaming us for his failures.

Dr. Kissinger: Anytime he wants to say we are to blame, he will find a reason for doing so.

#### 74. Paper Prepared for the Senior Review Group<sup>1</sup>

Washington, June 7, 1971.

##### EX-IM BANK POSITION ON LOAN TO LAN-CHILE

Ex-Im Bank on June 4 set forth in writing its position on the loan to LAN-Chile as follows:

"Ex-Im emphasizes that credit (financial) problems must be dealt with apart from the political considerations involved. The Chileans should be told unequivocally that:

I. "Ex-Im Bank will not extend a credit to LAN unless and until the Chilean Government formally acknowledges and assumes payment of all debts owed to Ex-Im Bank by U.S. companies in Chile taken over by the Chilean Government. In so agreeing, the Chilean Government will have to state clearly that it will pay all such debts as well as its own debts to the Bank *according to existing payment schedules (including acceleration provisions)*.

II. "Ex-Im Bank needs a clarification from the Government of Chile as to its priorities for credits for various segments of the Chilean economy (aircraft, steel, railroads and miscellaneous imports). The Bank has already been asked for a loan for CAP of \$100–\$150 million and has been told in January by a Senior CAP official that our handling of this application will be a test of U.S.–Chile relations. Also, the

<sup>1</sup> Summary: This paper outlined the Export–Import Bank's position on the Chilean request for a loan to purchase Boeing aircraft. Discussion focused on the Bank's position that credit would not be extended unless the Chilean Government formally agreed to provide compensation to those U.S. companies affected by the recent nationalization programs, provided a detailed statement of where the loan would be applied in the larger Chilean economy, and offered a more substantive analysis of the overall status of its economy.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-56, SRG Meeting, Chile 6/3/71. Secret; Nodis. The paper bears no drafting information.

amount of requests for exporter guarantees and insurance is very considerable and the Bank cannot make the LAN loan and continue to hold up exporter requests pending clarification of the Chilean situation as it is now doing under instructions from the State Department.

III. "Ex-Im Bank needs clarification of economic and financial conditions in Chile, including trends in balance of payments, external debt and exchange reserves. Before taking definitive action on the loan, the Bank would like to have a clearer idea of the probable results of the copper negotiations with Kennecott and Anaconda insofar as they affect the economic and financial situation in Chile.

"The foregoing approach presupposes that there are no general political objections to the LAN transaction and that such specific issues as the Cuban problem can be dealt with satisfactorily."

Discussion of this position with Mr. Kearns and his senior staff brought out the following points:

1. Any or all of the economic considerations mentioned in the above statement of Ex-Im Bank's position could be put to the Chileans either (a) informally in conversations as conditions precedent to consideration of an application, or (b) formally in writing in a Preliminary Commitment as preconditions to the approval of the loan.

2. A Preliminary Commitment, which specifies the conditions on which the Bank will consider the application and the terms which the loan will carry if approved, is not a legal commitment to authorize the loan, but the Bank considers itself morally obligated to approve the loan if the applicant fulfills the conditions specified in the Preliminary Commitment. That is, once the Preliminary Commitment is given, the Bank would not ordinarily be willing to reject the loan on grounds other than non-compliance with conditions specified in the Preliminary Commitment. The standard loan agreement provision entitling the Bank to cancel the loan after the authorization would be employed only in extreme circumstances.

3. The Bank has precedents for imposing each of the conditions alluded to in the discussion of its position (but there is no single case which includes all of them).

4. There is no precedent for including as a written pre-condition of a Preliminary Commitment a requirement that the borrowing country make satisfactory settlements with expropriated U.S. investors but a requirement was made informally to Algeria last year that it make settlement with expropriated U.S. companies and no action was taken by the Bank on loans in the petroleum sector which Algeria was seeking until there had been settlement with the companies involved. The third point in the Bank's position related to Chile, as stated above is not tended to place the Bank in the role of determining whether the copper settlements are satisfactory to the interested parties but to permit the Bank to put the effects of the settlement into its appraisal of economic and financial conditions in Chile. In effect, this would provide a

banking basis for denying final approval of the loan if there were an unacceptable outcome of the copper negotiations.

5. The Bank sees no way to make the LAN-Chile application an isolated special case; it believes that approval of the loan would require relaxation of the current policy restrictions on new credits to Chile (as well as Peru).

6. The Bank believes that approval of the aircraft loan would result immediately in bringing pressure from U.S. exporters eager to maintain or recover their position in the Chilean market, which historically has imported a substantial portion of its equipment needs from the U.S. There would also be pressure for borrowing directly by the GOC and its industrial and commercial entities. The total of these transactions could eventually amount to something over \$200 million, of which about \$50 million would be in smaller individual transactions which the Bank would feel obliged to process in the near term.

7. With respect to the Bank's condition Number II, by requiring as a pre-condition to the loan a statement from the GOC of its priorities with respect to intended direct borrowings from the Bank and assurance of official reservation of foreign exchange for all such borrowings, the Bank could divert pressures to the GOC, although the Chileans probably would infer that the Bank's facilities would be open for those transactions considered by the Chileans to be of a high priority nature.

8. The Bank points out that LAN-Chile is a losing proposition and that bankability of the loan would depend exclusively on the guarantee of the Central Government.

9. The Bank is unimpressed by Boeing's assertion of deadlines and states that this is a well-worn sales pressure technique which the Bank encounters and discounts daily.

**75. Conversation Among President Nixon, Secretary of the Treasury Connally, and the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, June 11, 1971.

Nixon: What I wanted to talk to you about, John, is to be sure you understand what my attitude is on all the, on the first hand, on these various loans and so forth to places like Chile. Second, my attitude towards the International Monetary Fund. [unclear] they're coming up to me with this stuff [unclear]—

Connally: I'm sure that State will.

Nixon: And, I just got Henry in this morning. He was in New York yesterday; that's why he couldn't join us last night. But his [unclear]—and I reminded him, I told Henry I need this and that you want to talk to him and wanted to meet and talk to me before that. But in any event, then I said, I wanted to be sure you understood that, when I—on that Allende, on that Chilean thing—that I had not yet asked your position. He said Treasury sent a [unclear] to make sure everybody else—we've got to string Agnew to get Congress and the rest, and also for a variety of reasons—that they're in line. In other words—my feelings about it are pretty, are very strong. That, first, I can't—first, I realize, let's start with this proposition: that everything we do with the Chilean Government will be watched by other governments and revolutionary groups in Latin America as a signal as to what they can do and get away with. Therefore, I tend to be against doing anything for them. The second thing is that I feel that, as you do, that it's—the American people will, at the appropriate time, they'll welcome our taking a goddamn strong position against one of these things. The people, I mean publicly, and, of course, there's a lot in this for us to do that. They're calm, and the only thing that confuses them from time to time is always to have this thrown up to us. It's particularly the argument that is made by the State [Department] people—and it would be convincingly said—that they always make, and that is that, "Well, you're going to help them more than you hurt them by tearing them down." The point being that you make martyrs of them, and everybody's watching us to see whether we're being fair, and all that sort of thing. I told Henry this morning

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<sup>1</sup> Summary: Nixon, Connally, and Kissinger discussed the policy of financial loans to Chile.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 517–20. Secret. According to the President's Daily Diary, Nixon, Connally, and Kissinger met in the Oval Office from 2:05 to 2:38 p.m. (*Ibid.*, White House Central Files) The editors transcribed the portion of the conversation printed here specifically for this volume.

that I was a little tired of hearing that argument. Now, let's leave that one.

[Omitted here is discussion of India and Pakistan.]

Nixon: Despite Allende, you know, trying to make us the goat of the assassination of the Christian Democratic Secretary of the Interior [Edmundo Pérez Zujovic] down there—first, if we'd attempted it, we'd have done it. If we did anything, if we were participating, we were just doing a goddamn poor job. And I just don't think we're—we're poor at the CIA, but not that poor.

Connally: [Laughs]

Nixon: But, nevertheless, coming back to the India–Pakistan thing. You were right, and Bill [Rogers] was wrong, on the point about the International Monetary Fund and the World Bank, particularly their staffs. Now, I don't agree with, well, leaving Schweitzer and McNamara out of it, because they have, I must say, they've gone along with their staffs. But they are playing the role of God in judging not just the economic viability of loans, but whether or not loans should be made to nations that, frankly, live up to the moral criteria that we think governments should live up to. I don't think that has anything to do with a loan. The State [Department] argument there is that it does, you know, count and that affects stability and so forth. You show me—on the other hand, in my view, if a loan is to be made, maybe a dictatorship is the most stable damn country to make it to. And if it is, make it to a dictatorship. If, on the other hand, you show me some cesspool like, well, like some of these Latin American countries like Colombia, and the rest, that are trying to make it the other way, they can be very bad risks. The very fact that they are supposed to be [unclear]. I, frankly, feel that on this loan business that it's extremely important—extremely important—for us to stay out of it, other than [unclear]. Look, when I say “us,” for the international lending agencies to get into this whole business of political [unclear]. And now, I said some of these things last night, and I want you to know that that's the feeling. I want Henry to say a word about the Chilean thing, and where it stands, and Bolivia, and where we go from here. It is very important that you, in other words, that you keep in—and I haven't brought Pete Peterson in because he isn't yet sophisticated enough in this field, but I want to talk to him, quite candidly as this—but it's very important that you know that what you've got in mind—this is general gut reaction now—I want you to know that you're riding high. What—the way it comes to me is, you see, I've got a whole stack of papers in here—

Connally: Hm-hmm.

Nixon: —and the rest, and I say, well, [et cetera]. And my views are strong, strongly in this direction. Henry supports that position and—I mean not that he'd allow his views; I mean, he naturally supports my

views—but even as a matter of conviction. But I’d like for you [to Kissinger] to just tell me how John’s input did get in, that we did take it into account, and what we finally did.

Kissinger: Well, first—

Nixon: Let’s talk about Chile.

Kissinger: One procedural point. This struck me while I was sitting on the Senior Review Group.

Connally: Right.

Kissinger: When I chair these meetings, I feel what I tell the President is between the President and me.

Connally: Right.

Kissinger: I don’t give the bureaucrats any inkling of what my thinking is.

Connally: Right.

Kissinger: And therefore, I play a very neutral role, except as a devil’s advocate in these—

Connally: Hm-hmm.

Kissinger: —meetings, but then I pass this on to the President. For example, I underlined your opposition, and attached your opposition as the only background paper to the—

Nixon: The Chilean paper, right?

Kissinger: —on the Chilean paper. So your man shouldn’t draw the conclusion that because I play the neutral role as the chairman of these meetings that I’m out of step with what you just heard the President say.

Nixon: Sure.

Connally: Well, I’ve gotten no such indication.

Kissinger: Right.

Nixon: So I support him [Kissinger]. Well, I can hear you here, but you might—

Connally: Yeah.

Kissinger: And you might just want to take a look at—this is my summing up of the issue, of the issues—

[Unclear exchange]

Kissinger: —the Ex-Im Bank should be authorized to process the loan, including providing a preliminary commitment on loan-banking procedures, and which has definitely had some easing of our value restrictions. DOD favors processing the loan, but only if we obtain assurance from the GOC that the planes will not be used for service to Cuba. Treasury, at that time, they were not in favor of processing the loan at all. And then I attached your memorandum saying why. The President

wrote underneath, “Be sure Connally knows I will cut off, if given a good handle in proving this.” Now, we do have the problem that, basically, the State Department has had the view—

Connally: On Chile—

Kissinger: —on Chile that they would like to go back to normal relations as soon as they reasonably can. On almost any issue that came, comes into the Senior Review Group on Chile, it has advised us—under the pretext of not giving them an excuse to make an issue with us—of giving them whatever it is they’re asking for. Now, I have always had the view, if they—if it served Allende’s purpose to have a showdown with us, he would have it.

Nixon: No question there.

[5 seconds not declassified]

Nixon: Oh, Goddamnit, John, he’s [Allende’s] smart.

Kissinger: And very smart.

Nixon: That’s right.

Connally: Very smart.

Kissinger: So—

Connally: Even very tough.

Kissinger: —looking at the record, he—it must serve his purpose—

Nixon: Yes.

Kissinger: —if there’s no showdown. Nothing to scare the army.

Nixon: That’s correct.

Kissinger: Now, on the two issues that are here, one is the \$5 million FMS credit, which it has been recommended that we use—that they be permitted to use as security on a \$20 million commercial credit. Now, the President has approved what is, in effect, actually John’s recommendation, and also Meyer’s, that we don’t agree with that, that we just give \$5 million.

Nixon: And no loan?

Kissinger: No loan. And don’t—don’t let them pyramid it at all. We can’t—we can’t do away with the \$5 million, because we’ve already told them that that’s what they’ve got. On the Ex-Im Bank, the President had approved it, but we’ve put a hold on it.

Nixon: That’s right.

Kissinger: Because, now, with this threat—with this accusation against our being involved in the murder of a right wing politician, which is really insanity. This guy was on our side. He was an opponent of Allende.

Nixon: That’s right.

Kissinger: To say that we assassinated him is just—

Nixon: They assassinated him. The Communists did.

Kissinger: Almost certainly the Communists assassinated him—

Nixon: Or someone else did.

Kissinger: —and they're playing this like the Nazis played the Reichstag—

Connally: That's why I hate these bastards.

Kissinger: [Unclear]

Nixon: It's totalitarianism.

Connally: Sure.

Kissinger: So I think, now, that we—the disadvantage—

Nixon: What should we do about the 707s, though? That's the last one.

Kissinger: Well, the problem with the 707s is that we can write credit restrictions into it that would give us a hand, but it would then open the door for every other credit application. Don't you think?

Nixon: Yeah.

Connally: I like that. As far as I'm concerned on the 707s are—they're really immaterial. And if there's some other purpose, JCS purpose or other purpose with these airplanes, I have no argument. Now, to the extent that, in any case, we're going to continue to give them credit, that's where I do have some objections.

Kissinger: Well, on that, that's the heart of your argument: that one can view it as not just speaking about the restrictions on that particular loan. All the loan planes would almost certainly be used on the round trip stops to Cuba.

Nixon: That's right. But I think we should turn them down.

Kissinger: Why don't we sit on it? We don't have to do anything.

Nixon: All right. Let's not.

Kissinger: Just don't—

Nixon: Let me say—

Kissinger: —don't accept the application. And now that they've accused us of assassinating their politicians, they are the ones that have made this [unclear]. The argument that was made was that Allende had insisted that we were refusing these loans on political grounds, and the fear that State had was that we were—that might give him a pretext for a showdown with us.

Nixon: And Allende needed a pretext. You're absolutely right. He'll take his pretext to Moscow.

Connally: Or he'll make one.

Nixon: Sure he will. That's right.

Connally: If one arises, fine. If not, he'll make one.



Nixon: I agree.

Kissinger: So I think we should neither accept it, nor reject it. If he gives us a good deal on the copper, we can then accept it.

Connally: He's not going to give you a good deal on copper. He's made a bitter speech and, in effect, told Brad Mills of OPIC that he's going to penalize—he's going to punish Kennecott and Anaconda—he's called them by name. And he didn't—then he didn't denounce IT&T, but he did these two copper companies. And he said that, in effect, "They raped this state." You know, "They've ravaged this land and taken from the people, and raped women, and [unclear]"

Kissinger: He just did—he's—

Connally: The copper companies.

Kissinger: He is a—

Connally: Well—

Kissinger: He's bad news.

Connally: Well, this is going to cost us. OPIC is charging \$1.07. We have in Chile \$300 million of guarantees. And it'll cost the government \$300 million, because he's expropriating if he doesn't pay for it. And he is now asking—and he's this smart, you see—he's now asked what the guarantees are that cover these expropriations. So what he's going to do is he's either going to get the total value of the properties down to about where the guarantees are, and let us pick up the whole tab on the American companies, so they can [unclear]. Or he's going to get close to it.

[Unclear exchange]

Connally: So—well, I've made my point, Henry. That's all I, all I [unclear]—

Nixon: [Unclear] Here's what we want to do, John. What I—what I really want to do is this: Basically, this kind of a thing, normally, would be handled through the Peterson Committee. Now—and, naturally, then it would come through to me. I want to set up a procedure whereby—if you would, I want you to—and just do it on a basis of where you send your guy in, of course, with your recommendations, John. Well, where this—where these economic and political problems are involved at the highest level, and you can feel it, pick up the phone and ask Henry. And, Henry, I want you, in your turn, to ask him. You understand? We have—we're interested in your economic judgment, but I'm also interested in the political judgment—

[1 minute, 32 seconds not declassified]

Connally: Well, you see where this gets to be a—where this gets to be a real problem for us. We have two general propositions: One, we have our bilateral aid and what we do. Then we have, secondly, what we do in the multilateral field. Well, now, in Bolivia, specifically on that

subject, before the Inter-American Bank is going to come the proposition: Do we approve a \$19 million loan to Bolivia that will have to be followed by approximately a \$24 million loan from the World Bank, for a total of \$43 million, to build a pipeline from this oilfield that they had expropriated from Gulf to run into Argentina. They proposed to pay us \$78 million for this expropriated oil and gas property over a 20-year period, at no interest, out of 25 percent of the oil and 33⅓ percent of the gas that they develop and sell from Gulf's oilfield to Argentina, after we put up the money to build the line. Now, that's their proposition to Gulf, which Gulf wants because they say, "Well, you know, this is our only hope. If we don't get this, we get nothing." Well, then we—then we give them a PL-480 loan. We negotiated an agreement with them on April 30th and 31st, and the very next day, they expropriate [Mina] Mathilde [Corporation], which is a company of Engelhard Minerals and United States Steel, during that day, May the 1st, to celebrate May Day. In January, they expropriated the International Metals [Processing] Company. The IMPC is a little old company that was formed for the purpose of taking [unclear] cans out of one of the old Patino mines, which is waste material. They developed a little process, that they figure they can take the waste [unclear] from this mine and get enough tin out of it to be economically feasible. It's not a lot of money in it, but perhaps \$3 million. We've got a \$1 million guaranteed. Then we come to Guyana, and these are all pyramiding, as you well know. Guyana passed a legislative act through their legislature, in effect, expropriating all bauxite in the country. Okay, this first applies to Alcan. Now, they say, "Oh, well, we're not going to touch Reynolds." There are two companies: Alcan and Reynolds. And they're saying to our people, to United States people, "Well, we will be done. Don't worry. We're just talking about Alcan. Reynolds is going to be all right." Well, as soon as they get Alcan chewed up, well then, they'll take Reynolds, of course. [Unclear] Now, the Jamaicans, on the other hand, have—are saying to us directly that, "If Guyana gets away with it, we're going to be under great pressure from the left to expropriate all the bauxite holdings of American companies in Jamaica." Look, between Suriname, Jamaica, and Guyana, that's 80 percent of the bauxite produced in the world. And in Jamaica, alone, you've got the Aluminum Company of America, you've got Reynolds, you've got Kennecott Copper, you've got Kaiser, you've got all the major aluminum companies. And we've got exposure. We've got an investment of seven-hundred and roughly fifty million dollars in Jamaica. We've got insurance of \$465 million against it. We've got a billion and half dollars insurance in Latin America alone, and we're already looking at paying out somewhere between \$500 million and \$700 million, just to get things started.

Nixon: Hm-hmm.

Connally: So, at some point, we've got to have an answer. Whatever your position is, that's going to be my position. But do we vote in the Inter-American Bank next week to go for the \$19 million loan to Gulf in Bolivia? Or don't—?

Kissinger: Is there no way you can delay?

Connally: Well, we'll try to delay it.

Kissinger: I think, at a minimum, we ought to delay it for a month and get it—get this whole issue looked at in the NSC procedure.

Connally: I sure agree.

Kissinger: Don't you think we should?

Connally: I sure agree. Yes, sir, totally. You know, these things just come up on us. Now, I approved one the other day. It was a big one. It was \$8.6 million for Bolivia. It was a cattle deal; they're going to buy some New Zealand cattle for eight million bucks.

Nixon: Hmm.

Connally: And it helps them to that extent. And the only thing, the only pry we have on them, the only lever we have on them, it seems to me, is at least if we could shut off their credit, or shut off the markets for the commodities they produce, or something. But we have to be in a position to impose some economic sanctions on them. Now, you can't impose military sanctions, but we can impose financial or economic sanctions.

Nixon: You see, here's the thing we face in Latin America: it seems to me that if this virus spreads, we also have the problem that, looking at the State Department, one of the reasons we raised by raking Bill last night, he's—his colleagues. It's not Bill, it is Flan—Flanigan. Just getting somebody over there, at State, that will take a hard-nosed view on this. Henry, tell John that the disaster area that the Latin American Division at the State Department is. In fact, I'll tell you. One of the—you remember old Henry Holland?

Connally: Sure.

Nixon: He was a good man.

Connally: Sure—

Nixon: He knew what this was all about.

Connally: Yeah.

Nixon: The Latin American Division of the State Department, today, is a damn disaster area. They are a disaster area. They're nice people. Meyer—Meyer couldn't be nicer, but down below him are a hell of a lot—

Kissinger: Well, they have this ideological preference for the left-wing Christian Democrats. Now, the left-wing Christian Democrats

very often agree with the Communists on almost everything, except certain—

Nixon: Except foreign policy.

Kissinger: —democratic procedures.

Nixon: That's right.

Kissinger: And even those—and their religion. I mean, for example, Meyer told me the other day, when Somoza was here, he told me full of pride, he had told Somoza that if he didn't liberalize his regime he'd go the way of his father. Well, you know, now—

Nixon: Well, you sure can't say this. I—well then, frankly, I don't want him to liberalize his regime. I hope he keeps it like it is.

Connally: My God, I would hope so. He's the only friend we've got down there—

Nixon: He understands American power.

Kissinger: So on issue after issue, we have had—the President has now invited the Brazilian President up here.

Nixon: Médici.

Kissinger: Médici.

Nixon: Over the violent objections of State.

Kissinger: But we have had a hell of a time getting any sort of confidential exchange with the largest country in Latin America that's, basically, on our side.

[7 seconds not declassified]

Nixon: The Brazilians, at the present time, are in a hell of a fight with us about this fishing rights business. Well now, on that—out of that, I mean—we've got to fight on our fishing rights thing, and some other things, but it's the last thing we need with Brazil.

Kissinger: Yeah, I know.

Nixon: But here the State Department wasn't keen on taking on some of these other countries that were kicking us around on the fishing rights, but Brazil, because it's a dictatorship, Goddamnit, they want to fight it.

Kissinger: Which isn't even enforcing the regulations.

Nixon: Oh, it isn't?

Kissinger: They promulgated them.

Nixon: I see.

Kissinger: They promulgated them in a typically Brazilian way: They say that any ship that is seized after a warning—

Nixon: Hm-hmm.

Kissinger: —or can be seized after a warning. They always make sure—

Nixon: Yeah.

Kissinger: —that they give the warning when the ship is ready to leave. They haven't yet—

Nixon: Hm-hmm.

Kissinger: —done anything. We have told them to wait till October until [unclear] if you and Médici can meet.

Nixon: Yeah.

Kissinger: And so far that's worked.

Nixon: We've got to play—we've got to play the goddamn Brazilian thing. We've got to keep Brazil strongly on our side, and in the hands of a strong, stable, conservative government. Now, I don't care whether Médici did it. You know, they—excuse me for a moment.

Kissinger: Sure.

Nixon: The problem, really, in all these loans, Henry, is that it—that I'm concerned about is that, pretext or no pretext, he doesn't need them, I agree. Second, it's just the fact that if you start doing it, it's going to encourage others to go and do likewise. And I think John's point is that some place along, maybe we ought to find a place to kick somebody in the ass. Now, you know, we didn't kick [Juan] Velasco. Now, everybody says, "Now, that was great." I'm not so sure. I'm just not so sure that we—you know, a lot of our Latins said, "Wasn't it good? You handled that just right." What'd we get out of it?

Kissinger: Well, Velasco, I have to say, he's come down a little.

Nixon: And this time I'm a little wary.

Kissinger: And I think he was a lousy case.

Nixon: Yeah.

Kissinger: But, Chile, which is a Marxist government, the guy's going all out. I have a report from somebody who was at a—

[Unclear exchange]

Kissinger: —who was at an OAS meeting, who said that the Cubans and Chileans were working hand in—

Nixon: [Unclear]

Kissinger: —hand in glove—oh, no, no, it couldn't have been [at the] OAS. It was some sort of inter-American meeting.

Nixon: Yeah.

Kissinger: At any rate, the Cubans and Chileans were working hand in glove, drafting resolutions jointly. And—

Nixon: Well—

Kissinger: —and that there's no doubt whether the Chileans—I've always felt we need to take a stand on. And if we take it from that, if they wind up being as well-off as their neighbors, what incentives do

their neighbors have not to yield to the, to their domestic left? Argentina has a big Perónist group, which, really, for operational purposes, could go on a program very similar to the Communist program—

Nixon: That's right.

Kissinger: Expropriation.

Nixon: Sure.

Kissinger: Anti-U.S. It doesn't have to be Communist, but for our interests, I don't know. What do you think John?

Connally: It's the same. It'd be the same—

Nixon: Sure.

Connally: That hurts the same—

Nixon: Internally, it will be totally expropriation and nationalist. It's what's basically more than a—basically more of the—it'll be on the right, but a completely nationalistic attitude. Their foreign policy could be a little different, that's about all.

Kissinger: Yeah. Yeah.

Nixon: Maybe. Maybe.

Kissinger: Yeah.

Nixon: Who knows?

Kissinger: It could be very anti-U.S., as Perón was.

Nixon: Sure, sure. Perón was—

Connally: As soon, once you get this studied, let me suggest to you that you get us involved, to the President, of making a statement, issuing a statement, a statement of policy—a White Paper, so to speak—in which he instructs all the government that as a matter of policy, this government will not vote for, nor favor, any loan to any country that has expropriated American interests, unless and until that country is furnishing good and sufficient evidence that satisfactory payment has been made. And now, that's basically the policy of the World Bank, now; it is not the policy of the Inter-American Development Bank. It's a loose thing, and we operate one multi-national bank one way, one S.O. [statement of] policy, and our bilateral aid is operated on still another policy. And this has the effect, it seems to me, if this—and, you see, to me, this does two things: Number one, it serves what [unclear]. And secondly—and it's a uniform policy. Secondly, it says to all these nations, "You can't expropriate our people and continue to get financial help from us until you decide how you're going to pay them." And third, it says something to the American businessman that I think is extremely important and extremely powerful.

Nixon: Right.

Connally: It says for a change, we're going to [unclear] McNamara.

Nixon: Interesting.

Kissinger: Well, why don't I, if you agree, Mr. President, issue a directive saying that pending NSC review of this subject, you want all of these applications, from countries where there is expropriation going on, held up? Wouldn't that help you?

Connally: Oh, sure. Absolutely. It'd be great.

Kissinger: And we'll put a four-week deadline on it, and that will give you a handle.

Nixon: [Unclear] all the notes are kept. And you want to be sure Peterson is—

Kissinger: Oh, yeah.

Nixon: —fully informed on it.

Kissinger: Definitely.

Nixon: Basically, it goes beyond his provenance, though, because this does involve our attitude toward these damn countries politically.

Connally: Oh, I think, basically, it's a political decision you're making.

Nixon: Yeah. [Unclear]

Kissinger: I'm ready to get on it.

Connally: The economic part of it—

Nixon: Yeah?

Connally: —is purely incidental.

Nixon: That's right.

Connally: [Unclear]—

Nixon: You know, it's the—the thing is, though, we—let's, now, get this whole procedure worked out. You see, the problem is—the problem is that [we were] naïve, even some of our people, and at Defense [unclear]. They're very naïve, huh?

Kissinger: We've had more admirals and generals in Chile since Allende than in any comparable period, more than in any other Latin American country.

Nixon: That's right. Hm-hmm. I agree—

Kissinger: Because they misread—

Nixon: God!

Kissinger: —the directive that we keep up relations with the military.

Nixon: For Latin America—

Kissinger: For Latin America.

Nixon: —these guys have, yeah.

Kissinger: Now, in Chile, there's a counterweight to the Communists—

Nixon: That's right.

Kissinger: —in such a way that, that they've gone all out. The order, of course, was just that they remain—

Nixon: Well, my—I'm inclined now, Henry, to reevaluate the keeping our relations with the military in Chile. I personally think the chance of a coup there is zilch. I also think that the military is, as you pointed out, has been isolated. I think all we're going to do is just pour money into them. Goddamnit, let the Russians put up the money for it. Let it be a drain on the Russians. I just have a feeling here that—I think we ought to treat Chile—begin treating them, and as we get along, and don't worry too much about it—like we treat this damn Castro. And, incidentally, you'll be hearing the arguments about Castro. There can't be any change on that. We're doing the right thing about Castro. We should not open up there. This fellow—this fellow is in deep, deep trouble and normalizing relations with Castro at a time that he's stepping up some of his subversive activities is just the wrong thing to do.

Connally: I haven't heard anything about it, but I would, instinctively, be violently opposed to it.

Nixon: Yeah. Well, there's something you'll hear.

Kissinger: It comes up every once in a while.

Nixon: Yeah. It hasn't in the last—but we'll—we have this, we have this understanding.

[Omitted here is a brief exchange on instructions for Connally and the President's schedule.]



**76. Memorandum From Arnold Nachmanoff of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, June 16, 1971.

SUBJECT

Chile

Attached for your signature at Tab I is a memo to the members of the NSC Senior Review Group and the Assistant Secretary of Treasury informing them of the President's decision to (1) approve the \$5 million FMS ceiling for Chile, and (2) defer a decision on the Boeing loan. The memo does not state why the President has decided to defer the Boeing decision.

I just want to be sure that it is clearly understood that a deferral of the Boeing decision for more than a few more days probably will be viewed as a negative decision by the Chileans and will have all the adverse consequences cited in the SRG papers—i.e., damage the prospects for fair compensation for the copper companies and other U.S. investors, and increase the risk that OPIC will have to pay off \$400 million in investment guarantees; give Allende an issue with which to challenge the credibility of the President's public posture toward Chile; and gain support and sympathy in Chile and in the U.S. I think we can assume that the press will play this up as a political decision inconsistent with the more liberal trade policies we are now pursuing vis-à-vis China and the Soviet bloc.

Incidentally, I seriously doubt that the copper companies would agree with Connally's thesis that a tough line on the Boeing loan might improve their chances of getting compensation. It should also be noted that there are no clear cases of expropriation without compensation in Chile at this time; the GOC has either negotiated compensation settlements with U.S. companies that have been nationalized or is in the process of doing so.

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<sup>1</sup>Summary: This memorandum forwarded for Kissinger's signature a memorandum to the Senior Review Group and Secretary of the Treasury Connally informing them of the President's decision to approve the FMS ceiling for Chile (see *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 235) and to defer a decision on the Export-Import Bank loan for Boeing aircraft. Nachmanoff commented that postponing the Boeing decision would damage U.S.-Chilean relations and noted that the copper companies would, most likely, not approve of it either.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-56, SRG Meeting, Chile 6/3/71. Secret; Nodis. Sent for action. Tabs I and II are attached but not published.

*Recommendation*

That you sign the memo at Tab I to the members of the SRG.

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**77. Intelligence Memorandum<sup>1</sup>**

ER IM 71–138

Washington, July 1971.

**CHILE'S EMERGING ECONOMIC PROBLEMS****Introduction**

1. During Allende's first eight months as President, Chilean economic policy has concentrated on the immediate objective of building political support. Various steps have been taken to this end, notwithstanding their eventual economic consequences. Chile is beginning, for example, to encounter balance-of-payments problems because of sharply increased consumer demand, disruptions of output resulting from nationalization, and the negative reaction of Chile's traditional creditors. The nation had a large cushion of foreign reserves when Allende took office, but they are being depleted rapidly. Allende eventually will be forced to take politically unpopular actions to restrict consumer demand, which could have serious political implications—particularly if he has failed to consolidate his position. This memorandum discusses the economy's developing problems and short-term prospects and assesses the implications for Allende's future.

**Discussion***Recent Domestic Economic Trends*

2. Allende's policies have largely succeeded in achieving their immediate objectives of reactivating the economy and massively redistributing income, thereby boosting the administration's popular support.

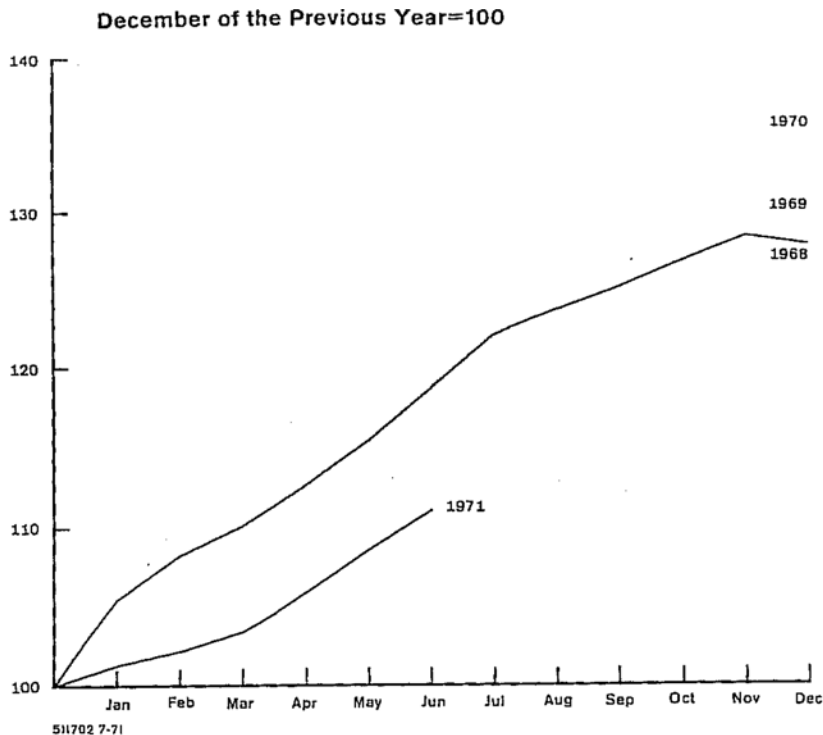
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<sup>1</sup> Summary: This memorandum dissected Allende's economic policies for FY 1971 and concluded that Allende's populist and socialist policies had vastly altered the national economy, that he would most likely be able to maintain his redistributive policies for the remainder of the year, but that he would eventually be forced to take unpopular measures.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 775, Country Files, Latin America, Chile, Vol. V. Secret; No Foreign Dissem. A notation on the first page indicates that the memorandum was prepared by the Office of Economic Research in the Directorate of Intelligence, Central Intelligence Agency. This report is an attachment to Document 246 in *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973.

## CHILE: Cost of Living Indexes

Figure 1

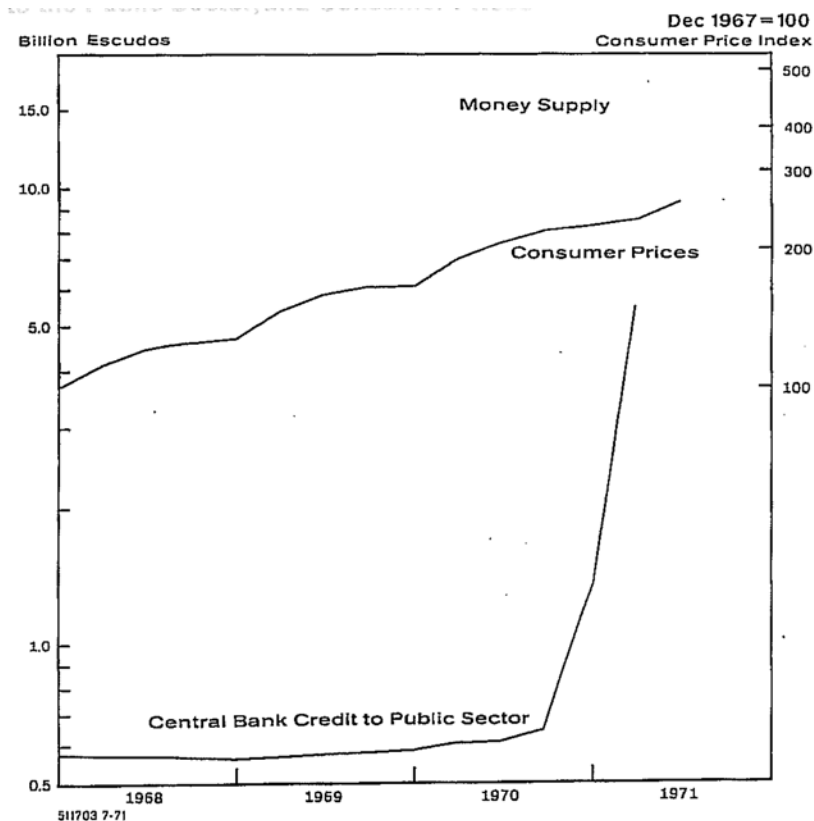


A strict price freeze and wage increases ranging from 35% to 45% for most employees have sharply increased consumer demand from its initial post-election slump. Although inflationary pressures are mounting, Allende thus far has held the increase in consumer prices to less than half the rate of recent years (see Figure 1). Because factory owners were reluctant to hire workers that they might not be able to discharge later, unemployment remained fairly high during Allende's first months in office. But the consumer boom and large public spending program recently have sharply reduced the ranks of the unemployed.

3. Fiscal policy has played a large part in stimulating production and furthering income redistribution. The 1971 budget projects a 60% increase in expenditures in nominal terms. Government revenues, however, are expected to stagnate because of production problems, lower prices, and rising costs in the copper industry and severely depressed profit margins in other industries. As a result, the 1971 deficit probably will equal 25%–30% of expenditures, or 7%–8% of gross national product. Thus far, Allende's budget deficit has been financed almost entirely by Central Bank loans to the public sector—that is, by printing money. The cumulative amount of these loans has increased

CHILE: Trends in Money Supply, Central Bank Credit to the Public Sector, and Consumer Prices

Figure 2



about tenfold since Allende was elected, and the money supply has jumped by about 70% (see Figure 2).

4. Allende has emphasized rapid expropriation of the remaining large farms and, until recently, even tacitly encouraged peasant take-overs of large and medium-sized holdings. The administration announced that it reached its goal of expropriating 1,000 farms several weeks before the scheduled date of 30 June 1971, when a new agricultural year began. Plantings of winter wheat reportedly are down sharply this year, and the regime has begun to express concern privately about the effect of land seizures and expropriations on agricultural output. Since the seizures also have had an unfavorable political impact, Allende now publicly opposes them. While expropriation has been depressing marketed farm output, rising incomes—especially for lower income groups—have boosted food demand by at least 10%–15%.

5. Nationalization of industrial and commercial firms is destroying investment incentives and disrupting production in many firms, partly by contributing to poor worker discipline. The effects are most pronounced in the copper industry, but other sectors are also being affected. A major stratagem in Allende's takeover of manufacturing firms has been to use labor disputes as a pretext for appointing government managers, under a 1945 statute that prohibits discharging workers. This policy has led to widespread absenteeism, with up to half of the workers reportedly failing to appear in some plants on either Mondays or Tuesdays. In an attempt to control these problems, Allende's Popular Unity coalition has established workers' "vigilance" committees in most factories to report on and intimidate those responsible for production losses.

6. Socialization of the economy—already characterized by extensive state control—has progressed notably under Allende. The final step in fully nationalizing the large US-owned copper mines is now completed, although compensation remains to be determined. The state has bought control of most private banks and taken over almost all the large textile firms and several steel fabricators and gas distributors. In addition, it has nationalized Bethlehem Steel Company's iron ore properties and the nitrate mines owned by Anglo-Lantaro. Allende has used various techniques in the takeovers, including the securing of a constitutional amendment to facilitate copper nationalization, direct negotiations in the case of the iron and nitrate mines, purchases of bank shares (after making continued operations unprofitable for the owners), and appointment of government managers for firms in such industries as textiles and cement. Chile has taken control of something like one-third of the private industry remaining in 1970.

#### *Impact on the Balance of Payments*

7. The massive increase in consumer demand resulting from Allende's policies is only gradually being reflected in increased imports, since considerable stocks of finished goods, components, and raw materials were accumulated during the post-election slump in sales. Although imports of such goods have not yet increased appreciably, higher real incomes already have been translated into larger foodstuff imports. During January–April 1971, imports of industrial raw materials and fuel were only about 8% higher than in the corresponding 1970 period, but foodstuff imports more than doubled. Because capital goods imports fell, total imports were only 10% higher than a year earlier.

8. Export earnings are down considerably from 1970, reflecting both lower copper prices and production problems in the large copper mines. The near-completion of copper expansion programs last year was expected at one time to permit a rise of almost 40% in copper

output and export volume in 1971.<sup>2</sup> Although production at the new Exotica and Andina mines has begun, total Chilean output so far is up only about 8% above the 1970 level, inasmuch as output has declined at the other three large mines. Contrary to Chile's expectations, increased export volume has not offset the decline in copper prices.

9. At the same time, traditional sources of foreign credit and investment are rapidly drying up. Short-term and medium-term credit outstanding from US commercial banks has fallen from \$225 million to less than \$165 million since the Presidential election last September, and US companies not yet affected by nationalization are repatriating funds as rapidly as possible. Chile is finding it very difficult to replace US investment and credit with funds from other Western countries, partly because heavy borrowing by past administrations has given it one of Latin America's largest long-term foreign debts. The total outstanding now approximates \$2.4 billion, and debt service obligations (principal and interest) amount to about \$300 million this year. Since a sizable portion of this debt is held by West European interests, they may be hesitant to increase the amount at risk. The net result of heavy debt service payments, lower exports, higher imports, and the drying up of foreign bank credit has been a drop in Chile's net international reserves from \$345 million to some \$200–\$225 million during the first six months of 1971, despite receipt of \$17 million in special drawing rights from the International Monetary Fund.

#### *Short-Term Prospects*

##### *Remainder of 1971*

10. Although problems are looming, Allende and his extreme leftist coalition probably will be able to continue their politically expedient economic policies during the next few months. In several respects, the regime may well be able to point to a favorable record of accomplishment for the year. The adverse effect of agrarian reform on farm output will not be fully apparent until the harvest begins in early 1972, and there will be gains in mining and manufacturing output because of recent additions to copper production capacity and the strong demand for consumer goods. Chances thus seem good that the real economic growth rate in 1971 will exceed the 4% average of the past four years. Successful use of price controls and expanded imports to curb inflation so far this year suggests that the cost-of-living will rise less than in recent years, despite the large wage increases and massive increase in the money supply.

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<sup>2</sup> For details, see ER IM 71–86, Chile: Allende's Moves To Complete The Takeover of US Copper Holdings, May 1971, SECRET/NO FOREIGN DISSEM. [Footnote is in the original.]

11. The main cost of continuing present economic policies for several more months will be a further marked drop in foreign reserves—if copper production remains well below capacity and there is no sustained rise in prices as a result of an extended strike in the US industry. Imports are likely to rise by 15%–20% this year because of expanded food purchases, and export earnings so far are down because copper prices have averaged less than 50 cents a pound, compared with 64 cents in 1970. Under these circumstances, the trade deficit seems likely to reach \$100–\$200 million. Even if remittances by the copper companies (including compensation for final nationalization) are very small, as seems likely, service transactions stand to add another \$100 million or so to the deficit. A substantial loss of reserves thus is in prospect unless the capital account balance is favorable.

12. Everything considered, however, Chile probably will have a net capital outflow of some \$50–\$100 million in 1971. The backlog of about \$400 million in development credits from Free World nations and international agencies is an element of strength and might permit drawings of as much as \$200 million this year. But such receipts would merely balance the scheduled debt amortization payments, which Chile is likely to meet during at least most of 1971—although rescheduling may be sought after reserves deteriorate further. In the case of short-term capital, a sizable net outflow seems likely, since US commercial banks anticipate further cutbacks in credit lines to Chile. It is doubtful that these losses can be fully offset by drawings on credits from Communist countries or by West European and Japanese loans and investments. With a 1971 balance-of-payments deficit of some \$250 million—the smallest amount that can reasonably be expected barring policy changes or strengthening copper prices—net foreign reserves would drop to roughly \$100 million. Such reserves (which would equal only one month's purchases of goods and services) probably are close to the minimum needed to conduct normal commercial relations.

#### *Next Year*

13. Sometime toward the end of 1971 or early in 1972, Chile probably will have to start living more in accordance with its means. If accelerating inflation, black markets, and some form of rationing are to be avoided next year, the government will need to take strong actions such as severely restricting wage increases, raising taxes, and curbing credit expansion. Next year could also see the beginning of a major reallocation of resources from private consumption to investment if balance-of-payments constraints and bottlenecks in production capacity are sufficiently severe and if the regime subscribes to the usual Communist formula for economic development. Corrective measures will be difficult to carry out, however, and will be politically unpopular. The existing dissension among the Allende-led forces may in-

crease as the pleasure of attacking US business and Chile's economic elite gives way to formulating long-term programs for the new "socialist" Chile. Even if economic policy fails to reach such a stage but consists largely of reacting to economic strains, Allende may have trouble building a consensus for action.

14. Unless copper prices rise dramatically or copper production problems are solved rapidly, Chile probably will be forced to curtail imports sometime during the next several months—either through direct controls or substantial devaluation of the escudo, which is now grossly overvalued. Demand for imported raw materials and manufactured goods will soon rise markedly because the stocks accumulated during late 1970 are now largely exhausted. At the same time, Chile probably will need a further large increase in food imports because agrarian reform and peasant takeovers probably will cause a poor 1972 harvest.

15. The Minister of Economics has stated that following the present period of "reactivation," Chile will enter a period of "accumulation"—that is, heavy expenditures for investment such as are found in other Communist countries. Allende's original timetable called for the reactivation period to last until the "Revolution became irreversible," which means until effective political opposition had been eliminated. The reactivation phase is supposed to end in about April 1972, but the rapid depletion of foreign reserves may force earlier action despite the political risks involved.

16. If the economic situation deteriorates seriously, the Allende regime probably will turn to Communist countries for aid to ease problems and minimize the political backlash that basic corrective measures would provoke. We believe, as Chilean Communists reportedly have asserted on several occasions, that some assistance would be forthcoming from these countries, although it is doubtful that the USSR—Chile's most likely Communist benefactor—would supply aid to the extent envisioned by the local Communists. Against the backdrop of continuing heavy support for Cuba, Moscow will continue to move carefully in backing the world's first popularly elected Marxist government and, in fact, has urged Allende to proceed cautiously in implementing his reforms. Even if unwilling to provide a large amount of convertible currency, Communist countries could assist Chile by supplying goods normally purchased in Western markets—such as petroleum, iron and steel, and certain foodstuffs—as well as by extending the customary economic development loans. Such assistance, however, probably would help only partly to meet Chile's pressing need for large amounts of relatively untied capital.



**78. Special National Intelligence Estimate<sup>1</sup>**

SNIE 94–71

Washington, August 4, 1971.

[Omitted here are a table of contents and a map of Chile.]

**THE OUTLOOK FOR CHILE UNDER ALLENDE***Note*

In the first nine months of his government of Popular Unity, President Salvador Allende has moved skillfully and confidently toward his declared goal of building a “revolutionary, nationalistic, and socialist society on Marxist principles.” His problems are mounting; but he is still firmly in control, most of his policies enjoy wide popular support, and his ability to manipulate the levers of power is growing. His strategy and timetable are impossible to predict in detail. The purpose of this estimate is to make a general assessment of Allende’s course and its likely effect on Chile’s internal institutions and external relations over the next few years. In it we examine the strengths and weaknesses of Allende’s governing coalition and the opposition parties, the role of the military, the state of the economy, and the new look in Chile’s foreign relations. In a final section we advance some general propositions about Allende’s future problems, factors affecting the survival of a competitive, multiparty political system, and the outlook for Chile’s relations with the US and other nations.

*Summary and Conclusions*

A. Since it assumed power last November, Salvador Allende’s government has quickened the pace of ex-President Frei’s “revolution in liberty”, and set in motion a major transformation of the Chilean economy and society, posing new challenges to the traditional political order. The ruling Popular Unity (UP) coalition is dominated by Allende’s loosely organized, militantly radical Socialist Party, and the

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<sup>1</sup> Summary: This estimate included a detailed analysis of Allende’s administration and highlighted the popularity of his initial economic redistribution programs and the overall effects of nationalization. Following a thorough discussion of Allende’s positions, the estimate concluded that Allende would continue his socialistic economic policies, that his leadership had been astute, and that the military appeared to be reluctant to enter into politics to depose him.

Source: Central Intelligence Agency, History Staff Files. Deputy Director for Intelligence, Registry of NIEs and SNIEs. Secret; Controlled Dissem. Prepared in the CIA and the intelligence organizations of the Departments of State and Defense, and in the NSA. Concurred in by the Deputy Director of Central Intelligence, the Director of Intelligence and Research, Department of State, the Director of the Defense Intelligence Agency, and the Director of the National Security Agency. The Assistant General Manager of the Atomic Energy Commission and the Assistant to the Director of the Federal Bureau of Investigation abstained.

better disciplined, more cautious, pro-Moscow Communist Party. Despite disagreements over tactics and timing, the Socialists and Communists have worked together for years, and there is little short-term prospect of a split serious enough to drive one or the other out of the coalition.

B. The most important opposition party is the Christian Democrats (PDC). It is still the largest single party, with a strong position in Congress, but is factionalized and in financial trouble. Its relations with the other significant opposition party, the conservative National Party, normally are bad. Their recent joint efforts in a congressional by-election produced a victory, and further *ad hoc* collaboration is likely, but mutual hostility is so great that sustained collaboration against the UP is unlikely.

C. Thus far the regime has directed its economic policies toward popular political ends, concentrating on the takeover of major industries and private banks, acceleration of agrarian reform, and the redistribution of income in favor of the underprivileged. Now inflationary pressures are rising as accumulated stocks are exhausted and production has not kept pace with demand. Imports are rising rapidly and Chile's foreign exchange reserves are dwindling. Potentially, copper export earnings could produce the required foreign exchange, but likely production increases at expected prices would not permit Allende to continue to meet increased demands and appetites of the populace. If accelerated inflation, black markets, and serious shortages are to be avoided, by early 1972 Allende will have to take some politically unpopular actions and seek more outside aid.

D. Allende's dilemma is that, having done all the easy things, he has still not gained sufficient political strength to carry him surely through the difficult times ahead. His popularity seems almost certain to decline as economic problems set in. Many in the coalition would like to avoid the 1973 congressional election, and pave the way to their own extension of power, by holding a plebiscite to replace Congress with a unicameral "People's Assembly", which they would expect to control. But we do not think Allende can count on the electorate to approve such a change at this point and is more likely for the time being to try to exert maximum pressure within the present system to damage the political opposition, or to woo away some of its factions.

E. He might at some critical point turn to more drastic measures, including some unconstitutional moves, but would do so only if he were sure that he had neutralized or had the support of the armed forces. The Chilean military are not now disposed to political intervention. Allende has been assiduously cultivating them to gain their support, and he seems unlikely to provoke them with blatant acts. But domestic events beyond his control, e.g., a deterioration of the economy

leading to severe social unrest, could trigger a military attempt to intervene with, or even to oust Allende.

F. Thus the consolidation of the Marxist political leadership in Chile is not inevitable, and Allende has a long, hard way to go to achieve this. Though he would almost certainly prefer to adhere to constitutional means, he is likely to be impelled to use, and to rationalize, political techniques of increasingly dubious legality; eventually he is likely to feel it necessary to employ his considerable Presidential powers to change the political system so that the UP coalition can perpetuate itself in control. The factors operating for and against this outcome are nearly evenly balanced; the actual outcome could be dictated by quite fortuitous circumstances at some key moment.

G. In foreign relations Allende is charting an independent nationalist course for Chile. He is trying to keep open the possibility of credits from European, Japanese and other non-Communist countries. Relations with Communist countries have been expanded and will continue to grow closer. The Soviet Union and other East European states are extending credits and they would probably help Allende in an economic crisis with selective aid measures. Moscow will continue to cultivate channels of influence into Allende's government through the Chilean Communist Party, but will be unsure of its ability to make a decisive impact on key issues, given the strong position of the Socialists and Allende's independent posture.

H. At the moment US-Chilean relations are dominated by the problems of nationalization. There is likely to be considerable contention before the issues are settled and neither the US companies nor the radical Chileans will be satisfied by the terms. Allende himself seems to wish to avoid a confrontation, but as economic difficulties set in there will be a continued tendency to use the US as a scapegoat. The US reaction will be important, but at least some worsening in the present cool but correct relationship seems likely.

## *Discussion*

### *I. Introduction*

1. Since its assumption of power last November, the Allende government has quickened the pace of ex-President Frei's "revolution in liberty" begun in 1964 and set in motion a major transformation of the economy and society, posing new challenges to the established political order. The commitment to fundamental social and economic change has won at least the tacit acceptance of most Chileans and the active support of a strong plurality. The desire for such change is a strong factor in the Chilean character, the role of government as a major force in the society is well established, and the importance of private enterprise as an economic norm has eroded greatly over the years. In this

sense, the emergence of Allende's "people's revolution" was more a logical fruition of Chile's past than a sudden historical aberration.

## *II. Allende's Political Base*

2. Allende is an astute and experienced politician with a thorough understanding of the Chilean political system gained through years in the Senate and as a perennial presidential candidate. He is a known quantity to the Chilean electorate, regarded as a reformer who has worked within the system all of his political career. Allende is 63 years old, and apparently in generally good health despite earlier cardiac problems. He works hard at his job, has a flair for public relations, and is adept at cultivating new supporters and disarming potential opponents. Throughout his first nine months in office, he has shown remarkable tactical skill in sidestepping or suspending problems for which he has not yet devised solutions, in selecting the right allies for immediate purposes, and in keeping his opponents divided. He tends to speak in political clichés and broad theoretical generalities, and has frequently reversed apparent commitments through loopholes or bland disregard of earlier statements. His obvious zest for luxurious living is not regarded in the Chilean context as incompatible with a dedication to Marxist Socialism. A taste for expensive sports cars, liquor, clothes and women, have indeed tended to add lustre to his image rather than damage him politically.

3. At this point Allende's mandate seems secure, and the disparate elements within his governing Popular Unity (UP) coalition appear committed to his overall leadership. The Socialists and Communists are the major coalition partners. Members of the pro-Soviet Chilean Communist Party hold important economic ministerial posts and exercise considerable influence in the government. Allende's own more nationalistic and in many respects more radical Socialist Party occupies most of the other major cabinet jobs and has particular responsibility for security matters and foreign affairs. Lesser cabinet posts are held by the Radicals, a declining party of non-Marxist middle class orientation, and by three other minor coalition elements. By and large the cabinet is not a particularly distinguished group and is generally overshadowed by Allende and by more powerful Socialist and Communist Party leaders.

4. The Communists were the main architects of the coalition. Their consistent political line, tight discipline, and considerable organizational talent were key ingredients in Allende's election and continue to be valuable assets to him. Outside their own party organizations the Communists' main channels of political influence are through a network of neighborhood Committees of Popular Unity and the Chilean Trade Union Confederation (CUT). The member unions of CUT have

various political affiliations, but the Communists are strong in the CUT central offices. Allende has given the Communist Party primary responsibility for labor and has made CUT the government's main instrument in the labor field. The Communists have strong competition from Christian Democratic and Socialist unions in certain key sectors; but their current efforts to increase Communist membership and influence, abetted by Soviet financial and technical support, are likely over time to increase their control of organized labor.

5. The Socialist members of the coalition are sometimes at a disadvantage in dealing with the Communists because of the diversity and lack of discipline which have always been characteristics of the Chilean Socialist Party. Many of Allende's Socialist advisors are striving for more militant approaches to national problems and are impatient with the gradualist methods of the Communists and of Allende. There are indications, however, that the party leadership is making new efforts to enforce discipline within the ranks, to establish a party line which will appeal to the bulk of the party, and to placate both the old guard members and the extremists on the fringe, the Movement of the Revolutionary Left (MIR). The MIR is gradually becoming estranged from the Socialist Party and is critical of Allende's progress toward social goals. More extremist than the MIR is the small People's Vanguard (VOP), which has no ties with any party and is more interested in violence than in revolutionary ideology.

6. Despite internal discord, the Socialists capitalized on Allende's image to come through the April 1971 municipal elections in much better shape than the well organized Communists. The Socialist Party won 22.4 percent of the vote, as compared with 12.2 percent in the 1969 congressional elections. The Communists advanced only from 15.9 to 17 percent, even though their party membership has increased significantly. The Radicals continued their decade-long decline, dropping from 13 percent to 8 percent. The net result was to increase the UP vote by 5.5 percent over 1969 and give the coalition 49.7 percent of the total vote.

7. The Communists and Socialists both endorse the idea of overhauling the Congressional system to neutralize obstructions by the opposition to the government's policies. The coalition's plans call for a government legislative proposal to convert the present 50-member Senate and 150-member Chamber of Deputies into a single body, to be based on both economic function and political affiliation. Details of the plan are not yet clear, but presumably it would provide for a legislature more easily controlled by the President in which the opposition parties would be less effective.

8. There are strains in the coalition over timing and tactics regarding constitutional reform. The Socialists want constitutional change

first, to give the government greater power to force the pace of revolution. The Communists, on the other hand, would prefer to postpone constitutional reform until a good start has been made in tackling the important economic and social tasks and the base for such a fundamental change in the political system has been carefully laid. The UP's Political Commission appears to have come closer to the Socialists' view in calling for government initiatives toward constitutional reform "within the year". However, the resignation in early August from the Radical Party of nearly half of its Senators and Deputies, and their public opposition to a plebiscite will be a strong deterrent to such government initiatives. Allende now seems to look with disfavor on the Socialist insistence on an early plebiscite.

9. Despite their differences the Socialists and the Communists have worked together for many years, and we see little short-term prospect of a split serious enough to drive one or the other out of the coalition. The advantages of sharing power are great enough to overcome temporary disappointments. Moreover, Allende seems adept at presiding over the kind of contention and jostling for position which characterize this coalition. He plays upon the mutual suspicions and inter-party disputes over tactics for his own benefit. For example, last fall he granted amnesty to those members of the MIR who were imprisoned in the Frei era and enlisted the militant enthusiasm of that group in order to sustain, or give the impression of sustaining, revolutionary momentum. More recently, he has joined with the Communists and other "moderates" in attempts to curb the violent excesses of the MIR, e.g., illegal seizures of land and buildings in anticipation of nationalization. Nevertheless, over the longer run difficult decisions on timing and tactics when the coalition attempts to effect consolidation of political control will increase the potential for serious strains.

### *III. The Opposition*

10. The most important opposition force, the Christian Democratic Party (PDC), has been poorly organized, though its efforts have slowed some aspects of Allende's program. Its most prominent leader, former President Frei, retains a wide following in the country, but he has remained largely in the background and his occasional pronouncements against the governing coalition have yet to be translated into a program capable of uniting the party or offering a popular political alternative. The party remains divided over future strategy. A small but important minority faction, the Christian Left, led by the volatile ideologue Rado-miro Tomic, actively supports most of Allende's social and economic goals and has been seriously considering defection to the UP coalition. A larger moderate contingent, led by the capable and energetic Secretary-General Narciso Irureta, appears to be increasingly emphasizing the need for party unity in order to win allies, to oppose Allende

in the Congress, and to work for a PDC victory in the 1973 Congressional elections.

11. The PDC turned in a respectable performance in the April elections, dropping only from 29.8 percent in 1969 to 25.6 percent, and thereby remaining the largest single party. This strengthened Frei's hand in party affairs and demonstrated the continuing appeal of the party to the Chilean electorate. But Frei characteristically has not displayed dynamic and forceful leadership, and has left the task of trying to maintain the party's new momentum to Irueta.

12. Meanwhile, many members of the radical Christian Left faction believe that if the party is to remain true to its "revolutionary" principles it should help Allende succeed from within the government coalition. But for the moment at least Tomic and others appear persuaded that they would lose more than they would gain from defection to Allende. However, one faction of the Christian Left has split from the PDC in protest against the efforts of the party leadership to cooperate with conservative parties. Most of the party youth leaders and at least 8 Deputies resigned. The dissidents will probably join earlier defectors from the PDC in a program of selective cooperation with the Allende government.

13. The majority of the PDC seems generally agreed on a policy of "selective opposition" to the government. Under this strategy the party's leaders will support some government measures, oppose others, and seek to modify still others. It will thus hope to maintain its populist credentials and continue to portray itself as a party committed to profound change.

14. There are, however, some formidable obstacles in the way. The PDC has lost the levers of patronage, and its ability to maintain organizational activity and to win new support is weakening. Also, many of its sources of financial backing are drying up in the wake of the government's moves to nationalize the banking system and as a result of the private sector's well-founded fear of government retaliation if it supports the opposition. Moreover, Tomic and some other PDC leaders still owe a large debt to the state bank from previous years' borrowings for business ventures and election campaigns, and the party may be vulnerable to government pressures for repayment whenever Allende chooses to turn the screws. Finally, efforts to further its cause and to gain support for alternatives to Allende's programs are severely hampered by the growing government domination of the public media. Almost all of the country's television and about half of the radio stations, the main channels for mass communication, are controlled by the government or the UP coalition; and though one of the major newspapers has managed to maintain its independence, much of the important

printed media either takes its direction from the government or is affiliated with the coalition parties.

15. Aside from the PDC the only political opposition of any consequence is the National Party (PN), the political vehicle of the land-owners and well-to-do. It retained 18 percent of the electorate in the April 1971 elections, down from 20 percent in 1969. But party leadership is inflexible and its program lacks popular appeal. Some elements of the PN are willing to work out better political arrangements with the Christian Democrats in order to present Allende with a more united opposition. In the congressional by-election of July 1971 the PN and the PDC supported in separate campaigns a single candidate to oppose the UP standard bearer. The PN–PDC candidate succeeded (winning 50.16 percent of the vote) despite the strong reluctance of elements of both parties to cooperate. This victory may ease the way toward further collaborative efforts on an *ad hoc* basis in circumstances where major interests of the parties are at stake. But the hostility between the parties and their concern for maintaining their separate identities make sustained collaboration unlikely.

16. There will be opportunities for the opposition parties to block, delay, or modify many of the government's initiatives. Much will depend upon the continued spirit of resistance to the government within the PDC, the nature of the squabbling between the Communists and the Socialists, and the shifting alignment of the pro- and anti-Allende forces in the Congress. So far Allende appears to consider that he has the edge over his opponents and therefore has to woo rather than bludgeon the opposition.

#### *IV. The Military*

17. Chile's Armed Forces are among the least inclined of any in Latin America to intervene in politics. After nine months of the Allende administration there are no indications that the military is about to depart from this tradition. While the officer corps has traditionally been anti-Communist, it has long accepted the legality of the Chilean Communist Party. Few ties exist between military leaders and political figures of the opposition parties. The military continue to see themselves as protectors of national security and defenders of constitutional government.

18. Chile's three armed services, particularly the army, have long been weak in organization, cohesion, and leadership. There is an absence of effective communication and cooperation within the services and with the *Carabineros* (national police). The *Carabineros*, slightly larger in numbers than the army, are one of the best trained and most professional police forces in Latin America, though after the accession of Allende some of the leaders were replaced by less impressive per-



sonnel. They are dispersed throughout Chile but their support or acquiescence would be necessary for a successful military move against the government. They seem no more likely than the military to act against the regime.

19. Allende, for his part, has taken great care not only to observe constitutional forms, but to proclaim frequently his intention to act only within the law in the future. Unlike Frei, he gives military matters his personal attention and has demonstrated to the military that he is interested in, and sympathetic to, their problems, e.g., pay, equipment, and training. In addition, Allende's recent crackdown on the MIR and his declaration that only the police and the military have the right to be armed are reassuring to the armed forces. Military promotions have been based on normal and expected selections, and are unlikely to arouse any resentment. The military is also benefiting from recent wage increases, lower inflation, and other new arrangements (e.g., free attendance at the Catholic University). Consequently, most military men, although they are not ardent Allende supporters, are willing to give the President a chance to show what his socialist revolution can do for the country.

20. Yet, there are circumstances under which the military might unite and impose restrictions upon Allende. Examples would include: a blatantly unconstitutional action by Allende, an effort to suppress the opposition by force, or especially a move which the military considered a threat against the armed forces as an institution. All of these contingencies seem unlikely because the President is apparently aware of how far he can go without antagonizing important military figures. There might be developments, however, which he could not control and would lead the military to intervene with, or even attempt to oust Allende: e.g., a deterioration of the Chilean economy, which brought severe social unrest.

#### *V. The Economic Situation*

21. During his first nine months in office Allende has directed his economic policies toward his primary objective of building political support for his "people's revolution". He has concentrated on fulfilling his electoral promises by the redistribution of income in favor of the underprivileged and by completing the nationalization of the copper industry. To appeal to his more revolutionary followers he has also accelerated agrarian reform and the takeover of major industry and private banks. Allende has been able to capitalize on the momentum and wide popular support for Frei's "Chileanization" measures in the late 1960s, under which the government had already acquired majority ownership in the major copper companies. Allende decided to seek a constitutional amendment which would allow full nationalization of copper

without judicial review by Chile's conservative court system. After several months of legislative maneuver and opposition attempts to place restrictions on its implementation, the amendment was passed unanimously by the Congress on 12 July. It provides for compensation to the companies within 30 years at no less than 3 percent interest, based on "book value" as of 31 December 1970, less possible deduction at the President's discretion for past "excess profits" and other factors.

22. Negotiations with one of the US copper companies, Cerro, have been underway for some time and have produced agreement on terms, but implementation has been stalled by the Socialists in the governing coalition who hope to tighten its provisions in line with the nationalization bill. The government considers that it has a strong claim against the major companies, Anaconda and Kennecott, based on its calculations of "excessive profit-taking" in previous years. Thus there is virtually no chance that the government's compensation offers will come close to satisfying the companies; each case is likely to be carefully calculated to exact maximum benefits for Chile. Allende is likely to stop short of outright rejection of compensation and try to avoid terms which would impair Chile's international standing, but will be under strong pressure from his Socialist Party colleagues to pay no compensation at all.

23. Meanwhile the government has proceeded step by step toward state control of other major industries. It has assumed control of nearly all of the nation's commercial banks through purchases or intervention. Negotiations apparently have been concluded with at least three of the five foreign-owned banks (including US-owned Bank of America) for their "voluntary sale" to the government. In mid-April the government bought out private interests in iron and steel and merged them into a large government-controlled complex. In late May it threatened to take over 200 major industrial enterprises, comprising nearly all of Chilean industry, if they did not cooperate with the government's plans. As a start, it took over the country's 14 largest textile factories through government-inspired "requisitions" by their workers, an action which the impartial Chilean controller-general declares improper. Major US firms have been the targets of other kinds of government pressures. While negotiations are continuing, ITT is facing ultimate government takeover of its large Chilean investments. Ford Motor Company has already closed down its operation in the country, following heavy losses in recent years and unsuccessful negotiations with the government over its 1971 production. General Motors is hanging on but is likely to experience increasing government interference.

24. The government is pushing forward rapidly in land expropriation. Allende has until recently permitted militant elements to foment seizure of property by landless peasants. He is now discouraging this

tactic, however, fearing that violent clashes in the countryside will endanger agricultural production. But the government has not slackened the pace; it claims to have reached its first year's goal of expropriating 1,000 farms by June 1971. It thus appears determined to forge ahead as quickly as possible toward its objective of breaking up all large landholdings and, ultimately, converting them into a system of agricultural cooperatives and perhaps state farms.

25. The government's program for redistributing income has been a prime source both of its continuing popularity and of its growing vulnerability to economic strains. Chilean workers have received salary increases ranging from 35 to 45 percent, while government controls on prices have held inflation to 11 percent for the first six months of this year, compared with about 24 percent during a similar period in Frei's last year in office. Since Chileans are conditioned by long experience with inflation to spend their money rapidly, the rise in real income has set off a consumer buying spree. Other "populist" measures—e.g., rent freezes, cheaper vacation costs, reductions in the cost of clothing, and attempts to provide free milk to all children—have greatly increased bread-and-butter benefits to lower class families. The consumer boom and the government's large spending program have also sharply reduced the number of unemployed, now estimated at 5 percent of the labor force in Santiago Province.

26. The economic policies of the Allende administration, designed as much to achieve political as economic objectives, have been ambitious and costly, and were bound to create economic problems for the future—as the administration itself almost certainly recognized. Some of these problems have now begun to emerge, and they give promise of worsening. Inflationary pressures are mounting as incomes have expanded much more rapidly than stocks of consumer goods. The rapid pace of nationalization and expanded worker benefits have, moreover, impaired production, virtually eliminated incentives for private investment, and contributed to poor worker discipline and high absentee rates. Greatly increased government spending—the 1971 budget projects a 30 percent increase in expenditures in real terms over the previous year (assuming continuation of inflation at its present rate)—has given a short-term boost to the economy; but production problems, rising costs in the copper industry, and severely depressed profit margins everywhere have inhibited a growth of government revenues. The result is likely to be a 1971 deficit equal to 25–30 percent of expenditures, or 7–8 percent of gross national product (GNP).

27. The massive increase in consumer demand is forcing the government to rely increasingly on imports. Disruptions due to accelerated land distribution have begun to threaten agricultural production; plantings of winter wheat are reportedly down substantially this year.

Increased imports of foodstuffs to meet the nation's growing appetite have more than doubled during January–April 1971 in comparison with the corresponding 1970 period. Industrial raw material and fuel were only about 8 percent higher but this is because considerable stocks of finished goods, components and raw materials had accumulated during the postelection slump in sales. At the same time, export earnings are down considerably from 1970 as a consequence of lower copper prices and production problems in the mines. Copper expansion programs of recent years have added a potential 40 percent to production capacity and export volume. But thus far at least actual production is up only about 8 percent over 1970, and the increase in export volume has not offset lower copper prices.

28. At the same time, Allende's nationalization moves and uncertainty in international money markets about his socialistic goals are drying up sources of foreign credit. The Allende government has had little success thus far in its efforts to replace rapidly disappearing short- and medium-term credits from US banks with funds from other non-Communist countries. Heavy debt service payments, unfavorable trade balances, and reduced foreign bank credit have combined to reduce Chile's net foreign exchange reserves from \$345 million to less than \$200 million since Allende took office. If he continues on his present course, Chile's foreign reserves will drop to around \$100 million by the end of 1971.

29. Despite the dislocations and growing financial squeeze, the overall statistical performance of the economy this year is likely to be good. Increased copper production and continuing strong consumer demand will probably push real economic growth above the 4 percent average of the past four years. Despite large wage increases and a greatly expanded money supply, government controls can be expected to keep the rise in the cost of living below the 30–40 percent level of recent years. It thus appears that Allende will have enough leeway and resources to enable him to postpone major economic problems until early 1972.

30. Allende's primary economic problem in 1972 will be a shortage of resources in relation to the demands and appetites he has stimulated. Thus far Allende has been able to satisfy this demand mainly by spending resources accumulated by the Frei administration. Domestic production has been augmented by drawing down both foreign reserves and the large stock of finished goods and imports on hand. By 1972, however, both of these will probably be largely depleted, and total supplies will be smaller, perhaps considerably smaller. Although there may be some additional manufacturing output despite capacity bottlenecks and managerial deficiencies, this rise will probably be offset by a decline in agricultural production. Chile already imports

considerable food and, as in most under-developed countries, an expansion of manufacturing output requires an increase in imports. Chile relies heavily on imports not only for finished consumer goods and capital goods, but also for raw materials and fuel.

31. The major variable in all this is the prospect for copper export earnings. Chilean copper production is likely to increase next year, but not dramatically. And barring an extended strike in the US copper industry this year, world copper prices are likely to remain at about their current levels, or perhaps decline, over the next six months to a year.<sup>2</sup> We cannot give a precise estimate of the net effect of these factors on the Chilean economy. Under the most favorable conditions, Chile could balance its foreign transactions, but projecting likely production increases and present copper prices, Chile would not earn enough from copper and its other exports to maintain imports at current rates.

32. Although no drastic reduction in national output or consumption is in prospect, Allende clearly will not be able for much longer to continue to raise living conditions for the mass of the people. Indeed, the balance of payments situation may deteriorate sufficiently to require a squeeze on consumption. Moreover, to the extent that production bottlenecks, import constraints, or new policy emphasis on "building socialism" result in increased investment, consumer welfare will be further circumscribed. If accelerated inflation, black markets, and serious shortages are to be avoided, the government will need to take strong actions such as severely restricting wage increases, raising taxes, and curbing credit expansion. These matters will require difficult decisions, and no matter what steps are taken, they are bound to be politically unpopular.

33. In an attempt to avoid restricting consumption or to minimize the effect, Allende will look for more outside aid. Most Western sources

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<sup>2</sup> Prediction of copper prices is extremely hazardous because changes in supply and demand are uncertain and relatively small imbalances can lead to sharp price fluctuations. The copper industry traditionally has had great difficulty adjusting supply to demand because of the long lead time required for new mines, the large individual additions to capacity, and the tendency of producers to start expansion programs at about the same time. This has caused spurts in capacity—often after demand has already peaked. Because of the record high prices that prevailed during most of the mid- and late-1960s, producers initiated a world-wide expansion program that is scheduled to boost mine capacity by 35 percent between 1969 and the end of 1973. At the same time, the slowing of the developed countries' economies beginning in 1969 sharply cut the growth in demand. The result was a sharp drop in copper prices from about 80 cents a pound in early 1970 to less than 50 cents at the end of the year. Since October 1970, prices have ranged between 45 and 55 cents a pound. Although the lower prices probably will lead producers to stretch out the completion of new mines, excess capacity is likely to hold down copper prices until the mid-1970s, unless there is a sizable interruption in supply (such as might be occasioned by a sustained strike, a mine disaster in one of the major producing nations or concurrent action by producing nations to restrict output) or demand grows more rapidly than is now expected. [Footnote is in the original.]

would be wary of extending large-scale assistance, but it is possible that some new credits or joint ventures would be forthcoming from European, Japanese, or international financial or industrial sources. Probably the Communist countries would be more promising sources. Although the Soviets have been careful to avoid heavy commitments to Chile, and have counseled caution in economic matters, they would probably help Allende with selective aid measures.

#### *VI. Foreign Relations*

34. Allende has developed a cautious and flexible posture in foreign affairs. Connections with the Communist world have become closer and more numerous, for economic as well as ideological reasons. The government's economic policies and measures against foreign business interests in the country have strained relations with the US and raised doubts in other non-Communist countries over Allende's reliability as a credit risk and trading partner. But Allende has been careful not to subordinate Chilean interests to any Communist or socialist power or to break existing ties with those in the non-Communist world on whom he continues to rely for aid. The new pattern reflects Allende's desire to chart an independent nationalist course for Chile both within the hemisphere and on the world stage.

35. Allende has now established relations with most Communist countries in the world, including Cuba, Mongolia, East Germany, and Mainland China. But Moscow's obvious approval of the Allende government and its goals has been restrained and guarded. The Soviets are aware that excessive enthusiasm would increase fears of Soviet intentions elsewhere in the hemisphere and might make things more difficult for the Allende government, possibly even leading to its isolation in the hemisphere à la Cuba. Moscow will continue to cultivate channels of influence into Allende's government through the Chilean Communist Party. But it will probably be unsure of its ability to make a decisive impact on key issues, given the continuing strong position of the Communists' rivals, the Socialists, in the governing coalition and Allende's evident desire for an independent posture.

36. For his part Allende will hope to use his new contacts with the Communist world to take up the slack in the Chilean economy left by reduced aid and investments from non-Communist sources. Recent visits by high-level Chilean emissaries to the Soviet Union and Eastern Europe have in fact advanced new possibilities for increased aid and trade. The Soviet Union has increased credits for Chilean purchases of machinery and equipment from \$55 million (extended to the Frei government in 1967 and never used), to \$95 million. Other credits for equipment purchases have been granted by Bulgaria and Hungary, and it seems likely that other East European countries will follow suit.

37. The Allende government has followed a similar pattern of ideological distance and closer economic ties with Cuba. Despite their long-standing personal relationship, Allende has refrained from excessive overtures to Castro. There has been some increase in trade between the two countries, and official and unofficial contacts have increased, including a new direct airline connection. The number of Cubans serving in their embassy in Chile has risen to 46, and other Cubans serve as advisors in various fields. Still, Allende appears concerned that too close relations with Castro at this stage may cause him difficulties with his still suspicious Latin American neighbors, and upset the delicate political balance between pro-Moscow Communists and pro-Castro Socialists in his governing coalition. He therefore seems likely to continue his present policy of careful cordiality toward Castro.

38. Allende is hoping to calm the fears of some of his neighbors that Chile's revolution might spill over Chile's borders and undermine their governments. Thus far, the reactions have been mixed. Relations with Brazil's military government remain strained, mainly because of its suspicions of Allende's receptivity to acceptance of Brazilian political exiles. The Lanusse government in Argentina responded favorably to Allende's overtures to maintain cordial relations but remains suspicious that the Soviets may be gaining a foothold in Chile or that terrorists may use Chile as a base for operations against Argentina. In recent weeks Chile and Argentina have agreed on a formula for arbitration of their long-standing dispute over the Beagle Channel, and Lanusse and Allende met in Argentina to "solemnize" the occasion. Allende initiated discussions with Bolivia looking toward a resumption of diplomatic relations, but the longstanding issue of Bolivia's claim to a port on the Pacific has continued to block agreement.

39. Allende is apparently planning to follow up his Argentina visit with trips to Peru, Ecuador, and Colombia, in the hope of improving relations with those countries. In several Latin American countries Allende's admirers are hoping to emulate his experiment with similar leftist political fronts of their own. The *Frente Amplio*, an Uruguayan popular front, is preparing to campaign in the national elections in November. Allende is likely to encourage such efforts when he feels he can do so without incurring the wrath of other governments. Relations with Uruguay remain touchy, however, primarily because of the Pacheco government's concern that Allende's granting of safe haven to Uruguay's Tupamaro terrorists may give the group an outside base for operating against Uruguay. But Allende will probably continue to deny any significant assistance to the Tupamaros or other terrorist groups in and outside Chile. On balance, his dedication to developing a socialist state in Chile will probably outweigh pressures he might feel to provide active or open support to revolutionary activists in other Latin American countries.

40. In regional organizations the Allende government has taken more independent positions vis-à-vis the US and, in some cases, adopted policies at odds with US interests. Within the Andean Pact—a regional group which includes Colombia, Ecuador, Bolivia, and Peru—Chile has, along with Peru, been a strong advocate of stiff restrictions on new foreign investments in the area. At the hemispheric level, however, Allende has been careful not to strain traditional ties. He has continued to participate actively in regional economic and political arrangements. Within the councils of the Organization of American States (OAS) the Allende government favors bringing Cuba back into the Latin American community. But it has not lobbied actively on Cuba's behalf there, partly in deference to Castro's own clear rejection of OAS membership and partly in order to avoid a confrontation with the US at this stage. Elsewhere, e.g., in the various bodies of the UN and in the Special Committee for Latin American Coordination (CECLA) Chile is more actively advancing the Cuban cause.

### *VII. Outlook*

41. The problems faced by the Allende government will become increasingly critical over the next two years or so. The various challenges which it will have to face and its responses to those challenges in this period will probably shape the pattern of Allende's policies through the end of his term in 1976. They will also go far toward determining whether his UP coalition can retain its unity throughout his term and what its prospects, legal or illegal, for longer perpetuation of power may be.

42. At this point Allende enjoys considerable popularity. His statist, nationalist, and populist measures have fulfilled most of his campaign promises for quick reforms in the areas where there was little political opposition. But, his dilemma is that, having done all the easy things, he has still not gained sufficient political strength to carry him surely through the difficult times which clearly lie ahead. The results of the April municipal elections and the July by-election in Valparaíso indicate that he cannot count on the support of a majority of the Chilean electorate.

43. Allende is aware of the likelihood of economic stringencies in Chile within the next year or so. He is worried about inflation, the disruption of agricultural production brought on by the land expropriations, and the prospect of serious shortages. He will probably be obliged to turn soon to greater controls over foreign exchange, foreign trade, and the internal distribution of goods and services. Allende's Economics Minister, a doctrinaire Marxist, talks in terms of a shift toward accumulation, by which he seems to imply an enforced type of consumer austerity in order to build state capital for investment in



heavy industry and agriculture. Allende probably has no specific blueprint in mind and is more likely to make pragmatic responses to his economic problems as they arise. As stringent actions become necessary, he will attempt to shift the main burden on to the propertied and well-to-do classes and on whatever foreign interests remain. No matter how artfully Allende deals with the economic problem, he will probably not be able to maintain for very long an increased flow of those consumer goods which the underprivileged classes are now beginning to enjoy. His popularity therefore seems almost certain to decline as the economic problems set in.

44. Allende is also exposed to pressures from within the coalition both to speed the pace of social reform while there is still revolutionary momentum, and to shore up the regime politically while the euphoria of copper nationalizations and income redistribution lasts. Many of his associates stress the irreversibility of the Marxist socialist state as a primary aim. By this, they presumably mean the attainment of a monopoly of power by the ruling coalition and the extension of rule beyond the scheduled 1976 presidential elections. A more imminent obstacle is the 1973 congressional election. Many in the coalition would like to avoid the 1973 hurdle and pave the way to their own extension of power by replacing Congress as soon as possible with a unicameral "People's Assembly" in which functional economic groups—controllable by the UP—would be strongly represented. If Allende chooses, he could submit such a bill to Congress, wait for the lengthy debate, revision, stalling and rejection which the opposition can undoubtedly accomplish, and then submit the plan to the people in a plebiscite.

45. But Allende clearly sees a plebiscite as a risky matter. The April 1971 municipal elections and the July by-election indicate that he now has the support of only about half of the electorate. A rejected plebiscite would be a body blow to the Allende government. On the other hand, there are risks if he waits too long. If economic difficulties set in within a year, as seems likely, many of those who now support his populist program will be estranged, and the chances of carrying off a plebiscite would be reduced. Allende had been leaning toward a plebiscite before the July vote in Valparaíso. While he may submit a bill to Congress in the next few months we think he will delay any final decision on a plebiscite till he can judge his chances more accurately at the last minute.

46. There are other tactics, perhaps slower but less risky than the plebiscite route, for tilting the political balance in Chile toward a continuation of a Marxist coalition government. Allende has already taken steps to undermine the financial basis of the opposition parties. His increasing control of the banks and the economy give him further leverage to use for political purposes. And he can at any time step up a muckraking campaign against Christian Democratic leaders or try to

blackmail them. Some of them benefited from shady deals and corrupt practices during the Frei era, and are vulnerable to public exposure. This would not eliminate the PDC, but there would be considerable confusion and loss of confidence among the party faithful. In addition, Allende could do more damage to the opposition by further curbing their access to the media. We would expect more activity along these lines as the 1973 congressional election draws near or if he decides to go for a plebiscite. Allende will certainly also make strong efforts to attract left-wing Christian Democrats into his coalition and will probably have some successes.

47. If, however, at some critical point such as the campaign for the 1973 congressional election or in the face of serious social unrest, Allende judges that his own political posture or that of his coalition is sagging badly and the tactics described above are insufficient, he might turn to more drastic measures. These might include a much tighter grip over the media, intimidation or selective violence against political foes, and perhaps some unconstitutional moves to undercut the political opposition. But in taking such drastic actions Allende would run a high risk of alienating a large sector of the Chilean people who may agree with his economic and social reforms, but would resist any obvious effort to overthrow Chile's democratic institutions. Allende could, therefore, undertake such moves only if he were reasonably sure that the armed forces, including the *Carabineros*, were supporting him or were effectively neutralized. Resistance to Allende by even a few units of the army could upset the whole program by providing a focus of civilian and armed opposition to the UP, and this could lead to massive confusion with uncertain results.

48. Thus the consolidation of Marxist political leadership in Chile is not inevitable and Allende has a long way to go to achieve this. Even if he makes maximum use of his political talents and is able by skill and luck to thread his way through the economic and political obstacle course ahead of him, it will not be easy to reach the point where he can turn the government over to a trusted colleague who will continue his policies. We believe that he will manage to hold his coalition together during the critical years immediately ahead, although some deft maneuvering will undoubtedly be required. Almost inevitably, however, he will come under growing pressures to depart from constitutional precedures in order to press ahead with his basic programs. Though he would almost certainly prefer to adhere to constitutional means, he is likely to be impelled to use, and to rationalize, political techniques of increasingly dubious legality; eventually he is likely to feel it necessary to employ his considerable Presidential powers to change the political system so that the UP coalition can perpetuate itself in control. The factors operating for and against this outcome are nearly evenly bal-

anced; the actual outcome could be dictated by quite fortuitous circumstances at some key moment.

49. In many respects the economic changes which Allende has set in motion already appear irreversible. The nationalization program, the land reforms, and many of Allende's efforts toward redistribution of national income in favor of the underprivileged are not likely to be changed by any successor government. Though economic stringencies lie ahead and some politically unpopular moves are probably necessary, there is no indication that Allende will be deterred from the main lines of his socialist program. Moreover the electorate, including the middle class, accepts socialism. It is still not clear exactly what Allende has in mind for the economy when he says his purpose is to build a "revolutionary, nationalistic, and socialist society on Marxist principles". He evidently wants a centrally planned and directed economy of some kind with the major industries controlled by the State but he has repeatedly asserted that the private sector will not be eliminated.

50. No matter what Chile's political and economic structure turns out to be, its relations with the Communist countries are certain to become closer. Allende will not want to tie Chile too tightly to any one Communist state, but his concept of Chilean independence suggests expanded relations in a variety of contexts, e.g., more cultural, economic, and political exchanges. In international gatherings Chile is likely to support a number of Communist stands, which the US will find irritating. Chile is less likely to seek large-scale military aid from the Communists partly because the equipment desired by the Chilean Armed Forces is obtainable in the West, partly because the military leaders in Chile prefer to deal with Western military establishments, and partly because Allende sees no advantage in needlessly antagonizing the US in such a sensitive matter as Western Hemisphere security. If the USSR were to request maintenance facilities for its navy in Chilean ports, Allende would probably find it difficult to oppose, given his probable need for Soviet economic help. But we doubt that he, or the Chilean military establishment, would tolerate a permanent Soviet military presence in the country.

51. At the moment US-Chilean relations are dominated by the problems of nationalization. Some of these will be disposed of within the next year or so, but not without considerable wrangling. Some US companies will not be satisfied with the terms, nor will some of the more radical Chileans. There is likely to be considerable disputation and contention in the process of nationalization of US investments. Allende himself seems to wish to avoid a confrontation with the US, if possible, probably because he hopes to keep the door open to at least limited US Government assistance and to prevent active lobbying by the US against Chile in the international financial field. But Chilean of-

ficials, including occasionally Allende himself, are prone to blame the US for a variety of adverse developments. As economic difficulties set in the tendency will be to continue to use the US as a scapegoat for a host of Chilean domestic problems. The US reaction to this, and the general US posture, will be important, but at least some worsening in the present cool but correct relationship seems likely.

52. Apart from the nationalization issue there will be several other areas of considerable concern to the US, particularly the possibility of enhanced Soviet influence in Chile, and the repercussions elsewhere in Latin America of the Chilean example. The latter problem could be especially significant in terms of the tactics of radicals elsewhere in the hemisphere. Youth, labor, intellectuals and other such groups will look to Chile for inspiration. A leftist front on the Chilean model is already organized in Uruguay to participate in this fall's election. It has little chance of winning, but if it attracts a substantial minority of the Uruguayan electorate, it will encourage the formation of similar fronts elsewhere, e.g., in Colombia or Argentina.

53. Less tangible will be the general psychological effect on Latin Americans over the next few years of the Chilean style of independence. This may have a greater impact on sensitive nationalist leaders and peoples in Latin America than the Marxist experiments in Chile. We would expect some other Latin regimes, even some fairly conservative ones, to pay closer attention to Santiago, and to join with Chile on some hemisphere issues. On such matters as the 200-mile maritime limit, commodity trading agreements, and the terms of aid, many Latin American states are at odds with the US. There are certain to be other issues which will widen the gulf between the US and Latin American states, and Chilean attitudes in these matters may reinforce the tendency of other nations to turn away from close relations with the US.

79. Draft Memorandum of Conversation<sup>1</sup>

Washington, August 11, 1971.

## PARTICIPANTS

*State Dept*

Under Secretary Irwin

Assistant Secretary Meyer

Mark Feldman, L/ARA; Charles R. Harkins, ARA/BC;

Mr. Coster

*Anaconda Company:*

John Place, Chief Executive Officer; and President;

William E. Quigley, Vice Chairman of the Board

Paul S. Bilgore, Assistant General Counsel

*Lawyers:*

Mr. Cutler and Mr. Stern of Wilmer, Cutler and Pickering

The Anaconda representatives called upon the Under Secretary to review the current situation in Chile as it relates to expropriation under the copper bill and to express their concern about the recent developments. Mr. Place noted his view that the situation was extremely serious and was moving increasingly against Anaconda's interests, and that unless something was done to arrest this movement, a very negative Chilean position might become inextricably set in concrete. He noted that Anaconda had seen a number of other people today, including Mr. McNamara of the IBRD, to explore the possible need for other solutions to the Chilean problem. Among other dimensions of this problem he saw the possibility that Chile might move out of the sphere of influence of the United States and that given its role as a major metals producer for the world, this could imply difficulties for efforts of the U.S. to obtain vitally necessary metals resources. He also saw a damaging effect on other Anaconda investments in the Latin American areas and throughout the world. He had brought Mr. Quigley, therefore, to describe briefly to Mr. Irwin the present situation in Chile as Anaconda judges it.

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<sup>1</sup> Summary: During this conversation, U.S. officials and businessmen from the Anaconda Company discussed different means of negotiating with the Chileans over the amount of compensation that they would receive for their nationalized properties. The representatives from Anaconda expressed concern over the potentially damaging effects nationalization could have on U.S. investments in Latin America and proposed that the U.S. Government require just compensation.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 775, Country Files, Latin America, Chile, Vol. V. Confidential. Drafted on August 13 by Harkins. The meeting took place in the Under Secretary's office.

Mr. Quigley stated that in the last six weeks, and increasingly in the last three weeks, the situation in Chile was deteriorating significantly to the left, both in general terms and particularly in terms of the Chilean Government's attitude toward compensation for copper. He felt Allende had underestimated the power of the more radical elements of his Marxist coalition and was experiencing serious difficulties in carrying forward his own intentions. An example of these difficulties was the delay in signing the Cerro agreement, where the government had been persuaded to delay finalization until the copper bill was passed and had not yet found a way of signing the agreement. He also reported that this radical left had overpowered the Communist bloc of the coalition (which he described as relatively more tractable and a strong supporter of Allende's strategy), and had precluded the possibility of a veto of the bill which Quigley had foreseen as an opportunity to delay final passage of the bill and provide additional time for a more reasonable arrangement between the U.S. copper companies and the GOC regarding compensation. In recent weeks, under pressure from this radical left the tone of the political environment in Chile had changed considerably, evidenced both by the tone of press coverage and Allende's own statements, with growing focus on claims of unsatisfactory conditions of equipment and processes at the mine sites and the high cost of necessary repairs to maintain current or achieve expanded production. This he felt was based on misinformation being fed to the press and to the political structure by the radical left. He then described in some detail the compensation process provided for under the copper bill and concluded that under present circumstances Allende has no alternative but to apply some factor of excess profit deduction to the valuation established by the controller. The Anaconda representatives noted their interpretation of the bill that such excess profits could be determined only by one of three formulae: (a) the amount by which earnings from their Chilean investments exceed earnings from other international operations; (b) the 14% return provided for under the Andean Code, or (c) the over price formula established in the 1969 agreement under which Anaconda sold out 51% of its Chilean holdings to the Government of Chile. Any one of these formulations will result, according to the Anaconda representatives, in a deduction of \$150 to \$200 million from the depreciated book value being determined by the controller. Other deductions could come from judgments of unsatisfactory conditions of equipment or processes at the mine. Examples of such deductions being stressed in the publicity campaigns of the press include: (a) high grading in the stripping, particularly at Chuquicamata, which might lead to a claim of \$30 million; (b) non-accountability for precious metal content of the ore during past years, claimed to have cost the Chilean Government \$40 million and which if applied would be subject to a factor of 5 as a fine (\$200 mil-

lion); (c) claims related to alleged windfalls from past exchange rate benefits, said to amount to \$6 million, and others. These were set forth merely as examples of the kinds of tactics being generated by the radical left of the Unidad Popular to justify a negative compensation, including honoring of the \$150 million in Codelco notes provided to Anaconda under the 1969 buy-out. (Mr. Quigley noted that 3 payments had been made on those notes, the last one having been made on June 30 and the next one being due on December 31.)

Mr. Quigley and Mr. Place both noted their serious concern with the break in continuity of U.S. ambassadorial support to the company's efforts that will be occasioned by the impending change in Ambassadors. They noted that they had worked extremely closely with Ambassador Korry and were most appreciative of his efforts, but they also noted that he had been absent for some time due to the tragic illness of his father and that even when he returns it will be as a lame duck, since his departure has already been announced. This they feel vitiates much of his potential influence in the government. They also noted that at this critical stage the DCM is on vacation and the Embassy has thus been left in the charge of the third man down, who himself has only been in Chile for about 3½ months. They stressed their serious concern for the lack of adequate presence at this crucial time, and a fear that the GOC might interpret the change of Ambassadors and the absence of key U.S. representatives from Santiago as an indication of relative disinterest. Mr. Place suggested that this potential conclusion by the GOC might be offset, the hardening of the Chilean negotiating position softened, and a fresh impetus toward satisfactory agreement provided, by the naming of a special and very high level envoy to Chile. The timing of such a visit, he felt, was of critical importance since the clock put in motion by the promulgation of the copper bill was running and critical Chilean determinations as to compensation and terms were in process of development. There is thus great danger that basic decisions are already in process, to which Allende will find himself hostage. Mr. Place noted that Mr. McNamara in their discussion had shared this concern. The Anaconda representatives recognized, of course, the inherent limitations in the big club approach, but if the Chilean approach was steadfastly unreasonable, then a very hard position on international credit availabilities by the USG would become inevitable. The Anaconda representatives preferred, however, that an approach might be possible that would permit a quid pro quo calculation on both sides. They noted that Chilean financial needs for completed expansion and operational improvements of their copper mines totaled perhaps \$300 million alone, and they reported that Mr. McNamara had indicated that if there were adequate agreement on both sides on the copper compensation issue, the IBRD would be sympathetic to taking part in a financing arrangement that promised productive results.

Mr. Irwin asked the Anaconda representatives what they saw as alternative possibilities in dealing with this problem. Mr. Quigley indicated that some formulation could be a restatement of U.S. policy toward just compensation and a request for useful assurances from Allende that such policy would be honored, in return for which there would be the possibility of financing through the IDB, IBRD, Eximbank, etc. of justifiable Chilean projects, and if such assurances were not obtainable and reasonable compensation not forthcoming, the U.S. would take all appropriate steps to deny new credits to Chile. This sort of approach, he felt, and a slow down in the Chilean process of calculating compensation, might provide additional time necessary to work out an arrangement which, though far from optimum, would at least avoid completely confiscatory actions.

Mr. Quigley then explored some of the parameters of Anaconda's view of compensation, most of which is included in the paper left behind, a copy of which is attached. *Inter alia* this paper notes Anaconda's view that the 1969 agreement, had it been carried out, would have produced something between \$550 and \$750 million for the 100% purchase of Anaconda's holdings, compared to Anaconda's own calculation of a total value, including ore reserves, of about \$1.3 billion. This, they felt, would be a reasonable price of a willing seller to a willing buyer in the United States. *Inter alia* the Anaconda representatives indicated that while return on investment might be calculated differently by the Chileans and by the company, their figures would show a return on equity investment for the total 1916 to 1969 period of 9.7% at Chuqui (with an equity investment of \$162 million), and 4.42% at Salvador (with an equity investment of \$80 million). This return, they noted, had been noticeably better since 1955 and had reached \$100 million in 1968. Over that full period of time, however, the Anaconda holdings had produced \$6.3 billion, of which \$5.5 billion, or more than 88%, had been returned to Chile in the form of taxes, earnings, etc.

Mr. Irwin asked what a high level mediator might do that had not already been done, and Mr. Cutler said that perhaps he could press home with finality the message that we had been signalling, that is, convince the Chileans that we mean what we say about the implications of non-compensation. Mr. Meyer asked if this would be useful, in view of Anaconda's feeling that Allende was now captive to his radical left. Mr. Irwin asked if the Anaconda representatives felt that Allende was basically disposed toward a reasonable solution. Mr. Quigley said yes, that he thought Allende was on the right side of his admittedly leftist coalition, and Mr. Place said that the situation really called for a dramatic gesture if confiscation were to be avoided. The latter, he noted, would in any case hit the U.S. tax payer because there would be large tax carry-forwards by Anaconda and large OPIC costs for Ana-



conda and other U.S.-insured investors, and both these would directly or indirectly have to be footed by the USG. Mr. Irwin asked what time period Mr. Place saw for his proposal, and he replied that the need was indeed critical, that had such a man been named he should be leaving immediately, although he recognized that some spadework would have to be done to make full use of his trip, and that in any case, it now being confirmed that Ambassador Korry would be leaving, then the sooner the new Ambassador got there the better. Mr. Feldman noted that the Anaconda proposal called for an approach to Allende, but that the immediate process of valuation was being carried out by the controller, who is a quasi-independent official of Chile, and that there would be some delicacy in maintaining this distinction. Mr. Quigley agreed that this was a complication, but did not feel it overrode the importance of getting some message through to Allende which would slow down the Chilean decision-making process and give Allende some basis for holding off such radical leftists as Faivovich and Altamirano. Mr. Place noted that in order to do this Allende would have to be armed with some quid pro quo, and that the quid would be access to credit since Chilean officials are becoming increasingly seized with the seriousness of their credit standing. Mr. Irwin asked if the Anaconda officials were aware of the attitude of the other copper companies toward the present situation, and Mr. Quigley noted that unfortunately each case was quite different, Cerro being a new investment with essentially no returns at all to date, and Kennecott in a position of having none of their own money invested and their loan fully insured (but he believed that Kennecott might in a final analysis be happy with payment on their notes).

Mr. Place then thanked Mr. Irwin for the time that had been given to the Anaconda officials, and Mr. Irwin expressed his gratitude for the opportunity to discuss these problems with the Anaconda officials. He indicated it was a problem to which the USG had given a great deal of time and would continue to do so, examining very carefully where Allende and Unidad Popular might be going, what the USG might do to achieve its interests and those of its citizens, and that there would undoubtedly be further opportunity for contact on this important subject.

**80. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, September 3, 1971, 1440Z.

4586. Pass OPIC. Subject: Chilean-US Rels (Part I of Two).

1. Summary. Allende returns today from what he believes to be an extraordinarily successful Andean tour. The homecoming staging appears to herald a major effort to make the Nixon administration the scapegoat for growing internal problems. GOC Marxist leadership appears confident that it can maneuver the US into major policy changes as it prepares to receive Castro here. So far it has displayed no interest in proposals that by any objective reading would be extremely attractive ways for the GOC to resolve the ITT, Kennecott and Anaconda problems; instead it is forcing unilaterally the pace against the companies and against the Nixon administration as part of a general quickening of the revolutionary tempo within Chile now that Allende has won full respectability from almost all LatAm. Nonetheless the US must continue to support and to seek pragmatic settlements, maintaining a hermetic silence whatever the provocation during the next month of decision. There is little reason to believe the GOC would heed an Anaconda petition for more time (State 158502), particularly when Cerro and Kennecott are opposed to that idea, but we would provide official support to such company action here. The copper compensation will be determined politically. As for OPIC's contract with ITT (State 160408), a belated reversal of OPIC policy at this juncture could very easily be misread by Allende as a signal of more important impending changes in US policy towards Chile; hence if GOC shows any pragmatic interest in negotiation, the contract could be introduced at that time if it really proved to have any substantive impact on GOC. End summary.

**Korry**

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<sup>1</sup> Summary: Korry concluded that Allende was attempting, through domestic and international means, to consolidate socialism in Chile and suggested that Chile would not be accommodating to the United States in developing compensation arrangements for expropriated U.S.-owned properties.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VI. Secret; Immediate; Exdis. Repeated to Bogotá, Brasilia, Buenos Aires, Caracas, La Paz, Lima, Mexico City, Quito, and USCINCSO. The telegram was sent in two parts; part II is not published. A stamped notation on the first page signed by Haig indicates that the telegram was sent to San Clemente.

# 81. Paper Prepared by the Ad Hoc Interagency Working Group on Chile<sup>1</sup>

Washington, September 7, 1971.

## CHILE: Strategy Review

### *The Problem:*

What immediate adjustments should we be prepared to make in our policy on Chile as the question of compensation for expropriated U.S. investments comes to a head?

### *I. Situation*

Our policy toward Chile as established last November sets forth two basic purposes: To avoid giving the Allende government a basis on which to rally domestic and international support; but to maximize pressures on that government to prevent its consolidation and limit its ability to implement policies contrary to U.S. and hemispheric interests.

We have had fairly good success in carrying out this policy in both respects, up to now. The credibility of our correct but cool public posture has occasionally been attacked, principally by those who from the outset viewed skeptically our assertions in this regard, but in general, both in Chile and elsewhere, our posture has been considered correct in both senses of the word. Until the recent advent of the Eximbank-Boeing matter, Allende could find in our actions and policies no effective basis for rallying support.

At the same time, economic pressures began to take effect. The caution of financial sources around the world was by no means due exclusively to our efforts, and many of the economic problems confronting the Allende government are visibly of its own making.

Within the broad scope of strategic choices lying before us in determining our relations with Chile is an interest in protecting legitimate rights of U.S. investors and of protecting direct U.S. Treasury interests in about \$1 billion in debt to USG entities and over \$312 million exposure of the Overseas Private Investment Corporation (OPIC).

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<sup>1</sup> Summary: This paper outlined a strategy to avoid a confrontation with Chile on compensation for U.S. investments and argued that if the U.S. Government could signal a relaxation of restrictions on aid, that would reduce the risk of confrontation.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-220, NSDM 93. Secret; Nodis. Drafted by Fisher and Girdler. It was sent by Meyer to Kissinger under cover of a September 8 transmittal memorandum.

Through our good offices we have assisted over the past several months in the consummation of several buy-out agreements between smaller U.S. investors and the GOC.

The outlook for a satisfactory outcome on compensation for the major U.S. investors, Anaconda, Kennecott, ITT and possibly Cerro, has never been encouraging and has worsened in recent weeks. The GOC has chosen to make a public issue of Eximbank's hesitation to finance Boeing aircraft until it is satisfied concerning various aspects of the GOC's creditworthiness, including its intentions on compensation. Allende's increasingly strong and critical declarations against "economic coercion," picking up the Eximbank loan question and on the eve of his compensation decisions, suggest that the GOC is embarked on the course of attempting to justify limited or no compensation, and to pin the blame on the U.S. both for Chile's economic problems and for any deterioration in U.S.-Chilean relations.

Allende has also publicly stated that the U.S.G.'s new economic measures, by "changing the rules", in effect strengthen Chile's case for not paying compensation and underscore her right, no less than that of large nations, to take steps to protect her economy.

Chilean Ambassador Letelier has requested an appointment with Secretary Rogers to present him with a letter from Foreign Minister Almeyda and with a letter from Allende to President Nixon. While both letters are virtually certain to touch on the expropriation question, nothing more is known about their contents. (On September 7 he asked for postponement of his appointment with the Secretary on the same day, stating that he had instructions that some changes in the texts of the communications will be made.)

The GOC's copper expropriation bill (since July 16 part of the Chilean Constitution) basically calls for compensation to be set at depreciated book value (to be calculated by Chile's autonomous Comptroller General), including deductions for equipment either obsolete or in poor condition, plans or spare parts withheld, etc. In addition, the President may calculate a further deduction for "excess profits" taken by the companies since 1955. The terms of payment (i.e. number of years and interest rate) are also to be established by the President within the limits of a 30-year maximum and a 3% minimum.

Thus, as the U.S. copper companies have pointed out, there is no possibility that compensation will be "adequate" in the sense of representing a true "going concern" value. In that it would be politically extremely difficult for Allende to take the position that *no* excess profits had been taken by the companies, the prospect is that Chile will provide something even less than book value.

Within the limits imposed by the constitutional amendment, both Allende and the Comptroller General retain the capacity to come up

with a settlement that could range from zero (or worse) to something approaching book value. According to our calculations, the maximum that could be awarded under the law would be in the area of \$85 million for Kennecott and some \$205 million for Anaconda. Cerro has been promised \$56 million.

Current indications are that the GOC intends to complete the process by October 14. The companies would then have 15 days in which to lodge their only possible appeal, to the special tribunal provided for in the law. Three of the tribunal's five members are presidential appointees. There are no time limits on its deliberations. See Attachment 1 for the time schedule under the copper amendment.

The GOC's final decisions on copper compensation, to be made in the next 2–3 weeks, will reflect its appreciation of its political and economic needs, both domestic and international. Strengthening its hand are the propaganda successes of Allende's recent tour and the appeal of economic nationalism both in Chile and elsewhere in Latin America. Suggesting caution to the GOC are its growing economic problems and its evident awareness that its international creditworthiness, its access to its traditional financial sources, stands to be adversely affected by its position on compensation.

Ambassador Korry has been active in drawing the attention of the GOC to the advantages of pragmatic solutions on compensation, and in suggesting practical ways of moving toward them. To date, the GOC has displayed no interest in pursuing any of these possibilities.

Meanwhile, Anaconda has suggested to the USG the possible utility of giving a positive signal conveyed through official channels or a third party intermediary, on the economic benefit to Chile of achieving an acceptable outcome on compensation. The company expressed the hope that the GOC could be induced to invoke the 90-day extension provision in the copper amendment to lengthen the timetable beyond its currently established October deadline, to provide time for moderating influences to take effect. The other US companies concerned oppose such extension.

The question for the U.S. at this stage is whether it wishes, however slim the chances of success, to take a further initiative to attempt to induce acceptable compensation in time to affect the final GOC decision, now scheduled to be made on October 14. The economic background together with the factors at play for both governments, are reviewed below.

## *II. The Economic Outlook for Chile*

The GOC has had some short term success in seeking four basic economic objectives: Containment of inflation through price controls; reduced unemployment; increased production supported by rising

popular consumption; and a more equitable income distribution. Production increases were achieved only by using idle capacity, however, and the rate of increase is now sinking for lack of new investment. To meet demand the GOC has had to increase imports, especially of food. While substantial foreign exchange reserves were still available early in 1971 for this purpose, they have declined sharply in recent months due primarily to large shortfalls in copper earnings. By the end of this year reserves are expected to fall to around \$110 million, roughly one month's import level. The balance of payments outlook for 1972 indicates some degree of further deterioration, although it cannot be precisely quantified. The principal problems of 1971, disappointing copper output and capital inflows, and high imports, cannot be substantially improved under foreseen conditions.

As shown in the following tabulation, the GOC will carry heavy public debt service burden through the next several years:

	<u>Public Debt Service</u>					
	(in \$ millions)					
	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
TOTAL (12/31/69)	251.1	259.0	251.4	241.5	219.0	204.1
U.S. Share (6/30/71)	78.7	84.3	85.4	81.8	73.9	68.5
of which Private	15.6	7.6	9.5	8.9	5.8	4.5
of which U.S.G.	63.1	76.7	71.7	75.7	68.9	64.1
of which Ex-Im		58.8	59.7	61.7	53.9	46.0

Total Chilean external public debt as of December 31, 1969 was \$2,227,000, of which \$960 million, or 43.1%, was owed to the USG and \$64 million, or 2.9%, owed to U.S. private creditors. The debt service for 1972 of \$251 million is 26% of projected total exports, or 6% over the traditional 20% "danger point." \$85 million of the \$251 million is payable to U.S. creditors (\$72 million to the USG and \$9 million to private sources).

The foreign exchange problem is compounded by a shortage of short-term credits. U.S. banks alone report that their short-term credits to Chile fell from \$199 million to \$158 million in the first five months of 1971. The GOC has been unwilling to accept the kind of conditions IMF applies to standby agreements, which leaves the IMF an unlikely source of relief under current circumstances. Use of the IMF program for compensatory financing of export shortfalls also appears unlikely and limited in possible results.

Long-term investment offers no solution, as it does not provide large amounts of free exchange rapidly and disbursements on development loans normally stretch out over several years. Medium-term

project loans, such as the Eximbank aircraft loan, also fail to meet the balance of payments problem.<sup>2</sup>

Substantial credits and investments from the Eastern bloc have been advertised by the GOC, but previous experience in Chile and elsewhere suggests that it is unlikely that large inputs will occur soon. Supporting assistance from Russia on the Cuban scale might meet Chile's exchange needs, but we have no indications that this is in prospect.

While the Chilean copper industry is an important foreign exchange earner and barring a price fall will increase its gross earnings in the next few years from the just completed expansion investment of the former owners, these earnings cannot come soon enough to avert the foreign exchange crisis looming up for next year.

Thus, unless the GOC receives unforeseen new large inputs of foreign exchange by early 1972, it will be forced to make drastic and politically costly curtailments in imports, or to seek rescheduling of debt payments, or to default.

The U.S. is the dominant factor in the Chile debt picture, and compensation to expropriated investors would increase its dominance. It would have the leading influence in any consideration of debt relief for Chile and the Eximbank, with 83% of the payments due the USG from Chile in FY 1972–1973, would have the largest creditor position within the USG. If attempted, a debt renegotiation, which would have to be multilateral, could meet the Chilean exchange problem and avert defaults only if it were combined with stabilization assistance through means such as an IMF standby agreement and/or stabilization loans from Eximbank or AID. Any such measures would require major GOC policy concessions, of kinds it has already shown unwillingness to make.

### III. *Discussion*

The radical elements of the Chilean Socialist Party favor and are pressing for a confrontation with the U.S. earlier rather than later, in the belief that radicalization is essential to the establishment of socialism in the country. In addition to the political attraction, there is in the prospect of confrontation the more immediate economic temptation to the GOC of the benefit it would derive from a repudiation of debt to the U.S. Government and private U.S. creditors. As noted above, this would wipe out about \$1 billion of indebtedness and an average of some \$77 million in annual debt service to the US over the next four years. The adverse effect of debt repudiation on the GOC's creditworthiness would be conclusive, the internal shock would be consider-

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<sup>2</sup> See Annex 2 for a list of proposed loans from western sources of possible interest to Chile. [Footnote is in the original.]

able, and Allende would probably take the step only if he felt he could successfully blame it on U.S. coercion.

The preference of Allende, the Communists and other less radical forces for avoiding a confrontation is based on the tactical consideration that for a time Chile can squeeze sufficient benefits from normal relations with the West to make it worthwhile to retain them, while not compromising on ultimate objectives which are adverse to U.S. interests. Thus, while the GOC seeks to minimize the relationship between copper compensation and its general credit standing, the principal constraint on the GOC remains its desire to keep its creditworthiness (and respectability and influence) in the West.

A confrontation with Chile over treatment of U.S. investment would give to Chile the political benefit of championing a popular cause in Latin America and elsewhere in the underdeveloped world, with corresponding disadvantage to us. It would heighten the chances of the confiscation without compensation of all already expropriated and remaining U.S. investment in Chile, and encourage some moves against U.S. investment elsewhere.

To the extent that the GOC established the belief that it was the victim of U.S. coercion, it would rally support to itself, and could shift to the U.S. the blame for its own economic and other failures.

A confrontation would also over time have the effect of impelling Chile's drift out of the hemisphere and toward reliance for survival on the Soviet Union. Such a development would have both positive and negative aspects for us. On the one hand it would increase the demands on Soviet resources and limit the attractiveness of Chile as a model for Latin American and other developing nations. On the other hand, confrontation would virtually eliminate what connections and capacities for influence in Chile that we now have, and would stimulate an increase in Soviet presence and influence in South America.

A satisfactory outcome on compensation to expropriated companies would reduce the likelihood or imminence of a confrontation over investment. Such a settlement is likely to be unattainable, whether or not we make a positive effort to encourage it, and the U.S. response to an unsatisfactory outcome will have to be decided when the time comes in the light of our overall interests.

Even if unsuccessful with respect to the compensation outcome, however, our having made the effort could in itself improve our position against charges of coercion by showing a positive, forthcoming attitude, and might have a general moderating effect on GOC policy on other issues of importance to the U.S. On the other hand, such an effort could be depicted as evidence of a U.S. intent to coerce Chile by making normal economic relations contingent on satisfaction of copper interests. There is also danger that it could be taken by the GOC as a sign



of weakness, a retreat from our earlier stand on compensation, and result in a harder Chilean position.

The making of a positive effort to induce a satisfactory compensation outcome would raise problems in another direction. Apart from the scant likelihood of success, an offer to the GOC to relax restrictions on provision of new resources provided compensation treatment were acceptable, would risk drawing us into direct negotiation of a package deal with the GOC. To be attractive, it would have to imply U.S. readiness to re-negotiate the Chilean foreign debt or to otherwise supply resources which would relieve the Allende government of one of the most important pressures on it, namely its impending foreign exchange crisis.

#### IV. *The Issue*

*Whether to seek to influence the GOC to take a non-punitive approach on compensation by giving a positive signal that the USG would respond to it with a relaxation of its present restrictive policy against new resources for Chile.* This signal could be sent through official channels or conveyed through a third party intermediary such as an international financial figure. In the event Chile provided compensation acceptable to the companies, the U.S. would take a positive attitude toward GOC loan applications to Ex-Im Bank and the international lending agencies and would consider participation in debt rescheduling if other creditors responded to Chilean initiatives. We would not make substantial new AID development loans.

#### *Advantages of Affirmative Choice*

—This action would be consistent with the SRG decision of December 30, 1970 that the U.S. would be prepared to relax or intensify present economic restrictions depending on Chilean responses and the outlook for obtaining favorable results; it would also be consistent with the stance taken by Ex-Im Bank.

—It would strengthen the U.S. position, in the event of a clash with the GOC, against Chilean efforts to place on us responsibility for the GOC's economic failures and rally domestic and international support.

—If successful, it would avoid confrontation with the GOC on an issue which the GOC could exploit to weaken the opposition in Chile and to rally the support of other LA's.

—It would provide maximum support for U.S. investor efforts to obtain just compensation and offer the best hope, however slim, of achieving that objective.

—If successful, it would minimize OPIC losses.

—It might moderate GOC policy on other issues of importance to the U.S.

*Disadvantages of Affirmative Choice:*

—It could draw the U.S. into direct negotiations with the GOC and encourage demands for financial assistance we would not be prepared to meet.

—If an accommodation with the U.S. resulted, it would strengthen the GOC's image as a new model of "democratic" marxist state and could increase its influence to our disadvantage.

—If financial resources were made available to the GOC, they would help alleviate the economic costs of its policies.

—If carried out it would arouse criticism in the U.S. as an indirect contribution of U.S. resources to finance the compensation of the expropriated interests, and as undue support to a socialist regime.

—If carried out, it could be taken by the GOC as a sign of weakness, a retreat from our earlier stand on compensation, and result in a harder Chilean position: or as evidence of a U.S. intent to coerce Chile by making normal economic relations contingent on satisfaction of copper interests.

**Annex 1<sup>3</sup>****CHILE—Time Schedule—Large Copper Mines (revised)**

July 16	Constitutional Amendment took effect.
August 16	Codelco to submit first list of objections on valuation of Anaconda and Kennecott assets.
August 30	Comptroller asked President for excess profit determinations (to be given within 30 days).
September 6	Kennecott to receive access to El Teniente files.
September 16	Codelco to submit list of all objections.
September 18–26	Companies to submit comments on Codelco objections.  The Comptroller wrote Anaconda that, in principle, he will refer all documents which affect or interest them to the companies and receive their written (not oral) comments. This does not include the reports of the technical committees. No general time allowance was set for submission of comments; the Comptroller will fix it in each case.

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<sup>3</sup> Confidential.

October 1	Technical committees to make their reports on valuation.
October 14	<p>Comptroller determines the amount of compensation or, by resolution giving reasons, extends the time by 90 days to January 12, 1972. (The Embassy reported on August 24 that the Comptroller plans to finish without the extension.)</p> <p>Within 15 days after publication of the Comptroller's decision in the "Diario Oficial", the GOC or companies may appeal to a special tribunal. (The legislation imposes no time limit on the tribunal.)</p> <p>Within five days of the tribunal decision, a copy is sent to the President, who issues a Supreme Decree using the figure set by the tribunal.</p> <p>If there is no appeal, the President presumably would act within 20 days (combining the 15 and 5 day periods referred to above).</p>
Allende Comments	<p>On August 20 President Allende stated publicly: "We have to go through a process that may end in the last days of September."</p> <p>Allende verbally advised Cerro on August 20 that GOC would implement the main points of their May agreement on October 16.</p>

**Annex 2<sup>4</sup>**Proposed Major Loans from Western Sources  
of Possible Interest to Chile

	<u>Title</u>	<u>Date</u>	<u>Amount</u>	<u>Remarks</u>
EXIM	Aircraft	1971	\$10,600,000	GOB/Priority No. 1 <sup>5</sup>
	Steel Plant	unclear	50,000,000	GOB/Priority No. 2
	Expansion (CAP)			
	Industrial Water for El Teniente	unclear	4,700,000	3
	Copper Mine			
	State Railroad Equipment	unclear	8,800,000	4
IDB	Earthquake Reconstruction	CY 1971	15,600	To consist of undisbursed balance of existing loans.
	Petrochemical Development	CY 1972	29,000	Tentative
	Boqueron Chanar Iron Mine	CY 1972	5,000	Tentative
	Irrigation	CY 1972	25,000	Tentative
	Pre-Investment Studies	CY 1972	5,000	Tentative
IBRD	Livestock	CY 1972	9,000	Reappraisal scheduled 12/71
	Electric Power	unclear	50,000	Requires increase in power rates.
	Fruit Development	CY 1972	6,000	
	Irrigation	CY 1972	15,000	

<sup>4</sup> Secret; Nodis.<sup>5</sup> As given in Ambassador Letelier's letter of August 4, 1971, to President Kearns of ExIm Bank. [Footnote is in the original.]

82. Memorandum for the 40 Committee<sup>1</sup>

Washington, September 8, 1971.

## SUBJECT

Basic Options on *El Mercurio*

## 1. Summary

Political and economic pressures are being exerted by the Chilean government on *El Mercurio*, the largest independent newspaper in Chile which is considered an important bulwark against the regime of President Salvador Allende. This situation may be viewed in the larger context of a hardening of attitude by President Allende and his supporters toward the internal opposition and the increasing possibility of an open economic and political confrontation between Chile and the U.S. Government. The U.S. Ambassador and the CIA Station are recommending covert financial support of one million dollars to *El Mercurio* to keep it in operation and maintain the independence of the major non-Marxist newspaper in Chile. There are indications that this amount, even if it could be securely inserted into the newspaper, may not assure the survival of *El Mercurio* if the Chilean Government is sufficiently determined to silence the opposition.

## 2. Proposal

A number of recent developments show the probable intention of the Chilean Government to force the closure of the Edwards' chain of newspapers in Chile comprised of *El Mercurio* (120,000 daily; 300,000 Sunday), *La Segunda* and *Ultimas Noticias*. *El Mercurio* has been described as occupying roughly the same position in Chile as does the *New York Times* in the U.S. press. The other two newspapers are tabloids with a combined circulation slightly larger than *El Mercurio*. There are also sister editions of *El Mercurio* in Antofagasta and Valparaíso. The only other major non-Marxist newspapers in Chile either eulogize Allende (*Tercera de la Hora*) or are small low circulation party organs (*La Prensa* of the Christian Democrats with 14,000 and *La Tri-*

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<sup>1</sup> Summary: This memorandum outlined the pressing situation facing the "bulwark against the regime of President Salvador Allende," the newspaper *El Mercurio*, and requested funds to support the paper.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile, 40 Committee Action After September 1970. Secret; Sensitive; Eyes Only. A handwritten notation on the first page reads, "On 9 Sept 1971 the 40 Committee referred the proposal to HA. [HA approved 700,000 on 15 Sept. 71.] See 9 Sept. minute." The memorandum for the record of the September 9 40 Committee meeting is printed in *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 258.

buna of the National Party with about 7,000). Even before his inauguration Allende made it clear he would retaliate against *El Mercurio* for its leading role in opposing him during the presidential campaign. The steps now being taken by the Chilean Government to put the economic squeeze on *El Mercurio* have been made possible by the increasing governmental control of finance and business which virtually assures the government that no centers of financial independence can exist today in Chile.

[1 line not declassified] *El Mercurio* would need a minimum of \$1 million to survive for the next year or two. Without such financial support it would be forced to close before the end of September. Although this closure would be for economic reasons there is no doubt that these financial problems have been politically inspired and represent a deliberate effort by the Allende government to silence the major independent newspaper in Chile.

Pressures by the government on *El Mercurio* are exercised directly on the newspaper and on the other business holdings of Agustin Edwards. [10½ lines not declassified] Lastly, in a major speech on 4 September, President Allende attacked *El Mercurio* for its anti-government editorials and said its owner should be in jail rather than out of the country. Other types of pressure which the government can be expected to use if the above actions do not have the desired effect include denial of loans from any other Chilean banks, now possible because of the government's recent steps to control all major Chilean banking institutions. Also anticipated is termination of the traditional three months' credit extended by *El Mercurio's* paper and ink suppliers, with government acquisition of the firm controlling the major source of the country's newsprint expected shortly in any case.

The determination of Allende to control the internal opposition in Chile can be seen in the increasing stridency of the government press against those who differ with the government, and his sustained search for a formula to change the present legislature to a unicameral system, his unstated intention being to eliminate the opposition's slight majority in both houses of congress. Internationally, Allende has tidied up relations with Argentina and just completed a trip to the west coast Andean countries of Colombia, Ecuador, and Peru, during which his public and private statements clearly identified the U.S. Government as the main source of opposition to the economic success of his own government and, indeed, all of Latin America. The deterioration of recent negotiations with U.S. firms about the terms under which they are to be nationalized has probably been a determinant factor in this hardening attitude of Allende after his initial public statements during the early months of his government which attempted to portray his attitude toward the U.S. as both positive and basically friendly.

The ability of *El Mercurio* to withstand long-term pressures from the Chilean Government is not good. As an example of changes which *El Mercurio* has undergone just to survive this long, it lost 60% of its pre-Allende advertising revenue because of depressed economic conditions and lack of business confidence in Chile today. It has begun to convert to a circulation-based system rather than the earlier financing of the newspaper through advertising. It still faces the problem of cutting overhead, particularly a 40% cut in personnel in a situation where labor peace is obtained only through strict compliance with elaborate government-supervised regulations.

[3 paragraphs (37 lines) not declassified]

### 3. Alternatives

The options for action are:

a. Extensive financing of the newspaper with the understanding that this may not be sufficient to stop the Allende Government from taking some action resulting in the closure of the newspaper regardless of its financial strength (labor stoppages, newsprint control, etc.). An initial commitment of at least \$700,000 would be required [2 lines not declassified]

b. Allow *El Mercurio* to go out of business and try to arrange as much propaganda play as possible throughout the world to show that its demise was politically inspired by the Allende Government. [4 lines not declassified]

Both alternatives are based on the assumption that the Allende government will sooner or later succeed in crushing *El Mercurio*. [4 lines not declassified]. Should the Allende government be willing to face the prospects of public condemnation for having forced *El Mercurio* out of business for political reasons, the government may move within a period of thirty to ninety days. The proposal for funding envisages passage of at least \$700,000 to *El Mercurio* and such a sum might be considered out of proportion to the short additional life it would afford *El Mercurio*.

4. [heading and 1 paragraph (24 lines) not declassified]

### 5. Coordination

This situation and the options for action have been discussed with the Assistant Secretary of State for Inter-American Affairs.

### 6. Costs

The sum of \$1 million would be required, with an initial expenditure of \$700,000 within a period of days if the first alternative is chosen. These funds would have to come from the Agency Reserve for Contingencies.

**83. Memorandum From Arnold Nachmanoff of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, September 21, 1971.

SUBJECT

Discontent in Chile

Attached at Tab A is an assessment of the extent of discontent in Chile made by the Central Intelligence Agency at our request as a result of a series of reports indicating discontent with the Allende Government. The Agency's principal conclusions are as follows:

—Discontent with the Allende Government has become more vocal in recent weeks.

—There is no evidence that discontent is being translated into potential for armed resistance either within the military or outside it.

—President Allende is aware of the extent of discontent and retains the capability of keeping it within manageable bounds. All signs suggest that he will remain in full control for the foreseeable future.

—The military is unlikely to unite against Allende unless he commits a blatantly unconstitutional act, tries to suppress the opposition by force, or makes a move that the military considers a threat against the armed forces as an institution.

**Tab A**

**Memorandum Prepared in the Central Intelligence Agency<sup>2</sup>**

2070/71

Washington, September 20, 1971.

Discontent in Chile: Its Extent and Prospects

Summary

Discontent with the Allende government has become more vocal in recent weeks. There is no evidence, however, that this discontent is

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<sup>1</sup> Summary: This memorandum for Kissinger outlined the attached CIA assessment of the dissent in Chile, particularly amongst the large landholders. The CIA concluded that the discontent was not channeled in any organized way against the government and that the military would not unite against Allende barring some blatant unconstitutional act or institutional threat to Chile itself.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VI. Secret. Sent for information. Kissinger initialed the memorandum.

<sup>2</sup> Secret; No Foreign Dissem.



being translated into any significant organizing for armed resistance, either within the military or among disgruntled civilian groups. Neither is there any indication that discontent is so serious as to permit enemies of the regime to provoke outbreaks of violence, except on a small scale and in isolated instances. President Allende is aware of the extent of discontent and, consummate politician that he is, retains the capability of keeping it within manageable bounds. All signs suggest that he will remain in control for the foreseeable future.

1. The increasingly vocal discontent in Chile is in part the natural welling of criticism that has faced all recent Chilean presidents as they near the end of their first year in office. In Allende's case, it is aggravated by growing economic difficulties, by the social and economic dislocations brought on by his programs, and by a residual fear of Communism among a minority of Chileans. Chileans are jealous of their traditional right to speak up and criticize the authorities. Since the opposition press, radio, and TV have been enfeebled under Allende, much of the criticism is of necessity by word of mouth.

2. There is no evidence that present discontent is being translated into organized plotting against the government. Observers of the Chilean scene have long noted the Chilean propensity to substitute virulent vocal criticism for action. Discontent may well become even more stridently expressed in coming months, but present indications are that it is unlikely to be translated into concerted action against the regime.

3. Chilean landowners and their allies in the business and industrial communities as well as certain Chilean military officers have figured in recent reporting on alleged antiregime plotting. The first category—men who have lost or stand to lose the most as Allende implements his programs—are still able to engage in some activities through such organizations as the *Sociedad de Fomento Fabril*, which is currently engaged in a rear-guard effort to defend the interests of the private business community. [name not declassified] a leader of the society, recently asked Ambassador Korry for assistance in getting his family to the United States in case his position in Chile "becomes untenable"—a sign that the organization may be losing faith in its continued viability under Allende. Some elements of the political right last year organized a group called *Patria y Libertad* to resist the regime. According to unconfirmed reports, *Patria y Libertad* cells are being armed with smuggled weapons. At present, very little solid information is available on this organization.

4. Chilean landowners probably have weapons in some quantity. Many of them stockpiled arms in 1964 when they feared Allende might win that year's election. They did not engage in concerted resistance, however, during the wave of illegal land seizures early this year. Their numbers and dominion have now been whittled away and, whatever

the degree of their anger, they probably feel that the time to act has passed.

5. Some representatives of the Chilean private sector are apparently in contact with like-minded men in neighboring Latin American countries, as well as with Chilean colleagues who moved to Argentina after Allende's election. There is no hard evidence, however, that the Chilean stay-at-homes have secured significant assistance from these sources in the form of money or weapons. Some could be forthcoming, and it is possible to smuggle small quantities of weapons into Chile from Argentina and Bolivia. In the continuing absence of any sizable group within Chile willing and able to use these weapons against the regime, such smuggling would appear to have no immediate importance.

6. Many beleaguered landowners and businessmen probably hope somehow to enlist the Chilean military in an effort to "put things right" in Chile. They do have some contacts among retired or active military officers, but there is no evidence that they have made significant progress in any effort to put things right.

7. High Chilean military commanders have reiterated in the past year that they will not permit Allende to transgress the constitution. These statements may in part be motivated by an abiding suspicion of Communism held by a number of military officers, and their awareness that the Communist Party has a key role in the administration. At the same time, however, Allende is the constitutionally elected president and military leaders often restate their commitment to defend him. Chile's armed forces remain among the least inclined in Latin America to intervene in politics. Many military officers, moreover, are convinced that Allende's programs contain many positive and long-overdue reforms. Allende, for his part, has cultivated the military more assiduously and skillfully than any of his recent predecessors.

8. The recent increase in vocal discontent in Chile has nonetheless had some effect in the military. Chilean military officers, too, have a propensity for grumbling. There is no evidence, however, that opposition to Allende, even on the vocal level, is widespread or cohesive in the armed forces or among members of the well-disciplined *Carabineros* (national police). There is no information on any conspiracies.

9. Specific reporting on military unrest in recent weeks suggests that it is scattered—as are most military units. None of the officers mentioned in these reports commands units of strength or strategic location. If an uprising were to be attempted by some provincial military unit in the hope of setting off a chain reaction, it could easily be isolated. A rebellion would have to turn quickly to Santiago if it were to be successful, and it would require at least passive support from the *Carabineros*.

10. Since it came to power over ten months ago, the government has steadily increased its capabilities for monitoring the development of conspiracies within the military. The small group of officers linked to imprisoned General Viaux, the *Comite Revolucionario*, was probably thoroughly penetrated. Members of this group never got beyond the talking stage, have not been heard from in recent months, and may have disbanded. Four retired generals are currently reported to be under surveillance because of their involvement in antigovernment activity. A clandestine source reports, however, that the generals have not yet been detained because their activities are not considered a threat to the government.

11. As for the near future, nothing has happened to change our judgment of last month (in SNIE 94–71) that the military is unlikely to unite against Allende unless he commits a blatantly unconstitutional act, tries to suppress the opposition by force, or makes a move that the military considers a threat against the armed forces as an institution. Allende recognizes this and will avoid such actions. In the longer term, however, a deterioration of the Chilean economy which brought on severe social unrest could prompt military intervention. Chile is presently a long way from that degree of unrest.

12. Allende is aware of the present discontent with his government. He may be concerned, but he has given no sign that he feels obliged in any way to modify his programs. He has known from the beginning that he must operate within the constraints of the political facts of life in Chile. Moreover, he does not need to go beyond the present constitution to consolidate further his political power and bring about many of the social, economic, and political changes he has in mind for Chile. When he judges the time to be right he will probably be able to change the constitution legally, or at least in ways that will not antagonize the military.

**84. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, September 30, 1971, 2050Z.

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.

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<sup>1</sup> 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.

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 inexperienced 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 Arate 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.

Korry

**85. Conversation Among President Nixon, Secretary of the Treasury Connally, the White House Chief of Staff (Haldeman), and the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, October 5, 1971.

[Omitted here is a brief exchange on the President's schedule and the Supreme Court.]

Connally: I had something, another thing I've got to tell you: You have to really—the gauntlet's been thrown down to you on Chile, and we ought to move on Chile.

Nixon: What in the hell is going on?

Connally: Well, this guy is—Allende—obviously, now, the columnists are all saying it strongly, even, I think, the [*Washington*] *Post* or the [*Washington*] *Star* this afternoon or this morning had an editorial that—I guess it's the *Star*, I guess that's it—just said, "Well, we thought there was some hope, but it's beyond hope now."

Nixon: Well—

Connally: He's [Allende] gone back and said that the copper companies owe \$700 million. It's obviously a farce, and obviously, he's a—he doesn't intend to compensate for the expropriated properties. He's thrown down—he's thrown the gauntlet to us. Now, it's our move.

Nixon: Listen, and you—I have decided that you give us a plan, we'll carry it out.

Connally: So—

Nixon: Don't worry. This is a—this is one where I knew he would do it, and we're going to play it very tough with him.

Connally: Well, we've got Peru going now. We've got Bolivia—

Nixon: On our side.

Connally: On our side.

Nixon: That's right.

Connally: We've got Bolivia going on our side. And this guy, Allende, gets away with it. But it's a matter that Henry will have to get into.

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<sup>1</sup>Summary: Nixon, Connally, and Kissinger discussed Allende's refusal to pay companies for expropriated property.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 584–3. Sensitive But Unclassified. According to the President's Daily Diary, Nixon met first with John Connally, George P. Shultz, Paul W. McCracken, and Herbert Stein in the Oval Office at 10:06 a.m.; Haldeman entered the Oval Office at 11. The conversation transcribed here, which the editors transcribed specifically for this volume, began after Shultz, McCracken, and Stein left at 11:59 a.m. and continued until Kissinger left at 12:38 p.m. (Ibid., White House Central Files)



Nixon: No, well, [unclear]. But I have, you know—I have decided we're going to give Allende the hook.

Connally: I just think it's awfully important—

Nixon: We're—

Connally: —to drive the point home, because he's an enemy. And this is something that—

Nixon: Oh, of course he's an enemy.

Connally: —[unclear] salvaged. And the only thing you can ever hope is to have him overthrown. And, in the meantime, you will make your point to prove, by your actions against him, what you want, that you are looking after American interests, and this is a, this is—

Nixon: Well, John, he may be the guy that we can kick. You know, you always said, "Let's find someone that—

Connally: [Unclear]

Nixon: —we can kick."

Connally: That's right.

Nixon: And I think we should make a hell of a case out of him. Like you just said, we're not going to take this. We have a—

Haldeman: It wouldn't hurt a bit with the right-wing in this country.

[Laughter]

Nixon: [Unclear] Oh, absolutely. Absolutely.

[Connally left at an unknown time after 11:59 a.m.; Kissinger entered at 12:02 p.m. Omitted here is a brief exchange on Kissinger's schedule and economic policy.]

Nixon: Before we get into that, another subject I want to talk to you about: Allende, according to Connally, is really screwing us now.

Kissinger: That's right.

Nixon: All right, I want, and I hope—I told Connally, I said, "All right, you give us a plan. I'm going to kick him. And I want to make something out of it." That's my view. Now—

Kissinger: I talked to—

Nixon: Do you see any reason that I should not?

Kissinger: No, I talked—in fact, Connally and I talked about it yesterday.

Nixon: Yeah. Yeah.

Kissinger: I would go to a confrontation with him, the quicker the better.

Nixon: Fine. But the point is—

Kissinger: Maybe not in a brutal way, but in a clear way.

Nixon: Yeah. All right, will you work with Connally—

Kissinger: Absolutely.

Nixon: —to figure out the confrontation? Now, is there any, is there any—?

Kissinger: We may have to butter up the Peruvians in order—I think we ought to make a distinction between the Peruvians, who have nationalized—

Nixon: That's right.

Kissinger: —and have been, at least—

Nixon: Bolivia and Peru.

Kissinger: And I forgot to tell you that last night, but I'll work with Connally.

Nixon: That's right.

[Omitted here is extensive discussion of matters unrelated to Chile. As Kissinger left the Oval Office at 12:38 p.m., however, the two men had the following brief exchange: Nixon: "All's fair on Chile." Kissinger: "Good." Nixon: "Kick them in the ass. Okay?" Kissinger: "Right."]

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## 86. Intelligence Memorandum<sup>1</sup>

ER IM 71–201

Washington, October 1971.

### THE CHILEAN ECONOMY: A STATUS REPORT

#### Introduction

1. Chile's announcement on 11 October that Anaconda and Kennecott would receive no compensation confirmed the worst fears of US companies and government officials alike but came as no real surprise. Payment of adequate and timely compensation—a sine qua non of US policy if intergovernmental friction is to be avoided—never had ap-

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<sup>1</sup> Summary: This CIA assessment of Chile's economy noted that while Allende had achieved many of his socialist goals, the nation itself faced food and other consumer goods shortages.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VI. Secret; No Foreign Dissem. Prepared in the Central Intelligence Agency in the Office of Economic Research and coordinated within the Directorate of Intelligence. Attached to an October 15 memorandum from Hewitt to Kissinger summarizing the main points of the paper. Hewitt's memorandum to Kissinger is printed in *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 268.

peared likely, and prospects for a satisfactory settlement had progressively dimmed over recent months. By mid-August, Allende—a consummate politician on all fronts—was already pointing to new US economic policies to justify any internationally unpopular decisions that Chile might “also be forced to take to defend its economy.”

2. After less than one year in office, the Allende government can justifiably claim substantial progress in effecting its socialist revolution. The President has proved himself remarkably adept at keeping his seemingly unwieldy coalition together and his opposition divided. Despite its minority representation in the Congress, this political dexterity and full use of traditionally strong executive powers have permitted the Allende administration to assume pervasive economic control with only an occasional bending of constitutional law. Its policies, however, have seriously aggravated some chronic economic problems and created others that will have to be dealt with in the months to come. This memorandum chronicles economic developments in recent months and describes the status of key domestic indicators and foreign economic relations as of early October. It also comments on the factors leading to Chile’s adoption of a hard line on the copper question.

### Discussion

#### *Allende’s Confrontation Decision*

3. President Allende—clearly the indispensable man in today’s Chile—thus far has managed to stay on top of the rapid and radical changes that are transforming his country into a socialist state. Developments of the past few months, however, reflect a mixed bag of successes and failures, progress and problems. By the end of September, the two most important elements affecting Allende’s thinking were:

- A perhaps exaggerated view of Chile’s importance in the world and its international “respectability” resulting, among other things, from the meeting with Argentine President Lanusse, the successful tour of Peru, Colombia, and Ecuador, Chile’s vocal participation in various international forums protesting the new US economic policy, and the presence of numerous visiting foreign delegations in Santiago.
- Growing worry about worsening economic problems and his ability to consolidate political power in time to deal with them.

Both elements bear heavily on Allende’s policy decisions affecting the pace of “irreversible change” in Chile’s domestic society and the administration’s stance—confrontation or cooperation—vis-à-vis the United States regarding copper compensation and other financial obligations.

4. Food and other consumer good shortages are perhaps the most embarrassing indication that a shift away from the populist policies of the regime’s first eleven months is now overdue. Somewhat less polit-

ically damaging but equally important signs are the decline in investment, production problems in copper and other industries, and the continuing drop in foreign reserves. Although Allende's speeches contain increasingly frequent allusions to "the hard times to come," his regime apparently does not yet feel ready to take the harsh actions required to bring supply and demand into equilibrium or to impose upon the populace the sacrifices inherent in a shift from "the year of consumption" to "the year of accumulation" (i.e., forced investment in basic industries).

5. The need to effect such a shift was a key factor in deciding which way Chile would go on the question of compensation for large expropriated properties. For months, the Allende regime had been weighing the relative gains and losses to be derived from taking a hard or a soft line with the US companies involved. As the mid-October deadline on copper decisions approached, both Allende and the Communist Party were visibly moving toward the more radical Socialist Party line of negligible or no compensation. Allende's final hard-line decision almost certainly was heavily influenced by his increasing conviction that, by so doing, more would be gained in terms of Chilean popular commitment to the socialist revolution than would be lost from damage to Chile's international credit rating.

6. Chile had completed nationalization of the formerly US-owned copper industries on 16 July when the "copper amendment" to the constitution took effect and President Allende signed five decrees giving the Chilean State Copper Corporation (CODELCO) possession of Kennecott's El Teniente, Cerro's Andina, and Anaconda's Chuquicamata, El Salvador, and Exotica operations. The amendment, passed unanimously by the Chilean Congress some months earlier, permitted nationalization with little or no compensation but provided the administration latitude for negotiating an acceptable settlement with the companies. The Comptroller General was given 90 days in which to determine the book value of the expropriated firms—the basis for compensation stipulated in the constitutional amendment. At the same time, CODELCO was directed to "inventory" the installations to determine the amount to be deducted from book value because of deterioration in physical plant and mismanagement of the mining properties. President Allende in effect had the responsibility for determining the final amount of compensation to be paid, having been given the right to deduct "excess profits" from the modified book value figures.

7. President Allende's announcement on 28 September that \$774 million in excess profits would be deducted from compensation paid to Anaconda and Kennecott left little doubt that Chile had opted to risk a showdown with the US government. Allende's excess profits figure far exceeded the likely book value estimate of the companies' current

holdings being compiled by the Comptroller General's office. At the same time, CODELCO—using methodology with no pretense of being anything but vindictive—filed a \$1 billion claim against the companies for “deficient” equipment and “damage to the mines.” Under these circumstances, the amount of “negative compensation” Chile would offer also canceled out existing claims by Kennecott and Anaconda for the earlier sale of 51% equity in their properties. In fact, the final announcement issued by the Comptroller General on 11 October claims the US companies owe some \$388 million that the Chilean government has no means to collect.

8. Chile's claim of “negative compensation” may be used to justify reneging at least in part on Allende's earlier promises to honor some \$350–\$400 million in debts to Eximbank and other third-party creditors incurred by the companies in carrying out their recent expansion programs. In an attempt to retain some respectability in international financial circles, however, Chile is likely to pursue a more generous policy regarding the repayment of the \$100 million or so owed to Japanese and European financiers than it adopts toward Eximbank. For similar reasons, it has promised to pay for Cerro Corporation's equity in Andina—a newly developed mine that has not yet earned the company any profit. The amount involved, moreover, is a small enough price to pay for continued access to US equipment and technology, as assured in Cerro's agreement in late August to act as the Chilean government's purchasing agent for material needed to operate the expropriated industry.

9. Chile's failure to offer adequate compensation for expropriated copper properties will give the investment guaranty program operated by the Overseas Private Investment Corporation (OPIC) its first major test. Under this program, the US copper companies involved could file claims against the US government for as much as \$368 million. Moreover, because Chile's adoption of a hard line on copper does not bode well for ongoing negotiations with International Telephone and Telegraph (ITT) for purchase of its equity in the Chilean Telephone Company (Chitelco), upcoming claims against OPIC could be even higher. ITT's current coverage on its Chitelco investments alone totals \$108 million.

### *Domestic Economic Developments*

#### *Socialization of the Economy*

10. In an early September speech outlining his party's strategy for carrying out the Chilean “revolution,” Communist Party Chief Luis Corvalán justifiably counted as a major victory Chilean capitalists' acceptance of the government's economic program. The Communist Party has long recognized that Allende's socialization of the economy

will make his revolution irreversible. Corvalan pointed in particular to capitalist leaders' acquiescence in the division of the economy into three sectors as an accomplishment that substantially eases the Allende government's task. This view was probably only strengthened when the Christian Democratic Party (PDC) agreed in mid-September to vote against Economic Minister Vuscovic's impeachment in exchange for an open-ended commitment by Allende to submit a draft law "soon" that would establish nationalization standards and try to define clearly the public, private, and mixed sectors of the economy. It is doubtful that the government itself has any detailed timetable for nationalization of various firms and activities still in private hands. In any event, the question is rapidly becoming largely academic in that the government already has gained or soon will have direct or indirect control over all key economic areas. Except for two branches of European banks and a couple of minor plants, all of the foreign operations thus far taken over by the state were formerly owned by US interests.

#### *Industrial Production*

11. Increased purchasing power among lower income groups has continued to nurture the mini-boom in manufacturing output, but growth is leveling off as more industries reach full capacity production levels. Industrial production increased by less than 2% in July and about 4% in August, compared with 8.5% in June. Moreover, although overall industrial output during the first eight months of this year averaged about 6%–7% higher than in the same period in 1970, performance among the various manufacturing sectors was very uneven. Consumer goods and various intermediate products showed the most dynamic growth, while construction and investment goods remained depressed. Initiation of a massive government housing program and repair of earthquake damage probably spurred demand for construction materials beginning in August, however.

#### *Agricultural Production and Agrarian Reform*

12. President Allende and other top government officials appear increasingly concerned about the expected decline in agricultural production in the next year or two. Agriculture Minister Jacques Chonchol, a key leader in agrarian reform under both the Frei and Allende administrations, contends that output will be normal and that the sharp rise in agricultural import requirements to some \$250–\$300 million annually is solely attributable to increased consumption among lower income groups. Other government spokesmen, however, have been more candid about the production problems on both newly expropriated farms and those still in private hands. The US Embassy in Santiago estimates that dislocations and uncertainties deriving from government policies will cause at least a 10% drop in agricultural output. If so, pro-

duction would be little higher than in 1965 and, barring unpopular restraints on consumer demand, agricultural import requirements would be even larger than now planned.

13. While hoping to minimize the production costs involved, the Allende government clearly is willing to pay a substantial price for irreversible, revolutionary change in the countryside. Recent official statements point to an acceleration in the pace of land redistribution, indicating that all large farms will be expropriated by mid-1972. Moreover, various bills now being drafted or already in the Congress could lower the maximum permissible farm size from 80 basic hectares (under the 1967 agrarian reform law) to the 40 basic hectares called for in legislation sponsored by the PDC or to the 20 basic hectares advocated by the Socialist Party. The Allende government also has decided to change officially the tenancy procedures called for under the Frei law—in effect, killing the myth that peasants would eventually receive individual titles to expropriated land. A new system of agrarian reform centers—collectivized groupings of expropriated farms to be worked cooperatively by all peasants in the area—will replace the *asentamientos* (transitional agrarian reform settlements on individual estates). Although few if any settlers actually received land titles under the *asentamiento* system, the new tenancy arrangements dash any lingering hopes for eventual land ownership the peasants may have had. In an effort to reduce agricultural inefficiency, the structure and operations of the new agrarian reform centers also will give the government more complete control over planning, production, and sales.

### *Shortages*

14. While food and other consumer good shortages have not yet reached crisis proportions, they are a source of ever-increasing political embarrassment to the government. Economic Minister Vuscovic and other officials have publicly attributed the shortages to problems inherited from earlier administrations, to earthquakes and other natural catastrophes, to a US “boycott”, to a domestic “reactionary plot”, and the like, but opposition party allegations that the full blame should be laid on the doorstep of government policy appear to be gaining more credence. Although bad weather and earthquakes in fact did aggravate food supply problems, the sharp reduction in herds following Allende’s 1970 election and subsequent price and agrarian reform policies are basically to blame for spreading shortages of beef, pork, lamb, poultry, eggs, seafood products, and various dry and canned foods. As supply dependability decreased, hoarding has further complicated the problem. Shortages of consumer durables also are increasing as industries reach full-capacity production and are understandably unwilling to invest in plant expansion. While the inability to fulfill demand for such items as household appliances and television sets will simply be

reflected in longer waiting lists, government officials are more concerned about expected shortages of shoes, clothing, and other necessities in the next few months. As in the case of food, the government probably will try to cover these shortages by increasing imports, as long as foreign reserves permit.

#### *Contained Inflation in a State Economy*

15. The government's ability to hold the rise in the consumer price index (CPI) to 12.7% through August (compared with 29.5% during the first eight months of 1970) is an important political achievement but not a very useful economic indicator. The CPI rarely has been an accurate measure of actual price increases, and current opposition charges that it understates the real inflation rate thus far this year by something like one-half are equally applicable to periods under previous administrations. Black market activities also are not a new phenomenon, although a wider variety of goods probably now figures in this trade. The important difference from past experience is that the CPI is now even less efficient as a barometer of inflationary pressures than it was before. With more and more production in state hands—and therefore subject to government subsidies—and little official concern for private entrepreneurs' dwindling profit margins, prices less and less reflect free market demand and supply relationships.

16. The Allende government has continued its expansionary policies contrary to Central Bank recommendations some months ago that it curtail deficit spending (now running at an estimated 30% of government expenditures), raise prices charged by nationalized enterprises, allow prices particularly on luxury goods to rise, reassure private investors, and devalue the escudo to stimulate exports and reduce imports. A government intent upon building socialism is not likely to adopt such orthodox tools for dealing with economic realities. Nevertheless, because output cannot continue to rise for very long in the face of negative savings in the public sector and no investment in private industry and because prospects for increasing supplies through imports are increasingly bleak, the adoption of austerity measures in one form or another can only be a matter of time.

#### *Foreign Economic Developments*

##### *Foreign Exchange Reserves and Policies*

17. Because of rising imports, lower export earnings, and the drying up of traditional sources of short-term credit, Chile's net foreign reserves have declined from about \$350 million at the end of last year to an estimated \$140 million in mid-September. By the end of 1971, reserves could be as low as \$100 million—the equivalent of one month's imports—if the overall balance-of-payments deficit reaches \$250 mil-



lion, as expected. Because of the inflationary impact of such a move, the Allende government thus far has stuck by its pledge not to devalue the escudo used for commodity trade (i.e., the bankers rate). Nevertheless, it has introduced various regulations to slow the inflow of “non-essential” imports and thereby stem the worsening balance of trade. The government also has recently moved to cut losses from tourism and other non-trade transactions by changing the brokers rate from 14 to 28 escudos to the dollar, by imposing various foreign exchange taxes, and by tightening quantitative restrictions on tourist allowances. As a result, Chile now has a full-fledged multiple exchange rate system: 12.2 escudos to the dollar for exports and approved imports, 28 escudos for foreign tourists, 38 escudos for payments to foreign creditors, and 43 escudos for funds for foreign travel by Chileans and for payment of foreign royalty or licensing fees. Speculation concerning additional changes in exchange rates reportedly has driven the black market rate substantially above the 65 escudos to the dollar averaged in recent months.

18. Private firms committed to heavy foreign payments have been hard hit by the recent escudo devaluations. The Chilean National Manufacturers’ Association (SOFOFA) estimated that private firms owe about \$300 million in short-term and medium-term debts abroad—largely to US banks and companies. Of this amount, about \$50–\$70 million is due this year, as are large royalty and licensing payments. SOFOFA has warned the government that the increased escudo burden of their foreign debts may bankrupt many firms and increase unemployment. In response to these complaints, Economic Minister Vuscovic reportedly advised the firms “not to pay and see what happens.”

#### *Foreign Debt Repayment*

19. Chile’s total foreign debt is estimated at \$2.4 billion, not including commitments to compensate for foreign private properties nationalized by the Allende government. Heaviest repayments are scheduled to occur in 1971–73, averaging more than \$300 million annually. The United States is by far Chile’s most important creditor, accounting for approximately half of the scheduled capital outflow. Allende’s recent speeches indicate that Chile may be preparing to impose a debt re-scheduling on its creditors. In view of the understandable reluctance of US investors to put new money into Chile, the lack of any substantial USAID commitments, and Eximbank’s postponement of a decision on the Lan-Chile loan (and, by inference, other loans) until Chile’s expropriation compensation policies are clarified, Allende may decide that he has little to lose from simply defaulting on payments to US creditors. He will make every effort to protect his credit rating elsewhere, however, and at worst will formally request refinancing of outstanding obligations to Western Europe and international financial organiza-

tions. If the large balance-of-payments deficits expected in 1971 and 1972 materialize, Chile's ability to pay will be seriously limited and its creditors would have little alternative but to agree to a debt rollover.

*Alternative Sources of Western Capital*

20. In general, the Allende government has been disappointed in its efforts to obtain loans and investment in Western Europe where most countries appear to be following a "wait-and-see" policy. An exception to this policy may be European response to efforts by CAP (Compania de Acero del Pacifico—Chile's state iron and steel complex) to obtain \$100 million in foreign financing for its expansion program. In mid-September, CAP's General Manager Flavian Levine stated that he would soon be going to Europe to make final arrangements for \$75 million in credits previously negotiated and to arrange for an additional \$25 million reportedly available in England. Belgium, Yugoslavia, Spain, and possibly West Germany apparently are expected to participate in the project. Although details are lacking, it is probable that this financing represents suppliers' credits covering European exports of equipment for the iron and steel project. Both Western Europe and Japan have shown far more interest in this type of financial assistance as a means of increasing their share of the Chilean market than in supplying untied loans and direct investment capital. Japanese interest in the project also reflects its worldwide search for long-term supplies of raw materials. Japan recently signed a seven-year contract with CAP to purchase large amounts of Chilean iron ore, in addition to those supplies earlier arranged for with Bethlehem. Mitsubishi, CAP's sales agent in Japan, also is a major supplier of equipment for the expansion program.

*Communist Aid to Allende*

21. Despite continued resistance by Chilean industry and military alike to a shift to Communist area equipment and technology, Soviet and East European involvement in the country clearly has been growing. Numerous technical missions have arrived in Chile in recent months to do feasibility studies on a wide variety of projects to be undertaken with Communist assistance. Since Foreign Minister Almeyda's mission to Moscow and East European capitals in May–June, long-term credit agreements involving more than \$100 million are known to have been signed, bringing to \$164 million total Communist commitments to Chile. All of these credits are designed to cover purchases of material and technical expertise from the donor country. To date, no untied financial assistance has been offered. Long-term credits extended and projects thus far agreed upon are shown in the table.

22. Chile and the USSR apparently have signed a military agreement, involving an exchange of army attachés and perhaps the exten-

sion of large Soviet credits on favorable terms to cover purchases of badly needed equipment and material. Although a \$50 million figure has been quoted, there is still some question about the amounts involved and the types of equipment that will be purchased. In any event, Allende appears to be gaining ground in his campaign to buy the military's loyalty with promises of modernization and to reduce its opposition to a shift away from dependence on Free World equipment. Allende also may succeed in winning Lan-Chile's concurrence in purchasing Soviet Ilyushins as the only viable alternative to the Boeing 707s and 727s that Eximbank thus far has refused to finance. The Soviet aircraft industry reportedly has offered to sell Chile on any terms as many civilian jets as it wants. Although opposition by Lan-Chile technicians to buying Ilyushins because of their incompatibility with the existing Boeing fleet caused the postponement of a Chilean mission to Moscow in early September, a Lan-Chile team is now scheduled to depart soon for discussions with their Soviet counterparts.

#### Known Long-Term Credits From Communist Countries

USSR	Jul 1971	\$55 million <sup>2</sup>	Machinery and equipment (\$5 million earmarked for roadbuilding equipment)
USSR	Jan 1967	\$42 million	Industrial plants (port improvement, lubricants plant, housing project, chemical plants, agricultural assistance, technical aid to copper facilities)
Czechoslovakia <sup>3</sup>	Apr 1968	\$ 5 million	Machinery and equipment
Hungary <sup>4</sup>	Sep 1971	\$15 million	Pharmaceuticals plant, copper mining and transport equipment

<sup>2</sup> Expansion of \$12.8 million credit extended in 1967. [Footnote is in the original.]

<sup>3</sup> No credits have yet been announced to cover reported Czech agreement to enlarge the Osorno compressor plant and finance two plants for motorcycle motors and machine tools. [Footnote is in the original.]

<sup>4</sup> A \$33 million credit to finance an aluminum plant presumably is still under discussion. [Footnote is in the original.]

Hungary	Jun 1971	\$ 5 million	Machinery and equipment
Bulgaria	Jun 1971	\$20 million	Mining equipment, health supplies, possibly cargo crane plant
Romania	Jul 1971	\$20 million	Sulphuric acid plant, agricultural machinery, possibly copper manufactures plant
China	Jul 1971	\$2.5 million	Grant—earthquake relief

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## 87. Intelligence Note Prepared in the Bureau of Intelligence and Research<sup>1</sup>

RARN–13

Washington, October 14, 1971.

### CHILE: COPPER AND DOMESTIC POLITICS

President Allende is searching for a mechanism to consolidate the political position of his Popular Unity coalition. He realizes, as do the major elements of the coalition, that time may not be on his side and that economic problems and increasing political opposition will lead to some erosion in his present level of popularity. To counter this trend, Allende appears to be maneuvering to gain domestic political advantage from the US Government's response to the nationalization of the copper companies, which is politically very popular in Chile. Thus, he is posturing himself as a national hero should he avoid an open confrontation with the United States or a national martyr should the United States react harshly, as he more likely expects.

*Popular Unity's Economic Vulnerability.* During his first eleven months in office, Allende has sought to consolidate political support for his government programs by accelerated agrarian reform, nationali-

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<sup>1</sup> Summary: This paper discussed the waning popularity of the UP and suggested Allende would use the issue of compensation for the expropriation of the U.S. copper companies to bolster his support among the Chilean people.

Source: National Archives, RG 59, Central Files 1970–73, POL 1 CHILE. Secret; No Foreign Dissem. Drafted by Jorgenson.

zation of banks and major industry, and expansion of the real buying power of lower classes by wage increases and price controls. However, despite considerable progress in these areas, popular support for his coalition appears to have leveled off at about half of the electorate. A continuing reduction in Chile's foreign exchange reserves and in its ability to maintain present levels of private consumption by high levels of agricultural and consumer imports will make some belt-tightening inevitable.

*The Opposition Stirs.* The widely held Chilean political belief that a President should be allowed to carry out his basic program, and the ideological hostility between the two major opposition parties, the Christian Democrats and the Nationalists, have prevented them from mounting effective opposition to the Popular Unity's programs. Nevertheless, in recent weeks the Christian Democrats have increased their opposition. Ex-President Frei has broken his long silence to condemn "a sustained campaign of lies and insults" and the attempt of the Communist Party to impose its rule. Almost simultaneously, the Christian Democratic National Council has attacked the government's intimidation of the press and the economic asphyxiation of the opposition media, and is now attempting to erode Allende's pretensions of working within the system. It has generally supported Allende's copper nationalization program but has reserved the right to review the government's conduct on the issue at a later date.

While the Armed Forces remain on the sideline, reluctant to adopt a political posture, there is some evidence of military resentment not only over the quasi-legal tactics frequently employed but also over Allende's attempt to create the impression that the military favors his policies.

*Is Popular Unity Ready for a Test of Strength?* Popular Unity remains a highly ideological coalition of competing forces. Allende's personal popularity and acumen are essential to its viability. Issues of timing, patronage, and relative authority between the Socialist and Communist Parties continue to cause strains, and increasingly there is concern within the UP coalition that such weaknesses be offset by some form of political reinforcement before economic weakness limits the coalition's ability to maneuver vis-à-vis the opposition. There is special concern that Popular Unity will lose political momentum should it wait until the 1973 congressional elections rather than take the initiative now. So far, Allende has resisted urgings to take an earlier political initiative. However, it appears that he is alert to the need for an attempt earlier rather than later, and can be expected to take advantage of any upswelling in his personal popularity to do so.

*The Stakes of Constitutional Reform.* From the beginning, the Popular Unity program has included a proposal for constitutional reform which

would create a single-chamber “Popular Assembly”. Allende also is giving some consideration to requesting an amendment giving him authority to dissolve Congress and convoke new elections. In the event either amendment were submitted to Congress, and rejected, Allende could then exploit this by “going to the people” with a plebiscite-type early election. Undoubtedly, such a plebiscite would be a test not only of the constitutional issues but of the entire Allende program. Hence the stakes would be high.

*The Domestic Implications of Copper.* The US response on copper compensation will be an important factor for Allende in his strategy to strengthen his political hold in Chile. Allende may still prefer to avoid a confrontation with the US over compensation. Following his determination of “excess profits” earned by the copper companies since 1955, he has attempted to soften somewhat the apparent harshness of the decision by implying that there may still be some room for accommodation between the US and Chile. If there were such accommodation, he might be able to use to electoral advantage his demonstrated ability to deal with the USG on crucial issues. However, in the absence of “economic aggression” by the US he would be risking an election in which strictly domestic issues would be uppermost (and on which he and the UP might be vulnerable). Thus, if the US takes a harsh stand, which Allende now likely expects, he can then exploit the issue to rally all Chileans behind his government, coalition, and program.

88. Memorandum for the 40 Committee<sup>1</sup>

Washington, October 29, 1971.

## SUBJECT

Chile/Financial Support of Opposition Parties and of the Independent Radical Movement of the Left

## I. Summary

This memorandum proposes that continuing financial support be provided to the three political parties opposed to the Popular Unity (UP) coalition of President Salvador Allende. It also proposes that a small contribution be made to the Independent Radical Movement of the Left (MRII—a non-Marxist splinter element of the Radical Party which has remained within the UP coalition) in order to try (a) to keep the Radical movement split and (b) to foster disruption within the UP.

New funds in the amount of [*dollar amount not declassified*] are requested to support the Christian Democratic Party (PDC), the National Party (PN) and the Democratic Radical Party (PDR) during the next year: [*2½ lines not declassified*]

The requested financial support for opposition parties is considered to be realistic in terms of current party capabilities. It reflects the probability that the PDC will receive [*dollar amount not declassified*] in support from European sources which the party may use for political action purposes. In general, such support should assist PDC, PN, and PDR efforts to oppose UP plans to replace Congress with a unicameral legislature through a national plebiscite, to prepare for the 1973 Congressional elections, and to maintain and increase their mass media capabilities.

Support to the MRII is designed to open a channel to the MRII so that, if and as appropriate developments occur, we are in a position to try to influence the MRII to adopt a spoiler role within the UP coalition. The initial contribution would also serve to encourage party cohesion and organization. These goals are consistent with the objectives set forth in the Central Intelligence Agency's Covert Action Annex to "Options Paper on Chile" (NSSM97).

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<sup>1</sup> Summary: This memorandum proposed additional funds for the three political parties opposed to the Unidad Popular (UP) coalition of Allende.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A handwritten note at the bottom of the page reads, "5 Nov. 1971 Approved." The memorandum is attached to a November 3 memorandum from Nachmanoff to Kissinger summarizing the proposal. For Nachmanoff's memorandum and the memorandum for the record of the November 5 40 Committee meeting, see *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Documents 270 and 271.

## II. *Background*

The 18 July Valparaíso by-election did not materially alter the political balance of power established by the April municipal elections, which were essentially a stand-off between the UP and the opposition. If the opposition had lost the Valparaíso by-election the effects would have been profound, since a UP victory would have demoralized the opposition, created internal problems for the PDC and PN, and demonstrated that Allende and the UP were still gaining strength in a conservative area where the opposition had won only three months earlier. A UP victory in Valparaíso would also have encouraged Allende to convoke a plebiscite to replace the two houses of Congress with a unicameral legislature more responsive to UP control. Opposition leaders feel that the Valparaíso election may have marked the high point as far as UP popularity with the electorate is concerned and that economic problems have already begun to erode the UP's political base. If this assessment is correct, the UP may soon decide to opt for a plebiscite, rather than to wait until economic conditions deteriorate further.

In any event, the government has already gained broad control over the economic life of the country and is moving quickly to eradicate the financial base of the free press and the opposition parties. The plebiscite remains a constant threat to Chilean democracy. Under the circumstances, the opposition parties must be able to keep the public informed about UP plans and pressures while maintaining party organization and discipline in preparation for the plebiscite and the 1973 elections.

The MRII split away from the Radical Party (PR) on 3 August 1971, immediately following the PR's national convention. The dissidents, who include five senators and seven deputies, issued a lengthy statement criticizing the "rigging" of the convention and the PR's adoption of Marxist ideology. Allende is making every effort to retain the support of the MRII, promising its leaders one or two cabinet posts if the MRII joins the government formally. At the same time one of the top PCCh objectives is to reunite the PR to avoid a proliferation of political problems within the UP coalition.

## III. *Proposals*

### *A. The Christian Democratic Party (PDC)*

The PDC remains Chile's largest single political party and the one which probably represents the most effective opposition to the Allende regime. The 8 June murder of Edmundo Pérez Zujovic, one of the founders of the PDC and Minister of Interior under former President Frei, prompted the PDC, PN and PDR to unite and successfully support a common candidate in the Valparaíso by-election. Although the PDC will continue to support the government on some issues and programs



which coincide with the PDC platform, the party has now firmly established itself in opposition and the recent defection of its collaborationist left wing has strengthened internal party discipline. The PDC must, however, attract UP dissidents—particularly those who once supported the PDC—and must compete with the Communists and Socialists to retain the allegiance of PDC supporters in the campesino, labor, youth, and other grass roots sectors where the UP is concentrating its organizational efforts.

The PDC unfortunately is almost completely without organization or structure, despite having controlled the government for the last six years. The party has no full-time, paid political activists and relies exclusively on the part-time voluntary service of its militants. Moreover, the party newspaper, “La Prensa”, has a daily circulation of only 16,000. PDC radio stations are being subjected to increasing economic pressures, and it will need financial assistance if its efforts to take control of TV Channel 13 at Catholic University are successful. The PDC’s electoral support, though widespread and covering many sectors of Chilean society, is subject to rapid erosion if the party does not take vigorous measures to retain it.

Financial support requested by the PDC in order to maintain itself as a viable and effective political organization during the coming year is delineated below:

1) *Administration*: Rent of party offices and salaries of a few key administrative employees both in Santiago and the provinces: [*dollar amount not declassified*]

2) *Cadre*: Salaries of political activists who would be selected from the working level of the PDC’s union and labor groups, student organizations, women’s groups and campesino leagues and given special training by the PDC: [*dollar amount not declassified*]

3) *Intelligence and Research*: Salaries of a special group consisting of ten full-time and ten part-time personnel to collect political intelligence (especially from PDC members still employed by the government) and conduct background research for use by party leaders, parliamentarians and media outlets: [*dollar amount not declassified*]

4) *Equipment*: Purchase and replacement of mimeograph machines, portable loud speaker systems, typewriters and other office equipment necessary to create an effective administrative support structure: [*dollar amount not declassified*]

5) *Propaganda*: Funds to cover operating deficits of PDC media, to produce pamphlets, and to make placements in non-party and student media: [*dollar amount not declassified*]

6) *Political Surveys*: Underwriting of PDC surveys to assess popular reaction to key national issues, identify areas where party appeal is

weak, and determine themes for party propaganda: [*dollar amount not declassified*]

7) *Catholic University's TV Channel 13*: In May 1971, pro-PDC forces at the Catholic University won a majority in the elections for the "Grand Assembly" which controls the University. The Assembly passed a resolution which makes the university community responsible for the programming of the University's TV Channel 13, which formerly was controlled by groups dominated by the Popular Unity Action Movement (MAPU—a PDC splinter faction which is a member of the UP coalition). PDC moderates within the University have already succeeded in modifying the pro-UP line of the TV station and now appear to be in an excellent position to replace the station's press chief and to reorient its political line completely. If the PDC wins decisive control of the channel, opposition forces will have access to a channel, which has the largest TV audience in Santiago. The PDC will need financial assistance to support the TV station, which depends on advertising for its revenue, since the government has already issued a regulation which limits financial sponsorship and advertising on Channel 13: [*dollar amount not declassified*]

TOTAL: [*dollar amount not declassified*]

It should be noted that European Christian Democrats have given assurances they will provide an additional [*dollar amount not declassified*] to the PDC for political action purposes. If this support actually materializes, the PDC will receive a total of [*dollar amount not declassified*] requested above plus the [*dollar amount not declassified*] from European sources).

#### B. *The National Party (PN)*

PN leaders, parliamentarians and newly-elected councilmen have met several times since the municipal elections to analyze the results of the elections and to critique their performance. They recognized that their party leadership was ineffectual in the northern part of Chile; the party had an unfavorable image as a reactionary force representing conservative agricultural and industrial interests; and in general the party needed to improve its organization. On the other hand, they also felt that the gradual disappearance of large business and landholding interests under the UP government would facilitate the creation of a new party image more to the center of the political spectrum. At the present time the party is working out a blueprint of this "new look" in party structure and image. The PN is carrying out a province-by-province analysis of the voting patterns of each district in anticipation of the 1973 congressional elections in order to identify those areas where an extra push by the PN or the PDC could take a seat away from the UP.

The following assistance is required to help the PN to build and support a viable nationwide organization during the coming year:

1) *Administration*: Salaries, travel, and organizing expenses of a few key party functionaries in Santiago: [dollar amount not declassified]

2) *Cadre*: Salaries and training of 15–20 full-time activists, costs of renting offices, and support of party organizational activities in each province: [dollar amount not declassified]

3) *Intelligence and Research*: Creation of small special group which would concentrate on collecting intelligence from the armed forces and civilian police (with whom the PN has traditionally maintained good relations) and which would also research material for use by PN parliamentarians and media outlets: [dollar amount not declassified]

4) *Political Surveys*: Support of PN surveys to assess popular reaction to key national issues, identify areas where party appeal is weak, and determine themes for party propaganda: [dollar amount not declassified]

5) *Political Action*: Assistance to functional arms of the PN, including professional groups (lawyers, technicians, etc.), youth and student organizations, and women's groups: [dollar amount not declassified]

TOTAL: [dollar amount not declassified]

In addition, the PN has spent only [dollar amount not declassified] of the [dollar amount not declassified] which was approved by the Committee in January 1971 for the purchase and maintenance of media outlets. The [dollar amount not declassified] unspent balance is thus still available for use in maintaining these media during the coming year.

### C. *The Democratic Radical Party (PDR)*

The PDR showed sufficient strength in the April municipal elections (125,000 votes) to merit its continuation as a political party. The votes obtained by the PDR at the expense of the Radical Party diminished the Radical Party's importance in the UP coalition and reinforced the PDR's "spoiler" role.

The PDR realizes that it must now develop a party ideology and structure which provides room for growth above and beyond its role as a haven for disaffected Radical Party members. But finding this new image for the PDR as a party in its own right is going to be difficult. The PDR's organization is fragmentary and its influence among the younger generation is all but non-existent. Furthermore, the party is run by a handful of older politicians and needs more energetic leadership as well as better internal discipline. The party also lacks a sound financial base. It receives token contributions from the salaries of its two senators and three representatives, but most party expenses are covered haphazardly by those few party leaders who can afford to do so.

The funds which the PDR can realistically absorb and effectively employ during the coming year are estimated as follows:

1) Organizational Expenses: [*dollar amount not declassified*]

2) Propaganda Costs: [*dollar amount not declassified*]

TOTAL: [*dollar amount not declassified*]

It should be noted that the [*dollar amount not declassified*] authorization by the Committee for the PDR purchase of a radio was not implemented during the last fiscal year because PDR leaders decided they could not manage a radio.

#### *D. Independent Radical Movement of the Left (MRII)*

Although the MRII labels itself a democratic, non-Marxist party, its leaders now consider it politically advantageous for them to remain within the UP coalition. If they maintain this position through the 1973 elections, we will have no interest in providing them with more than token financial support. MRII leaders, however, estimate that 70% of former PR members support the MRII's anti-Marxist stance, and they must decide prior to 1973 whether the chances for reelection of the two MRII senators and seven deputies whose terms expire at that time will be better if the MRII remains within the UP or campaigns as an independent party. It is proposed to pass a contribution of about [*dollar amount not declassified*] to the MRII to establish a channel to the [*less than 1 line not declassified*] MRII through a third party and thereafter make any further support increments contingent upon MRII willingness to react under specific circumstances in a way that fosters dissension within the UP. The initial contribution would also serve during this developmental period to encourage party cohesion and organization. It is requested that the Committee authorize the use of up to [*dollar amount not declassified*] with the MRII on the basis outlined above.

#### *IV. Funding*

The bulk of the funds requested for the three political parties will continue [*1½ lines not declassified*]. It has been demonstrated that large amounts of currency can be passed securely in this manner, and opposition party leaders oppose the use of any legitimate funding cover because funds arriving legally from abroad must be converted at the disadvantageous official rate.

[*1 paragraph (11 lines) not declassified*]

It is well-known in Chile that former President Frei has been in Europe raising funds for the PDC. [*35 lines not declassified*]

#### *V. Risks*

##### *A. Operational*

The operational climate in Chile has not yet become overtly hostile. Thus far there has been no evidence of government action against

any USG personnel, except for one possible case of harassment of an Embassy officer, [1½ lines not declassified]. Nevertheless, reporting indicates that the Chilean security forces have been receiving special training and guidance from Cuban supervisors and that Agency personnel will be among their priority targets. As the competence and capabilities of the security forces improve, it is reasonable to expect that the opposition parties and their sources of financial support will receive increasing attention. These political parties must be able to develop convincing attribution for the funds [less than 1 line not declassified] to them. Fund-raising campaigns soliciting anonymous contributions have been employed successfully by Communist Parties throughout Latin America for years and should prove equally effective for our purposes; double bookkeeping is also a standard Latin American practice. The money-raising campaign being conducted by the PN has so far been quite successful and has enabled the party to meet its normal operating expenses and to cover its monthly media deficits. The PDC is also soliciting funds but this money is currently being used to pay off the balance of the party's campaign debts. PDR funds have always come from a few wealthy party leaders and supporters whose continuing patronage provides adequate cover for the limited support proposed. Funds proposed for passage to the MR II will be channeled [2 lines not declassified].

#### B. Political

In addition to the operational risks, it should be noted that there is no way to guarantee that a portion of the proposed subsidy funding of the PDC will not be used to pay off PDC election debts. Obviously every effort will be made to prevent such PDC use of these funds and in particular to insure that they will not be applied to the \$1,115,375 debt which the PDC still owes from Tomic's 1970 presidential campaign. The Valparaiso by-election and the recent resignations of a few pro-UP PDC leaders have reduced collaborationist tendencies within the party; and the PDC now appears to be firmly committed to a rational, but firm, opposition role.

#### VI. Coordination

Ambassador Korry endorsed an earlier proposal for additional support to the PDC, but deferred to his Deputy Chief of Mission for coordination on the present proposal because of his imminent departure from Chile. The Deputy Chief of Mission has endorsed the present proposal. Ambassador Davis has been briefed on the proposal for support to the opposition parties. This proposal also has the concurrence of the Assistant Secretary and the Deputy Assistant Secretary of State for Inter-American Affairs.

### VII. *Costs*

The cost of this proposal is [*dollar amount not declassified*] of this amount [*dollar amount not declassified*] would be used to build the organizational and media capabilities of the PDC, to enable it to retain the allegiance of its supporters, particularly in lower income and university sectors, and to prepare for a plebiscite and the 1973 congressional elections. Another [*dollar amount not declassified*] would be used to strengthen the PN, particularly through assistance to PN functional arms such as professional, technical, youth and women's groups, and to increase that party's ability to oppose the UP in a possible plebiscite and in the 1973 congressional elections. [*dollar amount not declassified*] would be employed to help the PDR develop stronger organizational and media capabilities and to encourage the emergence of new party leadership. The remaining [*dollar amount not declassified*] in new funds would be available for use with the MRII to try to disrupt the UP coalition.

### VIII. *Recommendation*

It is recommended that the 40 Committee approve the proposal as outlined in paragraph IV above in which [*dollar amount not declassified*] is requested for the PDC, PN and PDR and [*dollar amount not declassified*] for the MRII.

# 89. Airgram From the Embassy in Chile to the Department of State<sup>1</sup>

A-310

Santiago, November 1, 1971.

## SUBJECT

The Copper Nationalization Law—Theory, Practice, and Justification

## SUMMARY

The Chilean Constitutional Reform Law for the nationalization of the major copper mines provided for compensation to be determined on the basis of book value (net worth of equity) of the US companies, minus various deductions authorized by the law. Though the size of these deductions might have varied over a broad range depending upon the attitude adopted by the GOC in its application of the law, the GOC has opted in favor of applying the law in an extremely harsh and punitive manner. This is evidenced both by the President's determination of the amount of "excess profits" allegedly earned by the companies and by the manifestly unfair position adopted by the government copper corporation (CODELCO) in objecting to the condition of virtually all of the physical assets at the mine sites. It is apparent that the GOC could have chosen to act otherwise and that its action represents a conscious political decision.

With the publication of the Decree of the Controller General in the *Diario Oficial* on Wednesday, October 13, the application of the Constitutional Reform Law, designed to accomplish the complete nationalization of Chile's major copper production facilities, came within one step of completion. The bill was introduced in the Chilean Senate on December 22, 1970 and, after consideration and passage by the legislature was promulgated as law on July 16, 1971. The only remaining procedural step contemplated by the law is an appeal to an *ad hoc* tribunal, established by the law. An appeal to this tribunal may be taken by either the companies or the GOC or both. If such an appeal is taken, the tribunal is empowered to finally determine all issues raised. No further appeal may be taken to any other Chilean court. Because of the impor-

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<sup>1</sup> Summary: This airgram summarized the Chilean Constitutional Reform Law for the nationalization of the major copper mines, providing a detailed analysis of the terms of the original bill, its subsequent congressional modifications, and the President's determination of the "excess profits" provision. It concluded that Allende's government had consciously applied a particularly harsh interpretation of the law to U.S. companies.

Source: National Archives, RG 59, Central Files 1970-73, INCO-COPPER CHILE. Limited Official Use. Drafted by Kessler on October 19. Sent with the notation to pass to OPIC.

tance of the law itself and the manner in which it has been applied, a summary of events to date in the nationalization of copper may be useful.

It is well known that foreign ownership of the *Gran Minería* copper companies (those producing more than 75,000 tons of fine copper per year) has long been a major issue in Chilean politics and that it has especially been the target of the parties of the Chilean left. Though the Frei government had already entered into agreements for the purchase of 51% of the interests of Kennecott (*El Teniente*) and 100% of the interests of Anaconda in Chuquibambilla and El Salvador (though title to only 51% had passed to the State by the end of Frei's term) immediate further action on nationalization was still a major plank in Allende's platform. It remained to be seen only what form this action would take, and to what extent agreements freely entered into by the GOC under Frei would be honored. Allende chose the vehicle of a Constitution Reform Bill, which under Chilean law, is the only means by which the State may void, in whole or in part previous agreements duly authorized and executed by the State.

#### INTRODUCTION OF THE BILL BY THE PRESIDENT

In his speech introducing the Bill in the Senate, Allende made the following résumé of the history of the copper companies and their role in Chile's development:

"The lack of understanding among Chileans concerning the true socio-economic meaning that the exploitation of our basic resources by foreign companies has had for our homeland is astonishing. The North American investment in copper amounted to, originally, a contribution of foreign capital of only \$3.5 million. All the rest has come from that same operation. An identical situation resulted in iron and nitrates. The four large US corporations, who have exploited these resources in Chile, have obtained from them, in the last sixty years, income of \$10.8 billion. If we consider that our total national wealth achieved during 400 years of effort, amounts to some \$10 billion, we may conclude that in little more than half a century these North American monopolies have taken out of Chile an amount equal to everything created by its citizens in industries, roads, ports, housing, schools, hospitals, businesses, etc. during the whole length of its history. Here is the root cause of our underdevelopment. Because of this we have feeble industrial growth. This is why we have primitive agriculture. This is why we have unemployment and low salaries. To this we owe our thousands of children who have died at early ages. Because of this we have misery and backwardness."

This statement and others made in a broadcast speech on the evening of December 21 (upon signing of the proposed bill for transmis-



sion to the legislature) are jarring and typical examples of the repeated attacks on the copper companies by Chile's Marxist parties for many years. Not only is no positive contribution to Chile's development recognized, but the companies are accused of direct responsibility for virtually all of Chile's important economic problems. In addition, in both speeches, Allende's presentation included key statistics which he or his key advisors must have known to be misleading. The \$10.8 billion figure quoted above represents not profits remitted by the copper companies, but rather the total of gross *sales receipts* by the copper, iron, and nitrates companies during the past sixty years. Similarly, in his broadcast speech Allende used the figure of \$3.7 billion as the amount which "between 1930 and 1969 has left the country to increase the power of the great copper companies which control the copper mines of five continents". This figure corresponds to the result of the application of a technical legal term "value not returned" as used in the Chilean Copper Code (Law 16,624, Article II). This term does not refer to profit remittances by the companies, rather it refers to the total of foreign currency current account expenditures. The law requires the companies to return to Chile sufficient foreign exchange to meet local operating expenses (wages, purchases of materials and other escudo expenditures) and all Chilean taxes, whether denominated in dollars or escudos, for both current payments (income taxes, wage and salary taxes, etc.) and prepayments (forced loans). These and other minor items constitute "value returned". Since only current account transactions are considered, investment by the company in Chile is, of course, not included. "Value not returned" is simply the difference between total export proceeds, after adjustment for inventory changes, and "value returned." Included in "value not returned" are costs of transportation and refining, material purchases abroad, sales commissions, debt service, depreciation, and finally profit remittances.

By way of comparison, Anaconda, in 1969, published the following data on disbursement of total receipts from 1949–1968:

<u>Destination of Payments</u>	<u>% of Receipts</u>
Returned to Chile	80.4
Expenses incurred abroad	8.4
Payments to Shareholders	11.2
	<u>100.0</u>

Similarly, Kennecott has gone on record in a letter to Allende with the following figures for the period 1916–1971:

	<u>\$ Millions</u>
Total Sales Receipts	3,430
Total Returned to Chile	2,491

Expenses incurred abroad	430
Net Profit to Braden	509

Figures published by the government copper corporation (CODELCO) for the period 1930–1968 showed that the companies earned total net profits of \$1,448.5 million. (Chilean Senate, Buletin 21,773, *Informe de la Comisiones de Hacienda y Minería*) The above makes it quite clear that the \$3.7 billion figure used by Allende (for the period 1930–1969) was both highly exaggerated and misleading.

#### TERMS OF THE ORIGINAL BILL— MODIFICATIONS BY THE CONGRESS

The original bill, so introduced by Allende, provided for immediate nationalization of five large US-owned copper mining facilities—Chuquicamata, El Salvador, El Teniente, Exotica and Andina. The first four represented all of the Gran Minería copper mines in Chile. Andina, however, a mine recently completed and inaugurated by Frei shortly before leaving office, had never produced 75,000 tons of fine copper in any year and was not scheduled to do so for several years. Its special inclusion in the bill is significant in that there do exist several other large mines owned by non-US foreign interests which were not included in the bill. Compensation was to be based on depreciated book value (more accurately net worth of equity), less certain specified categories of deductions—some to be determined by the Controller General and some by the President himself.

A summary of some key provisions of the original bill and changes made in these provisions by the Congress points up some of the critical issues involved. First, the original bill provided for the expropriation not of the enterprises, but instead of only the assets of the companies. It is clear that the GOC had intended, in so drafting the original bill, to eliminate, under Chilean law, rights of all creditors of the mixed companies. The GOC would then have been free to choose to pay only those debts which it decided were in its interest to pay, despite the fact that this might have resulted in outright repudiation of duly contracted debts owed not only to the US companies and the EXIMBANK but also those of innocent third parties. This original aim of the bill was reaffirmed by the author of the bill, Eduardo Novoa, in a recent TV appearance, where he stated:

“... in the Bill presented by the government to the Congress, it would have been possible to nationalize the assets of the companies. . . . The Congress modified this concept, and, instead of expropriating the assets, it introduced a variation, in order to say that what were expropriated were the enterprises. . . . And therefore, not only the assets are included, but also the debts. . . . Under the original version of the bill, on the other hand, the system was exactly the reverse. We would have

acquired all of the assets, without assuming any of the debts—except those that the state might determine and decide to assume.” (A Tres Bandas, October 3, 1971)

A second feature of the Bill as originally introduced was that it would have required the Controller General, in calculating depreciated book value, to deduct, among other things, an amount corresponding to “depletion of the mines”—this despite the fact that historically, exploitation of the mines had been performed pursuant to the requirements of Chilean law. Moreover, it is of particular interest that the companies had been explicitly prohibited by Chilean law from claiming any deduction in their tax returns to account for depletion so that depletion, in effect, had been provided for in the calculation of income taxes due to the GOC.

Thirdly, the original bill required the President to deduct “excess profits,” and to pay any resulting indemnization over 30 years with interest of three percent per annum.

Finally, it provided for an appeals tribunal—from which no appeal to the ordinary courts of justice was possible—consisting of five “judges”—three of whom were not judges, or even lawyers, but rather government officials who had been appointed by Allende (President of the Central Bank, Vice President of the National Development Bank (CORFO), and Director of the National Planning Office).

During the legislative process, all of the above elements of the original bill underwent significant changes. Congress insisted that the “enterprises” rather than merely their “assets” be nationalized. The proposed deduction for “depletion of mines” was stricken. Though the final bill did empower the President to determine and deduct “excess profits,” the legislators made what they considered an important change in this provision. Whereas the original bill had required that the President deduct “excess profits,” the final bill clearly made the President’s power in this regard *discretionary*—specifically stating that he might deduct “*all or part*” of any profits he found to be excessive. This change was accompanied by statements of several legislators to the effect that they hoped that the President would use this discretion wisely. (Private remarks of some of these same legislators were to the effect that if the President were to use this power in a harsh and punitive manner, resulting problems for Chile with the USG and others could be laid squarely at his door). The critical point however is that in the final version of the bill, this power was, without doubt, a discretionary one.

Similarly, the President was given discretionary power over the terms of payment to the companies. The final bill provided that the terms of payment could be for *no longer than* thirty years with interest at *not less than* three percent per annum, whereas terms of 30 years and 3% had been mandatory in the original version.

Finally, the composition of the appeals tribunal was changed to substitute a judge from the Court of Appeals of Santiago for the Director of the National Planning Office<sup>2</sup>—thereby giving the tribunal a nominal majority of qualified lawyers. Nevertheless, it is important to note that three of the five members actually appointed to this tribunal are Allende appointees and known partisans of the *Unidad Popular*. Only the remaining two are members of the independent judiciary.

The Bill as finally approved, thus, provided that the Controller General would determine the amount of indemnization to be paid to the US companies by calculating book value (less depreciation and disallowing any revaluations of assets taken by the companies after December 31, 1964) and deducting from that figure two major items: (1) the value of equipment and machinery found to be in “deficient condition for use” by the state and (2) the amount which the President directed him to deduct as excess profits.

In summary, the law began with the concept of depreciated book value (net worth of equity) and provided for the possibility of various deductions from that amount—principally (1) items of equipment received in “deficient condition for use” and (2) “excess profits” as determined by the President. Assuming that properly functioning facilities had been a necessary element in the profitability and high productivity of these companies, it is apparent that the value of items to which objections were made could have been relatively minor. Likewise, the amount deducted for “excess profits” could have varied over a very broad range depending on how the President chose to define and calculate such profits, and upon whether he decided to deduct “all or part” of them so determined. In short, indemnity due to the companies could have ranged from a very low value to a value closely approximating net worth of equity—depending upon the intentions of the GOC and the degree of fairness and good faith exercised in the application of the terms of the bill. To these questions we now turn.

#### CODELCO's POSITION BEFORE THE CONTROLLER GENERAL

In order to determine which items, if any, were in “deficient condition”, the Controller set up five technical commissions (one for each nationalized mine). The GOC assigned to CODELCO (the government copper corporation) the responsibility for making objections to those items of machinery and equipment which it considered (within the meaning of the law) to be in “deficient condition for utilization”. The companies, in turn, were requested to nominate representatives to participate in the work of the technical commissions so as to be able to de-

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<sup>2</sup> The Vice President of CORFO was also replaced by the Director of Internal Revenue. [Footnote is in the original.]

fend the “objected” assets against allegations made by CODELCO. Though normal procedural fairness would have called for CODELCO to bear the burden of proving, or at least providing some evidence to support, allegations that a given item was in deficient condition for use, this was not the procedure followed. Instead, CODELCO merely drew up a list of 25 general objections and then proceeded to list virtually every item of equipment at each mine—placing next to the listed item several numbers (in many cases as many as seven or eight) referring to the list of stock objections. The companies were then put to *their* proof that the listed objections did not exist. This obvious procedural unfairness is many times magnified when this list of stock objections is examined. Several examples of listed objections follow:

(I) An item was deemed “deficient” if it was “old” without regard to whether or not it continued to fulfill its function. CODELCO thereby chose to ignore that such an item was carried on the books at a very low value or indeed at no value at all—despite the fact that it was still in place and functioning adequately.

(II) Items were considered “deficient” if they had certain worn parts—despite the fact that these parts were ones normally expected to wear out and be replaced—and that they constituted only a minute portion of the value of the item as a whole (e.g. the entire mill at Chuquicamata was objected to on the grounds that some rotating machinery—racks and pinions—were worn). Such components normally wear out and are replaced many times during the useful life of such machinery.

(III) A fleet of virtually new specially constructed 100 ton trucks was objected to on the grounds that the trucks had a “high cost of maintenance”.

(IV) A 1970 wagoneer was objected to on the ground that it used too much fuel.

Of the list of twenty-five stock objections, only two obviously responded to a fair interpretation of the statutory language—exclusion of items (1) which no longer existed or (2) which could no longer perform a useful function.

In summary, CODELCO’s list of objections completely ignored the concept of depreciation (which is inherent in the determination of book value) and asserted that an asset was in “deficient condition” if it was not virtually perfect.

Not satisfied to stop there, CODELCO then went on to assert that for each item to which an objection had been made, the amount required to be deducted from depreciated book value was not the amount at which the objected item was carried on the books, or even the original cost of the item, but rather the cost of replacing such item with a new one today. In the most extreme case (and there are such ex-

amples among the objected assets), an item which had been completely depreciated on the books—and for which the GOC would therefore not have had to include any amount in calculating book value—would, according to CODELCO, have served as the basis for a deduction from depreciated book value of the purchase price of a new item in the market today. Since the “objected” item had not contributed to book value in the first place, such a deduction would then have resulted in cancelling out payment for other assets received by the State, whose value *had* been included in the calculation of book value.

The total amount of deductions calculated on this basis by CODELCO exceeded \$1 billion.

While this grossly unfair position might have been understandable as merely the work of certain overzealous bureaucrats at CODELCO, it then became the subject of an extensive legal justification by the State Defense Council. The opinion attempted to give full legal justification for CODELCO’s list of stock objections, and for the use of replacement cost as the measure of the deductions.

The President of the State Defense Council is Eduardo Novoa, (drafter of the Constitutional Reform Bill and Allende’s Chief Legal Advisor). This is the same Eduardo Novoa who, as official representative of the GOC explained this portion of Article 2 (17) (a)—items received in deficient condition—to the Senate Commission on the Constitution, Legislation and Justice as follows: (Boletín 24462, Anexo No. 2, Acta Sesión Dec. 29, 1970).

“The President of the Republic<sup>3</sup> will determine, then, from among the existing assets, which are the necessary ones for exploitation excluding (only) those which are useless or which are obsolete, worn out, or destroyed, that are of no use in the work. The idea is that the State acquire useful assets and not those which are unserviceable.”

The only fair reading which these words permit is that items which were “useful” i.e. that were in their places performing their functions, would not be deemed “deficient.” It is therefore clear that the State Defense Council, headed by Novoa, in making its arguments in support of CODELCO, was well aware that the legislative history of the bill indicated otherwise—due to the testimony of Novoa himself.

#### THE PRESIDENT’S DETERMINATION OF “EXCESS PROFITS”

In accordance with Article II (17) (b), President Allende was authorized to determine the amount of “excess profits” earned by the companies since 1955 and to require the Controller General to deduct

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<sup>3</sup> The Controller General was assigned this task in the final version of the bill. The remaining language in this section, however, remained unchanged. [Footnote is in the original.]

“all or part” of that amount from book value (after all deductions accepted by the Controller). The law set forth several standards which the President might consider in making his determination—these being (1) the normal rate of return obtained by the companies in the totality of their international operations (2) the maximum return permitted pursuant to international agreements concerning foreign investments to which Chile is a party, (a reference to the Andean Group Foreign Investment Code) and (3) the norms established between the state and the nationalized companies with respect to preferential dividends (overprice tax). Though there is some discussion among Chilean lawyers on the interpretation of this provision, it is generally agreed that the President was free to choose among the suggested norms. In this regard it is interesting to note that figures released by Anaconda show dividends received by Anaconda, as a percentage of net worth of the two Chilean operating companies (Chilex and Andes), to have been 13.39%, on an annual average basis during the period in question. This is less than the maximum generally permitted under the Andean Foreign Investment Code—and even the Andean Code makes an exception to the 14% rule for mining enterprises.

What Allende chose to do, rather than expressly using any of the criteria contained in the statute, was to determine that any profit in excess of 10% of book value was “excess.” He then directed the Controller to deduct only the amount in excess of 12% of book value from the net amounts arrived at by the Controller. It is important to note, however, the manner in which these calculations were made. The “profits” used in the calculations were not the amounts remitted from Chile to Anaconda and Kennecott as dividends. Rather they were the total net profits of the companies during this period, thus disregarding profits reinvested. Moreover, the President did not consider any of the years in which the operating companies earned less than 12% on average net worth. He simply took the years in which profits, according to his method of calculation, had exceeded 12% and added up the overage. As a result, Andes/El Salvador, which had earned in excess of this percentage for only the years 1966–70 was nevertheless charged with “excess profits” of \$64 million. The final amounts which the President required the Controller to deduct were: Chuquicamata—\$300 million; El Salvador \$64 million; and El Teniente—\$410 million. In the case of El Teniente, if the amount deducted by the President is added to the amount of profits already paid to the GOC as dividends, dividend taxes and forced loans, the total exceeds the total of El Teniente’s net profits for the period in question.

### RESULT AND JUSTIFICATION

The Controller General, to his considerable credit, refused to accept all but a small percentage of CODELCO’s objections to the phys-

ical properties of the nationalized companies. He did however increase the liabilities of the companies by the total amount of termination benefits (indemnity for years of service) which the mixed companies would have been required to pay to their employees if they had gone out of business on December 31, 1971. He accepted the argument that this indemnity was in the nature of a fixed liability, despite the fact (1) that the companies had never been permitted to take any deduction for future indemnity for tax purposes, and that (2) it is reasonably clear that, as a legal matter, the mixed companies continue to exist under Chilean law. Nevertheless, when the Controller completed his calculation of book value, less the amount of deductions which he had been designated to consider, the result was that over \$380 million remained to the credit of the three major companies. The Controller, however, had no power to alter in any way the amount which the President directed him to deduct for "excess profits," and the result, as is now well known, is that Allende's deductions not only completely wiped out the remaining balance but left a negative value for the three major companies of approximately \$400 million.

The GOC has attempted to justify this extremely harsh application of the law on various grounds. It has been suggested that the President had no choice under the law but to make the deductions that he did. It is apparent, however, that Allende did have broad discretion, both as to the choice of the applicable standard to be used for determining excess profits, and as to whether he would direct the Controller to deduct "all or part" of the amount he determined to be "excess."

The action has been defended in numerous official statements as a lawful and sovereign decision of the Government of Chile—though such statements choose to ignore sovereign acts of government of Chile in 1967 and 1969, when agreements were reached with the companies for the purchase of 51% of El Teniente and 100% of Chuquicamata and El Salvador. Finally, official spokesmen have placed great reliance on United Nations Resolution 1803 of December 19, 1962, which recognizes "the inalienable right of all States freely to dispose of their natural wealth and resources in accordance with the national interest." They do not however choose to point out the following critical provisions of that resolution: "The exploration, development and disposition of such resources, as well as the import of the foreign capital required for these purposes, should be in conformity with the rules and conditions which the peoples and nations freely consider to be necessary or desirable with regard to the authorization, restriction, or prohibition of such activities."

"In cases where authorization is granted, the capital imported and the earnings on that capital shall be governed by the terms thereof, by the national legislation in force, and by international law."



“Foreign investment agreements freely entered into by, or between sovereign States shall be observed in good faith.”

Davis

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90. Central Intelligence Agency Intelligence Information Cable<sup>1</sup>

Washington, November 3, 1971.

COUNTRY

Chile

DOI

Late October 1971

SUBJECT

Confirmation of President Allende's Reported Intent To Handle Personally the International Aspects of the Copper Nationalization Process

ACQ

Chile, Santiago (29 October 1971) Field No. [*document number not declassified*]

Source

[*6 lines not declassified*]

TDCS-314/11716-71. 1. (Field comment: [*document number not declassified*] TDCS-314/11697-71, from a generally reliable source, reported that President Salvador Allende told Popular Unity (U.P.) leaders on 25 October that he intends to handle personally copper negotiations and international relations, specifically with the United States, without additional guidance from the U.P. parties.)

2. According to a leader of the Communist Party of Chile (PCCh), President Allende has informed the leaders of the parties within the U.P. that he intends to direct personally the international aspects of the copper nationalization process, and that he intends to do so in his own way without necessarily accepting guidance from the U.P. parties. The PCCh leader added that Allende was to have had a private meeting with Orlando Letelier, Chilean Ambassador to the United States, on 30

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<sup>1</sup> Summary: This cable reported that Allende was going to personally handle the negotiations over compensation to the U.S.-owned copper companies.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VI. Secret; No Foreign Dissem.

October to discuss relations with the U.S. and to ensure that Letelier fully understands how the President wants to handle problems with that country.

3. (Source comment: Both the PCCCh and Allende continue to want to avoid any rupture in diplomatic relations between Chile and the U.S.)

4. Field dissem: State, Army, Navy, Air, CINCSO, CINCLANT.

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## 91. Memorandum Prepared in the Central Intelligence Agency<sup>1</sup>

Washington, November 15, 1971.

### SUBJECT

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.)

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<sup>1</sup> 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.

*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.<sup>2</sup> 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

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<sup>2</sup> Allende announced on 28 September that \$774 million in excess profits would be deducted from the compensation offered the two major US mining companies. In effect, this virtually precluded any prospect of significant compensation. This was confirmed on 11 October when Chile's Comptroller General ruled that the companies were entitled to no compensation for the three major copper mines that were nationalized, and in fact owed the state \$378 million. He indicated that no effort would be made to collect this debt, since it is not authorized by the constitutional amendment. Although regime spokesmen have intimated that excess profits accrued by the Chilean Government itself during the period when it owned 51 percent of the nationalized mine would be subtracted from Allende's determination, this will not alter matters sufficiently to provide the companies with compensation. [Footnote is in the original.]

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 Castro has done with re-

spect 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 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 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.

## 92. Paper Prepared for the Senior Review Group by the Ad Hoc Interagency Working Group on Chile<sup>1</sup>

Washington, November 23, 1971.

### CHILE: Next Steps

- I. United States Objectives in Chile
- II. Considerations
- III. Policy Options
  - Option A. *Maximum economic denial*
    - Characteristics of the Option
    - Advantages and Disadvantages

<sup>1</sup> 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.

Option B. *Formal, Comprehensive Application of the Hickenlooper Amendment*

Characteristics of the Option

Advantages and Disadvantages

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

Characteristics of the Option

Advantages and Disadvantages

Option D. *Non-Application of the Hickenlooper Amendment*

Characteristics of the Option

Advantages and Disadvantages

IV. Timing Options

Option X. *Act Without Delay*

Characteristics of the Option

Advantages and Disadvantages

Option Y. *Delay Action as Long As Feasible*

Characteristics of the Option

Advantages and Disadvantages

V. Annex A—Current Situation

VI. Annex B—Analysis of Chilean Balance of Payments

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. pri-



vate 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.

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### 93. Memorandum for the 40 Committee<sup>1</sup>

Washington, December 10, 1971.

#### SUBJECT

Request for Funds for 16 January 1972 By-Elections in Chile

#### I. Summary

A special election will be held on 16 January 1972 to fill two vacant seats in the Chilean Congress. The Christian Democratic Party (PDC) and the National Party (PN) have agreed that a single opposition candidate will run in each by-election. Rafael Moreno of the PDC will be the candidate for his party's former seat in the 5th Senatorial District and Sergio Diez of the PN will run for Deputy in the Linares District. Both men are strong candidates, but past voting patterns indicate that the races will be extremely close. Popular Unity (UP), the government coalition, has just officially named its candidates, and it is evident from the caliber of the UP nominees that the government is going all out to win in January.

These by-elections must be viewed in the context of the uncertain political atmosphere developing in Chile as the UP government enters its second year in power. The political opposition is becoming increasingly bold, unified, and effective while the government finds itself

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<sup>1</sup> Summary: This memorandum requested funds to further strengthen the Chilean opposition by supporting two candidates in the January 1972 special election for two vacant congressional seats.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page reads, "Telephonically approved by the 40 Committee on 15 December 1971."

being confronted with mounting problems and situations which must be faced and on which political capital must be expended.

At the same time the political opposition is becoming increasingly dependent on external (and U.S. Government) financial support. A total of [dollar amount not declassified] is requested for the January by-elections, [dollar amount not declassified] for the Senate race and [dollar amount not declassified] for the Deputy contest.

The proposal has the concurrence of the Ambassador, the Deputy Chief of Mission, and the Deputy Assistant Secretary of State for Inter-American Affairs. The funds requested are not available within the Agency budget and would have to be sought from the Agency Reserve for Contingencies.

## II. *Present Situation*

As the Allende government enters its second year, it is evident that the opposition has acquired new strength and confidence. The organizations and media that are financially supported by the Santiago Station have been in the forefront of this increased resistance to the Allende regime. This new opposition spirit is evident not only in the political parties themselves, but also in professional, labor and women's organizations which are reorganizing with a new vitality and purpose. Non-Marxist forces have recently won important victories in union and student elections. The opposition newspapers, led by *El Mercurio* and including *La Prensa* of the Christian Democratic Party (PDC) and *La Tribuna* of the National Party (PN), carry a regular fare of strong editorials against the UP and extensive criticism of government policies. Opposition radio stations, the newscasts on Catholic University's TV Channel 13, and a number of weekly publications responsive to different sectors of the opposition also contribute to the increasing sense of the opposition unity which cuts across party lines.

In Congress, parliamentarians belonging to the opposition parties have united to block the passage of two bills which the government considers essential: one of these, which defines three areas of the Chilean economy (social, mixed and private), would enable the government virtually to eliminate free enterprise; the other would replace the two houses of Parliament with a single Popular Assembly. The government may call for a national plebiscite on either of these two issues. In addition, opposition parliamentarians have moved to block a Presidential attempt to dissolve Congress by tabling a bill that would make it mandatory for the President to resign and call new elections if the UP should lose a national plebiscite.

In the University of Chile, a protracted battle between Marxist and non-Marxist forces has already led to bloodshed and sparked violence in other universities throughout the country. PDC and PN youth orga-

nizations [*less than 1 line not declassified*] have led the forces supporting the Rector of the University against the government. This power struggle is still unresolved, but the opposition is pushing for a University plebiscite on 21 December.

Opposition parties are also cooperating with Chilean businessmen in a campaign to try to stop the government from taking control of the nation's largest paper company. State control of newsprint could mean the end of the free press in Chile, and an opposition "Freedom of Expression" fund has been set up to buy paper company shares, while a massive publicity campaign urges the company's shareholders not to accept the government's offer to buy their shares at higher than market prices. This was the first organized public effort to oppose the Popular Unity program, and preceded the 1 December women's march. This march, which was organized by the opposition to protest food shortages and the climate of violence in Chile included some 30,000 women of all ages and social strata. Independent women's groups [*1 line not declassified*] participated in the march along with PN and PDC women's organizations. The peaceful marchers were attacked by rock-throwing UP supporters and dispersed by police tear grenades; repercussions have been so great that a State of Emergency has been declared in Santiago Province. The three radio stations controlled by the opposition were closed by the government, but reopened on 2 December.

While the political opposition has become increasingly bold, unified and effective, the government has begun to suffer the consequences of its own economic policies. Shortages of basic commodities, particularly food products, have become a major political issue, and these shortages are expected to become more severe in the first quarters of 1972. Internal dissensions between the parties comprising the Popular Unity coalition and a bitter power struggle within the Socialist Party have added to the problems facing the government, which is having increasing difficulty in controlling its more radical supporters, especially the Movement of the Revolutionary Left (MIR). The MIR and other extremist groups are agitating for violent confrontation with non-UP forces, a confrontation they believe is essential to win the power necessary to carry out the UP revolution.

### III. Proposal

It is proposed that funds [*less than 1 line not declassified*] be made available to support the opposition party candidates in the two by-elections which will be held on 16 January 1972. There will be only one opposition candidate in each race: Rafael Moreno of the Christian Democratic Party (PDC) will compete for the 5th Senatorial District area which represents the provinces of O'Higgins and Colchagua and was left vacant by the death of PDC Senator Jose Isla. Sergio Diez of the

National Party (PN) will run for the seat in the Linares District left vacant when PN Deputy Carlos Avendano fled to Australia. Although neither the PDC nor the PN will openly endorse the other's candidate, there is an agreement that both parties will covertly support each other's candidates in the two by-elections. The small Democratic Radical Party (PDR) will also support both of these candidates.

An analysis of past voting patterns in the by-election areas covered indicates that both races will be close. The 5th Senate District statistics give the UP candidate, Socialist labor leader Hector Olivares, an even chance for election, so that the outcome may well be decided by the intensity of effort as well as the effectiveness of the campaign strategy and tactics employed by the opposition. In Linares, a statistical analysis slightly favors the UP candidate who is the sister of Chile's first agrarian reform "martyr". Both districts are primarily agricultural areas which have been the scene of recent violence as the result of illegal land occupations. Thus, the elections will be held in a political climate which is increasingly tense and polarized. A large anti-UP vote is essential to provide tangible evidence of the government's unpopularity and to maintain the momentum and cohesion of opposition forces. The loss of these elections would check the forward impetus of the opposition, but may not be too disheartening provided that a strong opposition showing is made.

*A. Fifth Senatorial District (O'Higgins and Colchagua Provinces)*

The opposition candidate in this district, where there are approximately 155,000 registered voters, is Rafael Moreno Rojas, a 35-year-old agricultural engineer. Moreno was only 28 when he was appointed by former President Frei to the highest office of the Agrarian Reform Corporation (CORA) which carried out the PDC's agrarian reform program. Because of CORA's function (expropriating lands which had not been used efficiently and turning them over to the campesinos), Moreno has been a target of past criticism by the PN. Moreno is, however, well-known and popular in the district and can be expected to be a strong contender for the uncommitted swing vote, particularly in rural areas. Moreno was unanimously nominated by the PDC National Council as its candidate on 17 November and has already begun his campaign which is being coordinated by Ricardo Valenzuela, the remaining PDC Senator from the district.

Moreno's opponent will be Socialist Hector Olivares, president of the Copper Workers' Confederation who is currently a Deputy from O'Higgins Province. Olivares, who has long been a top labor leader at the El Teniente copper mine, is expected to be a potent candidate. He is familiar to the electorate and has proven voter appeal in O'Higgins, where he finished second among the six successful parliamentary can-

didates in the 1969 Congressional elections. Olivares' personal popularity, coupled with the fact that the Socialist Party is the strongest of the UP parties in both O'Higgins and Colchagua Provinces, means that Moreno will face the strongest possible competition.

#### *B. Linares District*

Carlos Avendano, the PN Deputy who fled to Australia, continued to draw his salary as Deputy for a full year after his departure—the time when he was required by law either to appear in Congress or to resign from office. This fact will undoubtedly be played to the hilt by the UP, so that the PN candidate in this district starts with a handicap. The PN, however, has come up with a candidate who is well liked by all the opposition parties and who can mobilize their support: Sergio Diez Urzua, a 46-year-old lawyer and university professor who was a Deputy from 1957 until 1965. Diez' candidacy was officially announced on 1 December, and the campaign began immediately with a rally and press conference. Diez has named his brother, a member of the PDC, to be his campaign manager and enlisted Silvia Alessandri, niece of the former President, to handle the women's vote. There are approximately 56,000 registered voters in Linares.

Diez' campaign organization will include "Committees for Democratic Unity" in district wards. Radio time has already been contracted for, and plans made for street and wall writing, slogans, and press publicity. Basic themes will be land for the people who work it, defense of the "little" man, independence of the commercial sector from state control, and anti-Communism. Diez will attempt to emphasize points of similarity between his stance and that of Moreno in the 5th Senate District. In addition to Diez' own campaign, the PDC will be working independently through its own provincial organizations to insure a maximum PDC effort on Diez' behalf.

Strong PDC support will be essential to Diez, since the UP candidate will be Maria Eliana Mery, whose brother Hernan, then a young PDC leader and local chief of the Agrarian Reform Corporation (CORA), was killed by land owners during an April 1970 expropriation scuffle. Miss Mery represents the Organization of the Christian Left (OIC) which split from the PDC in early August 1971 and which has just formally joined the UP. Miss Mery will presumably run as an independent, since the OIC has not been registered as a party long enough to be able to run a candidate in its own right. Although Miss Mery is an unknown quantity as a campaigner, the UP is evidently counting on the aura of her surname in a rural constituency where a high proportion of the voters are campesinos. Her candidacy also represents a clever UP effort to split the PDC vote and to create tensions between the PDC and the PN in both by-election districts.

IV. [*less than 1 line not declassified*]

[*1 paragraph (24 lines) not declassified*]

V. *Coordination*

This proposal has the concurrence of the Ambassador, the Deputy Chief of Mission, and the Deputy Assistant Secretary of State for Inter-American Affairs.

VI. *Cost*

The cost of this proposal is [*2 lines not declassified*].

VII. *Recommendation*

It is recommended that the 40 Committee approve funds in the amount of [*dollar amount not declassified*] to support the two opposition candidates in the 16 January by-elections.

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## 94. Memorandum of Conversations<sup>1</sup>

Washington, December 1 and 9, 1971.

### PARTICIPANTS

Pedro Ibanez, National Party Senator from Chile  
Arnold Nachmanoff, NSC Staff  
Ashley C. Hewitt, NSC Staff

### SUBJECT

Chile

Senator Ibanez called twice, once on Ashley Hewitt and once on Arnold Nachmanoff. Mr. Hewitt sat in on the meeting between Mr. Nachmanoff and Senator Ibanez. In the course of both interviews, Senator Ibanez made virtually the same presentation. He explained in some detail the campaign of the Allende Government against the oppo-

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<sup>1</sup> Summary: Chilean Senator Pedro Ibáñez of the National Party informed NSC Staff members Nachmanoff and Hewitt about President Salvador Allende's strategy of attempting to squelch the opposition media in Chile. The NSC officials told Ibáñez to keep the U.S. Ambassador in Chile apprised of Allende's strategy.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret. The meetings took place in Room 380 of the Old Executive Office Building. The memorandum was sent to Kennedy by Hewitt under cover of a January 4 memorandum.

sition, especially the opposition media, indicating that the government's tactics are to squeeze off sources of financing one after another until it is no longer possible to conduct an effective opposition. The Senator emphasized the importance of opposition media to maintaining effective opposition, and said that if the government is effective in emasculating the opposition media, all hope of eventually replacing the Allende Government by peaceful and democratic means vanishes.

Senator Ibanez underlined the importance of the media at the present time due to the upcoming by-elections in January 1972. This election will be the first time the opposition will be able to register its strength since the municipal elections of last April. He added that unfortunately the government's tactics of squeezing off sources of financing are having considerable success, and advertising in the opposition media has virtually vanished.

Without actually framing an explicit request, Senator Ibanez strongly suggested that financial assistance from the US to the opposition would be highly desirable at this time. He asked if the proper place to explore problems of this kind was with our Ambassador in Santiago, or here in Washington.

Both Mr. Nachmanoff and Mr. Hewitt listened sympathetically to Senator Ibanez' presentation, indicated concern with the problems faced by the opposition in Chile, and promised that the information and views he conveyed would be brought to the attention of the proper people in the government. In response to Senator Ibanez' question about the proper place to raise problems of this kind, both Mr. Nachmanoff and Mr. Hewitt indicated that the opposition should, by all means, stay in touch with our Ambassador in Santiago and see that he understands the problems being encountered by the opposition. Mr. Nachmanoff and Mr. Hewitt did not comment further on this question.

**95. Attachments to a Memorandum From the Chairman of the Interagency Committee on Debt Renegotiation (Weintraub) to the Senior Review Group<sup>1</sup>**

Washington, undated.

ATTACHMENTS

- Annex A: Analysis of the Chilean Request for Debt Rescheduling: Assumptions and Issues
- Annex B: Background Paper on the Chilean Internal and External Situation
- Annex C: (1) Letelier Memorandum on Debt Rescheduling of November 29  
(2) Chilean Embassy Complementary Memorandum of December 8
- Annex D: Memorandum of Conversation between IBRD and IMF on Chilean Debt
- Annex E: Responses of Major Creditors to Chilean Request for Debt Rescheduling
- Annex F: Proposed terms of U.S. Banks' Rescheduling Agreement with Chile
- Annex G: Tables

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<sup>1</sup>Summary: These attachments to a January 12, 1972, memorandum from Weintraub to the Senior Review Group provided analysis and background of the Chilean request for bilateral talks to reschedule Chile's external debt and outlined the status of the Chilean economy, U.S. objectives for the talks, and the proposed conduct of the negotiations.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VII. Secret and Confidential. Weintraub's memorandum (Document 286, *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973) and attachments were sent through Meyer and distributed to Kissinger, Irwin, Connally, Nutter, Moorer, and Helms. Only Annexes A and B are published; Annexes C through G were not found.



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**Annex A<sup>2</sup>****Analysis of the Chilean Request for Debt Rescheduling:  
Assumptions and Issues**

[Omitted here is a Table of Contents.]

**A. BACKGROUND****1. *Introduction***

In conjunction with similar requests to other creditors, the Government of Chile on November 29 formally requested the United States to participate in negotiations for the rescheduling of Chile's external debt. The Chileans stated their preference for bilateral negotiations with the U.S. They also informed us that Chile had declared a unilateral moratorium effective November 12 on debt servicing, except for short-term commercial payments and those to international financial institutions. They later requested ninety day deferments from the U.S. and certain other creditors pending renegotiation of debts.

The State Department has held extensive discussions with other agencies over the past several weeks on the nature of the response which the U.S. Government should give to the Chilean request for debt rescheduling. After receiving authority from the NSC, the Department notified the Chileans that the U.S. would participate in multilateral debt discussions which are scheduled for early February in Paris. The French, as chairmen of the Paris Club of creditors, were also notified. The State Department provided data and analysis of the options to the National Advisory Council and asked the NAC to provide technical advice to the negotiators on various financial issues.

**2. *The Chilean Request***

The request for rescheduling comes at a time of serious deterioration of Chile's internal and external economic position. Chile's foreign reserves, which were approximately \$365 million a year ago, are now estimated to be slightly below \$100 million. These are expected to decline further in view of copper production difficulties in Chile, the softness of copper prices, and the growing need for imports, particularly of foodstuffs. The Chileans have estimated that about 40% of the foreign exchange earnings expected for exports in 1972 and 1973 would be required to meet external debt servicing; however, this analysis is still to be confirmed by the Paris Club creditors.

We believe that the major Chilean motivation in seeking the re-scheduling is straightforward, that is, to obtain relief from its external

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<sup>2</sup> Secret.

debt burden and thus to avoid an imminent foreign exchange crisis. We also believe that the present Chilean default on payments to the U.S. will continue if there is no debt relief, but that the Chileans wish to formalize relief through a rescheduling agreement which would allow them to maintain a certain degree of respectability in international financial markets. Finally, we suspect that the Chileans may also have in mind setting up a situation in which President Allende can blame foreign countries, particularly the United States, for internal austerity measures if the rescheduling negotiations fail.

An analysis of the Chilean internal economic and external situation is contained in Annex B.

### *3. United States Objectives*

The U.S. has approximately \$1.5 billion outstanding to Chile, of which \$920 million is owed to USG agencies and \$560 million to private creditors which is guaranteed by the Chilean Government. About \$200 million of the private creditor loans are insured by OPIC or Eximbank, so that total USG exposure is approximately \$1.1 billion.

The United States has several conflicting objectives which need to be reconciled: we do not want to help Allende any more than necessary with debt relief at a time when he faces a real economic crisis; we do not want to allow Allende to exploit our actions for his own internal and external political benefit; we want to use debt relief as a means of obtaining assurances regarding the payment of debts owed by the nationalized companies; and we want to avoid a lengthy default or possible repudiation of debts to United States official and private creditors.

The Chilean request for debt relief comes at a time of great political delicacy in our relations with Chile and the hemisphere. Ambassador Davis and the Chilean opposition forces are urging that we maintain our posture of quiet restraint and not give Allende a pretext for rallying his divided nation against a "foreign devil". At the same time, domestic opinion in the United States may be sensitive to our giving debt "relief" to a country which has recently expropriated the assets of U.S. companies without providing adequate compensation, unless it is understood that debt relief is a way of protecting our creditor interest against continued default. (We have already learned that Anaconda wishes to avoid confrontation in the debt renegotiations, preferring to use the discussions to encourage whatever progress is possible.)

Ambassador Davis has pointed out the likely adverse effects of invoking the Hickenlooper Amendment at a time when there are compelling reasons for not initiating a confrontation with Allende. Our reason for not invoking it *now* is that we believe negotiation will be more productive in protecting our economic and political interests. The basis for not invoking it is that the appeals process has not been completed. The

benefits of invoking the Amendment on the economic side would be mainly symbolic since there have been no new AID loans in almost two years and disbursements have been proceeding at a slow rate on the \$20 million remaining in the AID pipeline. The Eximbank has stopped disbursements completely as a banking measure in response to default. However, both the State Department and the Defense Department feel strongly that disbursements on military credits (amounting to \$8 million) should not be suspended so long as legally possible in view of the potential role of the Chilean armed forces as a center of opposition to Allende.

The rescheduling of debt to protect U.S. creditor interests is not considered to be assistance within the meaning of the Hickenlooper Amendment. Therefore, even if the USG were to invoke the Hickenlooper Amendment before debt renegotiations were concluded, it would not preclude us from reaching a settlement on debt.

Debt relief would appear to be inconsistent with our objective of giving Allende as little help as possible in overcoming his balance-of-payments problems. However, if Chile does not get relief, it will almost certainly continue in default on its debts to us. Therefore, the impact of debt relief on the Chilean balance of payments will be considerably less than the results of a continued default if we can obtain a reasonably tough formula through our participation in multilateral negotiations. There is a reasonable prospect that deferral of debt service can be limited to less than the three years requested by the Chileans, and possibly to less than all of Chile's principal and interest obligations during the period. In this case relief would be less than Chile could obtain through a continued default. We also believe that the level of new credits which Chile could obtain by regularizing its debts will be very much lower than in the past and will not be greatly improved, certainly with respect to U.S. creditors, as a result of our participation in a debt relief exercise.

A more detailed analysis of the impact of debt relief on the balance of payments is contained in Annex B and Table VIII. The National Advisory Council has been requested to provide additional data.

#### *4. Conduct of the Negotiations*

Our participation in a debt rescheduling exercise is complicated further by the possibility that a debt rescheduling agreement might be ready for signing before or about the time the special copper appeals tribunal in Chile will render its decision, which is expected to deny adequate compensation to the companies. It should be noted, however, that our participation in the Paris Club negotiations does not irrevocably commit us to signing an agreement with the Chileans if we later decide that it is not to our advantage to do so.

We anticipate that the rescheduling exercise will proceed at a moderate pace during the multilateral stage of the negotiations. Subsequently, assuming that the terms of debt relief are worked out in concert with other creditors, we would then have more flexibility on the pace of the bilateral discussions with the Chileans prior to signing an agreement. The expectation is that we would sign, given the total debt at stake and the external politics involved, but there might be domestic fallout in the U.S.

Any obvious efforts to slow the pace of multilateral negotiations might lead to confrontation with the Chileans and resistance from other creditors. However, the actual signature of the agreement could be delayed, if necessary, in order to observe political developments within Chile at a time when increasing austerity will probably be accompanied by growing internal dissatisfaction and unrest. In addition, a deliberate negotiating pace allows more time to assess the Chilean intent to pay its loan to Kennecott and to observe somewhat more fully the copper appeals process and the Chilean Government's final intentions regarding compensation. These issues are discussed separately below.

## B. ISSUES

### 1. *The Debts of the Nationalized Companies*

The Chileans have stated their intentions to honor the foreign debts of companies whose assets have been nationalized by the Chilean Government, although retaining the proviso that repayment of copper debts must be consistent with the terms of the recent copper amendment to the Chilean constitution.

The agencies are agreed that we should seek confirmation from the Chileans that they will repay these debts and any others which may result from future nationalization. We should inform other creditor governments early in the negotiations that debt assumption will be one of our objectives, and be prepared to adapt our tactics to their responses and the amount of support we can expect from them. The manner of our injection of this issue into the talks, and the degree to which we insist on Chilean recognition of this link at the outset, are important to the achievement of our objectives.

The USG can also seek Chilean recognition during the negotiations that all expropriation-related obligations, whether debts of nationalized companies or payments undertaken by the Chilean Government in connection with current nationalizations, should be included in Chilean public debt. By introducing nationalization costs into the discussion, it will be possible to mobilize sentiment among other creditor nations for urging restraint on Chile with regard to new takeovers, so as to avoid incurring additional external obligations during a payments crisis. It will also be possible to argue that uncertainties regarding the

size of Chile's expropriation-related obligations make it necessary to limit debt relief to only one year, until the full extent of these external obligations is known.

The debts of the nationalized companies can be divided into at least four categories by juridical and contractual status: non-copper debts owed to U.S. creditors; copper debt to U.S. copper companies; copper debt to other U.S. creditors; and copper debt consisting of promissory notes from the government Copper Corporation (Codelco) to Anaconda.

*a. Non-copper debt*

The debts of non-copper companies which have been, or which (like ITT) may be nationalized, are not covered by Chilean legislation. Since Allende has not made any public statements against these debts, there is a reasonable prospect that he would be able to reaffirm past Chilean promises to repay.

*b. Copper debt to third parties*

A provision in the Chilean constitutional amendment states that copper loans will not be repaid if a finding is made that these were not "usefully invested". (The Eximbank has received assurances from the Chilean Minister of Finance that the obligations of the mixed mining companies to it will be honored and believes Chile will agree to pay these debts on a rescheduled basis.) The U.S. banks are negotiating the terms of a rescheduling and the validity of the copper debts has not been called into question. Therefore, short of a breakdown in the negotiations, Allende will probably be willing to confirm his past commitments on these debts as part of the price for agreement on debt rescheduling.

*c. Intercompany copper debt*

The intercompany copper debt is a more difficult problem in view of a Presidential decree on December 30, 1971 suspending payment on Kennecott debt amounting to \$88 million until a three month study can be carried out by Codelco to determine whether the loans were usefully employed. This loan arises from the 1967 partial nationalization of copper when the government Copper Corporation took a 51% ownership share in the mines. Kennecott was given promissory notes which were subsequently paid off by Codelco in return for a loan of similar amount by Kennecott to the Chilean operating companies. The validity of this loan (which has OPIC insurance of \$85 million) is now being challenged.

*d. Codelco notes to Anaconda*

The promissory notes to Anaconda are closely tied to the compensation issue. These notes, amounting to \$152 million, arise from the

Chilean purchase of a majority interest in Anaconda's major mines in 1969. They are subject to special provisions under the copper amendment to the Chilean constitution which specify that the notes be honored only to the extent that a positive compensation award is made to the companies. The juridical status of these notes, therefore, is different from that of the Kennecott debt. Since Allende has already committed himself publicly to an excess profits determination which would appear to cancel out any compensation, and since the prospects of this action being reversed by the Chilean special appeals tribunal are very slim, the notes are close to being repudiated and assurance for their payment would be extremely difficult to obtain.

## *2. The Compensation Issue*

All agencies are agreed that compensation for the expropriated assets of United States companies is not a realistic objective in the context of debt renegotiations. The assessment is that it would be futile and disruptive to raise compensation as an absolute condition for debt relief since this would simply lead to a political confrontation. There is agreement, however, that every reasonable effort should be made to protect and improve the position of the expropriated companies.

By pressing for a compensation link in the context of debt renegotiations, we introduce a highly sensitive issue with a strong potential for political exploitation by Allende. We also run the risk of losing the cooperation of other creditors by introducing an issue which they may feel is primarily of bilateral significance to the United States. Therefore, the agencies are agreed that priority should be given to debt assurances, which may be achievable, rather than to compensation, which is not.

In spite of these disadvantages, the sensitivity of the compensation issue for domestic and Congressional opinion in the United States and for our overseas investment in general requires that compensation be raised in some manner during the talks. The attitude of the companies will be an important element in determining the extent to which we raise the issue.

For the reasons cited above, the agencies believe that compensation should be raised at the discretion of the negotiators when they perceive appropriate opportunities for injecting it into the talks.

## *3. Terms of the Rescheduling*

The Chileans have asked for a rescheduling of principal and interest due on both government loans and supplier credits in each of the three years 1972–74, with a grace period of three years and repayment over an additional ten years. This compares with the 1965 Chilean rescheduling which provided only for 70% of principal on supplier credits for two years, with a grace period of two years and repayment

over five additional years. Other Latin American reschedulings in recent years have been on fairly hard terms and confined largely to supplier credits. The consolidation interest rates were more or less the commercial rates prevailing at the time.

The agencies are agreed that the terms of the present rescheduling should be made as hard as possible within the limits of the Chilean ability to pay, so that Allende is forced to take responsibility for his own economic policy failings. This objective could best be served by seeking to limit debt relief to less than the period requested by the Chileans, and hopefully to less than all of the principal and interest due.

The State Department has already calculated several hundred rescheduling options on the computer, using various assumptions regarding the amount of principal and/or interest, the period of consolidation, the grace period, the repayment period, and rates of interest. A sample listing is provided in Table XIII attached.

The NAC will advise on terms and rates of interest as required.

#### 4. *World Bank and IDB Participation in a Rescheduling Exercise*

The World Bank and the Inter-American Development Bank have not, with two minor exceptions, participated in debt exercises by rescheduling their own debt, although they have at times provided additional financial assistance to countries in debt difficulty. The motivations of these institutions are to protect their credit ratings in the bond markets, and to avoid having to make up their reduced income by asking the very same creditor countries either to replenish their funds or to permit further borrowing on their capital markets.

The GOC has announced that it will not seek rescheduling of its debts to the international financial institutions, although it has indicated that it might be obliged to do so if new credits were not forthcoming from the Banks. At the moment, however, the Banks have no incentive to participate in a rescheduling, since payments are continuing on their loans.

The chief advantage of Bank participation in a rescheduling exercise is to assure equal burden sharing for all creditors. Since the Banks took the same risks in lending to Chile, the renegotiation of their loans along with other creditors would be consistent and equitable. The Banks might also adopt a tougher attitude in support of stabilization programs for Chile if their own resources were at stake, and it would establish a precedent for Bank participation in future rescheduling exercises.

All agencies are agreed with the general principle of equal burden sharing for the international financial institutions. There may be disadvantages, however, in applying this principle to the Chilean case.

Among these is the risk that it would complicate our pending legislation at a time when the appropriations outlook is unclear, and would therefore be an inappropriate time to urge the Banks to initiate a new policy which might affect their bond markets. The Banks themselves would oppose such an initiative and might be supported by a majority of other creditors.<sup>3</sup> Finally, it may not be desirable to go beyond what the Chileans have asked for, since a rescheduling of the Banks' loans would relieve Chile of about \$25 million annually in payments which it is now committed to make. This argument may not be sustainable if the terms of the rescheduling agreement can be varied so that overall payments remain about the same.

The NAC has been asked to advise on this issue.

#### 5. *IMF Participation in the Negotiations*

All agencies are agreed that we should seek a major role for the IMF in the debt renegotiations and press for a tight stabilization program, preferably supported by a standby arrangement. The IMF has been involved in most rescheduling exercises in the past, and has been instrumental in formulating new credit policies, including stabilization programs for the debtor country. Of the seventeen reschedulings thus far, fourteen involved a standby for the debtor country.

The Chileans have already stated that for political reasons they are unwilling to request a standby if it means submitting to the discipline of the IMF and making commitments to the Fund regarding their internal economic policies. They have agreed, however, to "cooperate with the Fund in an effort to find appropriate solutions for the balance-of-payments difficulties". An IMF mission departed for Chile on January 3 to advise on the balance-of-payments problem, but it is not yet clear what role it will take in the debt rescheduling exercise.

Early indications from other creditors—notably the French, Germans, Italians, Belgians and Swiss—indicate that they will also seek IMF participation and a stabilization program, preferably but not necessarily supported by a standby, as a condition for rescheduling.

The NAC will advise on this issue.

#### 6. *Acceleration provisions in Eximbank copper loans*

The Eximbank has acceleration provisions in its loans to the copper companies which are tied to cash flow and net profit levels. These provisions are activated if certain conditions are met, with the result that amounts due for repayment during the next three years could be sub-

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<sup>3</sup> Thus far, five other creditors have indicated their desire to have the World Bank participate, but without specifically indicating whether as an observer or as a partner in rescheduling. [Footnote is in the original.]



stantially increased. The significance of these provisions and their possible impact on the debt rescheduling negotiations is being considered by the National Advisory Council.

7. *Eximbank's preferred position vis-à-vis private creditors whose loans are insured by OPIC*

The Eximbank is a senior creditor on loans to the nationalized copper companies. The subordinated creditors are insured by OPIC and a decision by the Eximbank to assert its seniority rights is one of many factors that could affect the extent of OPIC's liability to the copper companies. The NAC has been asked to assist in clarifying the technical aspects of this issue.

## Annex B<sup>4</sup>

### Background Paper on the Chilean Internal and External Situation

[Omitted here is a Table of Contents.]

#### 1. *The Chilean Economy*

The balance-of-payments outlook for Chile for the remainder of this year and for 1972 indicates that Chile is facing an extremely difficult situation. An anticipated decline in export earnings due to falling copper prices and reduced output levels will cause the debt service ratio to rise much higher than the 22% originally forecast for 1971.<sup>5</sup> In addition, the rapid increase in imports and the decline in capital inflows during the last 12 months are expected to reduce net international reserves from \$367 million in December 1970 to less than \$100 million at the end of 1971 (not counting IMF and SDR positions). A continuation of the present trends would create strong pressures on remaining reserves during 1972, and for this reason the Chilean Government is taking severe measures to protect its balance-of-payments position.

Even before the Allende Government came to power, it was clear that Chile's balance-of-payments position was headed for serious difficulties. Since then, the Allende government's actions and world reactions have served to worsen considerably this balance-of-payments outlook. Chile's investment atmosphere has become clouded by expropriations and interventions, and private sector confidence has been af-

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<sup>4</sup> Confidential.

<sup>5</sup> The Chileans anticipate that the debt service ratio will exceed 40% in 1972 and 1973, although these figures have yet to be substantiated by an independent source. [Footnote is in the original.]

fects by continuing uncertainties regarding the future policies of the Government. This uncertainty has affected both domestic and foreign investors alike, and they have reacted by cutting back drastically on planned increases in investments. Allende's wage and income redistribution policies, involving a freeze on prices and a 30% across-the-board increase in wages, have affected the profitability of investment in Chile, and the demand for goods and services is far outstripping the economy's ability to produce. In 1971 excess demand was satisfied in part through increased import levels, but the drain on reserves combined with declining export levels has led to the current balance-of-payments crisis.

Chile's balance of payments difficulties in 1972 will be worsened by several domestic problems. The continuing shortfall in agricultural production will add to import demand. The domestic incomes policy and government deficits will continue to stimulate demand, domestic inflation, and again import demand. Despite rigid price controls, an inflation rate of about 20% for 1971 is predicted. Private investment—both domestic and foreign—has fallen off noticeably during the last two years and will have to be stimulated or replaced with public investment. In either case, a rise in the level of investment will require additional imports if production levels are not to be seriously affected in 1972. Finally, the oft-cited need for worker discipline and greater productivity is critical in the copper sector which provides 80% of the necessary export earnings, as well as in industries with a high potential for import substitution. In contrast to 1971, the shortage of foreign exchange in 1972 will determine to a far greater extent the range of economic policy options open to Allende, dictating in most cases the need for greater economic controls.

For this reason Allende has been forced to adopt several extreme economic measures which will adversely affect his domestic political position. These measures include the further restriction of consumer and producer imports, the formal devaluation of the escudo which will stimulate inflationary pressures,<sup>6</sup> and the suspension of service on foreign debt which, in the absence of regularization through debt rescheduling, may lead to a decline in foreign credits and additional constraints on Chile's ability to import.

An important source of potential relief for Allende's problems could come in the form of new credits, but the outlook is far from optimistic. In 1971, disbursements were expected to be \$442 million, of which \$240 million were from private creditors. However, new credits

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<sup>6</sup> Chile devalued its bankers exchange rate by approximately 30% effective December 13. A multiple exchange rate governing merchandise transactions was instituted in place of the former rate of 12.21 to the dollar. (Table VIII) [Footnote is in the original.]

from international banks and Western official sources have declined in 1971 and disbursements from the pipeline in 1972 will be substantially reduced. The outlook for increased flows from government or private sources under present circumstances is not good, unless the Socialist countries step in to fill the gap.

## *2. Credits from Socialist Countries*

Over the longer run credits from Socialist countries could be useful in providing machinery and raw materials but it is unlikely that such credits will reach anywhere near the level of Western credits in recent years. Moreover, the price of converting to Eastern bloc suppliers will be high because of unfamiliarity with bloc trading arrangements, the lower quality of capital equipment and the unavailability of required spare parts. It is not even certain that the Socialist countries will be willing to undertake the potentially high cost of underwriting Chilean foreign trade, although several new credits have been negotiated recently by these countries with Chile.

According to a CIA report, the three Russian commercial banks in London were recently instructed to make available \$50 million for six months to the Chileans. In addition, the Department of Commerce reports that supplier credits have been negotiated with Poland for \$35 million and Hungary for \$15 million, and a long-term loan for mining equipment and technical assistance has been signed with Bulgaria for \$20 million. Direct investments totaling \$70 million are planned by Czechoslovakia, Romania, and Hungary.

## *3. The Chilean request for debt relief*

On November 9 President Allende announced his government's intention to seek a renegotiation of Chile's outstanding foreign debt, and on November 29 the Chilean Ambassador submitted a formal request for debt rescheduling to the United States. The Chileans informed us that they had suspended debt service on November 12 on all obligations to major creditors with the exception of short-term commercial debts and obligations to the World Bank group and the Inter-American Development Bank. Debts to minor creditors "which by virtue of their insignificant amounts have little importance in terms of the service of the country's foreign debt" will also be excluded. The countries concerned are mainly in Latin America.

The creditor countries with which Chile wishes to renegotiate its debts are listed in Annex C-2. A notable omission from the list is the Soviet Union, which has larger scheduled repayments in 1972-74 than at least seven of the "major" European creditors. It is not clear whether the Soviet Union will be approached for debt rescheduling, but according to an informal report from an IMF official, the Chileans would

like the USSR to participate, perhaps in the form of program loans (Annex D).

The Chileans are also approaching private creditors for rescheduling, and a meeting was held on December 14 with 43 United States banks in New York under the joint Chairmanship of First National City Bank and the Bank of America. The Chileans proposed a three year grace period on maturities falling due in 1972–74, followed by seven years repayment. The banks replied that this would be unsatisfactory and made a counter-proposal which is summarized in Annex F. We are keeping in contact with the banks.

With regard to current payments, the Chileans failed to make two interest payments to AID amounting to \$223,000 which fell due before the November 12 cut-off date. They subsequently promised to make these payments and to make exceptions of two more small interest payments amounting to \$207,000 which fell due after November 12. They then asked for a ninety day deferment which AID declined, and the payments have not yet been made.

On November 30, the Chileans defaulted on a payment to the Eximbank, and on December 7 the Eximbank suspended disbursements, insurance, and guarantees to Chile. The Department of Agriculture was asked to defer repayments due on December 31 for ninety days, but declined in view of the pending debt renegotiations.

#### *4. Terms of the Chilean Proposal*

The Chileans have suggested a rescheduling of principal and interest due in each of the three years 1972–74 (plus apparently the last six weeks of 1971 after the November 12 cut-off date) with a grace period of three years and repayment over an additional ten years. This compares with the 1965 terms which provided for rescheduling of 70% of principal *only* for two years, with a grace period of two years and repayment over five additional years (Table XI). The Chileans may wish to draw parallels with more generous rescheduling agreements involving the United States, and in this connection we have learned that they are asking the IMF about the terms of our recent agreements with Yugoslavia and Egypt.

A preliminary repayment schedule has been calculated on the basis of the Chilean proposal and is presented in Table XIII along with other possible schedules for repayment.

#### *5. The Response of Creditors to the Chilean Request*

We have received reports from most of the major European creditors that the GOC has also formally approached them for debt relief. The Chileans apparently did not put forward specific proposals, but offered to send a mission in mid-December to negotiate on a bilateral

basis. The comments of major creditors on various issues are shown below.

*a) Multilateral versus Bilateral Negotiations*

All of the ten creditor countries that have consulted with us favor multilateral negotiations, at least in the early stages. (Annex E) Japan stated that it probably would prefer multilateral talks, but its decision would be influenced by the position taken by the United States.

Likewise, all of the seven countries that expressed an opinion on US attendance favored US participation in the multilateral negotiations. The most extreme position on this subject was taken by France. It stated that multilateral negotiations could not take place without US participation. This categorical statement was based on France's impression that Germany also would not take part if the US did not participate. Germany, however, although publicly stating to Chile that negotiations would not be possible without US participation, said in private to US officials that it would not rule out multilateral negotiations which excluded the US, if the US and Chile preferred separate bilateral talks.

*b) Participation of IBRD and IDB*

Five of the creditor countries preferred participation by the international financial institutions (IFI's), although it was not clear in some cases if the countries expected the IFI's to renegotiate their loans to Chile, or only to attend the meetings as observers.

Germany felt that the IBRD should participate in the meetings, and not just as an observer. France, Italy, Belgium, and Switzerland also favored participation by the IBRD, but did not make clear whether they expected the Bank to reschedule its loans or simply to participate as an observer.

France, Belgium and Switzerland mentioned that the IDB should participate in the meetings. The other countries did not single out the IDB.

*c) Participation of the IMF*

France and Germany felt that the GOC should negotiate a stabilization program which included a standby agreement with the IMF. Belgium, Italy and Switzerland also preferred that the IMF participate in the meetings although a standby agreement was not mentioned.

*d) Suspension of Debt Service*

Only Germany appears to have been advised by the Chileans that debt service payments were suspended on November 12. Belgium, Canada, and Japan, however, have informed us of overdue payments to private or public creditors. The Belgian creditor was told that the

payment, due on October 24, was being included in the debt negotiation. The Japanese firm was requested to extend the November 30 due date by 90 days.

None of the countries has stated that Chile should resume servicing its debt as a precondition to the renegotiation meetings (although as mentioned above only Germany was informed that Chile had suspended its payments). France was specifically asked to agree to a moratorium on payments until January 31, 1972, but refused on the grounds that this kind of step could only be taken in the framework of multilateral negotiations. Italy stated that by law it would be required to suspend disbursements if repayments were suspended. No other country expressed an opinion on this subject.

*e) Response to the Paris Club Invitation*

We have already been approached informally by the French Government which is proposing to reactivate the Paris Club as a multilateral forum for the discussion of Chile's debt problem. The French suggested a meeting of creditors for late November, which we and other creditors indicated would be premature. They are now thinking of a meeting in early February. Thus far Italy, Canada, the Netherlands, and Switzerland have indicated that they would respond favorably to such an invitation. The Chileans have also indicated willingness to participate now that the creditors have expressed their preference for multilateral negotiations.

*6. Amounts due to United States and other foreign creditors*

At the end of 1970, Chilean external public debt amounted to over \$2.6 billion (including undisbursed and amounts due from prior nationalizations). The U.S. is by far the largest creditor with almost \$1.4 billion outstanding or 57% of the total. This amount includes loans from USG of approximately \$900 million. The remainder is due to private banks, suppliers, other financial institutions, holders of Chilean public bonds, and holders of Codelco notes arising from past nationalizations. (Table I–A)

During the next three years, 1972–74, Chile is scheduled to repay almost \$500 million to public and private creditors in the U.S. Debt service during the period will amount to 32% of total loans outstanding, which is lower than the proportion due to other major creditors in almost every case, reflecting the more favorable terms of United States credits. The higher ratio for other creditors also means that they will have to postpone a larger proportion of their credits in a rescheduling.

Repayments to United States Government agencies are scheduled to be \$236 million during the period November 12, 1971 to December 31, 1974. Eximbank is the major creditor agency in terms of repayments

falling due during the period (80% of the total), although AID has a larger outstanding balance. (Table III) In addition to direct credit obligations, Exim has guarantees and insurance outstanding of \$31 million, and OPIC has insured debt obligations amounting to \$162 million. These amounts, added to direct credits outstanding from the USG of \$892 million as of June 30, 1971 give a total exposure of \$1.1 billion.

*7. Eximbank, OPIC and private creditor exposure in Chilean copper companies*

Two of the most critical issues in our relationship with Chile are the compensation for US companies whose assets have been expropriated and the assumption by the Chilean Government of debts owed by the nationalized companies. The Gran Minería copper companies alone have \$400 million in equity at stake,<sup>7</sup> plus \$118 million in intercompany debt and \$152 million in unpaid Codelco notes from the 1969 nationalizations. (Table V)

In addition, the major copper companies in Chile have other obligations to foreigners amounting to \$375 million, of which \$183 million is owed to Eximbank and about \$95 million to private US banks.

OPIC also has a major interest in the assumption of debts—both copper and otherwise—by the GOC. It has almost \$100 million in debt coverage on intercompany copper loans (not counting \$11 million debt coverage in dispute with Anaconda), as well as \$60 million in additional insurance on private debt obligations of other Chilean public and private borrowers. (Table IV)

*8. Military Credits to Chile*

The Defense Department has a long standing link with the Chilean military and still has a modest FMS credit program that initially had a total value of \$23 million. (Table III–A)

To date, approximately \$15 million of this total amount has been disbursed by DOD agencies leaving an undisbursed balance of \$8 million. Against this \$15 million disbursement, a total of \$6 million has been repaid, leaving a total current outstanding debt of \$9 million, and a potential future disbursement of \$8 million. Thus, the potential total Chilean debt under current FMS credit arrangements is \$17 million. Chilean payments against the current outstanding debt are on schedule.

The Chileans have not indicated any intention to reschedule military debt to the United States, and the Defense Department believes

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<sup>7</sup> Includes \$100 million in revaluations by Kennecott–Braden. [Footnote is in the original.]

that Allende will continue to supply foreign exchange for the servicing of Chilean military debt.

#### 9. *The Role of the IMF*

The Chileans have drawn their gold tranche of \$39.5 million, but have indicated that for political reasons they are unwilling to utilize their credit tranche or request a standby. The Chilean quota of \$158 million allows them to draw up to another \$39.5 million in the first credit tranche, if they submit to the discipline of the IMF and make commitments to the Fund regarding their internal economic policies. This the Chileans are unwilling to do, although they have recently obtained a drawing of \$39.5 million from the IMF under the compensatory financing facility to help cover the anticipated decline in copper exports.

#### 10. *The Impact of Debt Relief on the Chilean Balance of Payments*

Debt relief is designed to salvage the maximum level of repayment possible for US creditors when the alternative would be total default. Since Chile is already in default and is likely to remain so until a rescheduling agreement is signed, debt relief in some form will be needed to bring about a resumption of payments.

The effect of the Chilean balance of payments will depend on the duration of the present default, the terms of the rescheduling, and the level of new credits that Chile can expect to receive. It is clear that the Chileans will obtain balance-of-payments relief whether there is agreement on rescheduling or not, since a default would have much the same effect as debt relief if obtained on the terms they have requested. The main questions are how much debt relief Allende can obtain, and what effect a continued default would have on Chile's international credit standing.

##### a) *Debt relief*

If Chile can obtain debt relief on the terms it has suggested it could defer almost \$900 million in principal and interest over the next three years,<sup>8</sup> of which half would be due to the United States. This assumes that the creditors will agree to these terms, which are considerably more generous than those agreed upon in the 1965 rescheduling. It is more likely that the creditors will insist on a more limited term with only partial debt coverage which would limit the scope of relief and require corrective policies before further relief could be considered.

If a rescheduling agreement is reached, the Chileans could expect to maintain some degree of respectability in international financial

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<sup>8</sup> This amount would be reduced by payments of consolidated interest, which, at an assumed 6% rate, would be about \$50 million. [Footnote is in the original.]



markets. However, the flow of new credits is unlikely to match the amounts which Chile has obtained in recent years. The 1970 level of \$372 million<sup>9</sup> included \$145 million in credits from public and private creditors in the United States. The level of new credits from this source will be negligible whether Chile reschedules or not, and for this reason Chile might benefit more from a selective default on United States obligations than it would from a rescheduling. The same reasoning does not apply to European creditors where the flow of private credits might continue or even expand to fill the gap left by the United States if Chile successfully reschedules.

b) *Default*

If the Chileans fail to obtain debt relief, they will probably continue to default on payments and thereby obtain relief in any event, but at the cost of losing a large part of the foreign credits (and disbursements from the pipeline) which would otherwise have been available from traditional sources. Any attempt to estimate the flow of new credits into Chile in the next three years would be highly speculative. However, it can be assumed that a total default, which would save Chile \$300 million a year in debt service, would be somewhat counterbalanced by a decline in new credits from all sources, unless the Chileans can obtain additional credits from the Socialist countries.

The attached Table XIII shows the level of debt relief which Chile could obtain under various rescheduling assumptions.

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<sup>9</sup> Includes \$41 million new credits from international financial institutions and Latin American creditors, which have been excluded from Table XIII because Chile does not intend to reschedule debts to these countries. [Footnote is in the original.]

**96. Central Intelligence Agency Intelligence Information Cable<sup>1</sup>**

Washington, January 15, 1972.

## COUNTRY

Chile

## DOI

11 January 1972

## SUBJECT

Continuing Preparations by General Canales for a Coup Attempt Against the Chilean Government; Claim by Canales of Increased Capability for a Coup

## ACQ

Chile, Santiago (12 January 1972)

## SOURCE

*[4 lines not declassified]*

TDCS DB–315/00374–72. Summary. On 11 January Army General Canales declared that his military coup movement is ready to move against the Chilean Government at any time. He stressed, however, that a valid reason must exist for any such move, in order to ensure that the subsequent military government would be accepted by a majority of the civilian population. Canales claimed that his capabilities to carry out a successful coup have increased during the past two months, despite the attempts by the government to remove those officers who are considered to be opposed to the present regime from important commands in the Santiago area. Canales made some references to the support he enjoys among the Chilean military and revealed that his tactical plans simply call for the implementation of existing contingency plans, with which the army unit commanders are already familiar. End summary.

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<sup>1</sup> Summary: This cable reported that Chilean Army General Canales declared that his military coup movement was ready to move against the Allende government. In order for the military government to be accepted by the civilians, however, there needed to be a valid reason to overthrow the administration.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VII. Secret; No Foreign Dissem; Controlled Dissem; No Dissem Abroad. Distribution of the cable was limited to Kissinger in the White House, Cline in the State Department, and Lieutenant General Bennett in DIA. A covering memorandum from Latimer to Kissinger stated, "The attached CIA report calls attention to contingency coup plotting by a Chilean general. The CIA station chief does not believe General Canales will attempt a coup in the immediate future but he is ready to move at any time that a suitable pretext occurs."

1. In a conversation [*less than 1 line not declassified*] on 11 January 1972 General Canales, former Director of the War Academy, declared that the Chilean armed forces are ready to take over the Chilean Government at any time. However, he stressed that the military must wait until a very valid reason exists in order that the subsequent military government would be accepted by a majority of the civilian population.

2. In discussing possible pretexts, Canales mentioned that he would consider it sufficient justification should a number of deaths occur as a result of conflicts between opposition and government forces in the 16 January special by-elections, should the government lose the by-elections and then refuse to abide by the results, or should the government use subterfuge to avoid or refuse to abide by a possible adverse decision by the constitutional tribunal which is considering the constitutionality of Allende's appointment of Jose Toha as acting Minister of Defense.

3. (Field comment: The special by-elections entail the election of a Deputy from Linares Province and a Senator from Colchagua and O'Higgins Provinces. There is no indication that the government would refuse to accept the electoral results. Former Interior Minister Toha was automatically suspended from his position upon the approval by the House of Deputies of the impeachment charges against him. The charges are now to be considered by the Chilean Senate. On 7 January, the day following the House action, President Allende appointed Toha acting Minister of Defense. The political opposition considers this action unconstitutional and has announced that it will ask that the special constitutional tribunal be constituted to consider the case. A field grade officer who is well informed on internal army politics [*less than 1 line not declassified*] commented on 13 January that the Toha episode has not created much of an impact within the army.)

4. Canales said that should his coup plans come to fruition, his tactics will simply be to put into operation one of the existing military contingency plans, with which all unit commanders are familiar. (Source comment: Canales did not reveal what plans he has to seize the Ministry of Defense and its communication facilities in order to be able to issue the necessary orders to implement the contingency plans.)

5. Canales also remarked that his capabilities within the army to mount a successful coup are greater at the present time than they were two months ago, despite the fact that the recent, end-of-year changes in military assignments were studied carefully by the U.P. government and, within its capability, were made with the political expedient in mind of removing from key positions those officers who are known to be opposed to the regime. He mentioned that his own removal from the War Academy and that of Colonel Carlos Forrestier from the Infantry School are examples of the governmental maneuvering.

6. Nevertheless, Canales claimed to have the unconditional loyalty of about 80 middle grade officers, as a result of his two years at the War Academy, plus most of the officers who served with him on the faculty of the Academy, many of whom now command regiments. Specifically, Canales said that Colonel Luis Joaquin Ramirez Pinedo, the new Tacna artillery regiment commander, who was his deputy at the war college; and Colonel Felipe Geiger, new Buin infantry regiment commander, will support him in any coup effort. He added that Colonel Leonil Konig Altermatt, who replaced Colonel Forrestier at the Infantry School, is an excellent officer and is opposed to the regime; however, since Konig has just recently come to Santiago, Canales said he has not had time to bring him into his coup movement. Canales remarked that his biggest problem at the present time is not the enlistment of additional support among key regimental commanders, but rather the ability to restrain his supporters until the proper time and to prevent any premature action.

7. Canales did lament the upcoming transfer of Admiral Luis Eberhard, former Commander of the First Naval Zone, to Washington, D.C., since he had been counting heavily on Eberhard, who had 10,000 sailors and marines under his command, to take over and hold the port city of Valparaiso. However, Canales said that he intends to confer with Eberhard before his departure to see who can be brought in as a replacement. (Field comment: Admiral Jose Merino is Eberhard's replacement as head of the First Naval District.) (Source comment: Admiral Daniel Arellano, who is scheduled to replace Merino as fleet commander, is a weak officer with a drinking problem. Arellano refused to cooperate in the abortive coup attempt in October 1970 which was designed to prevent Allende from being named President of Chile.)

8. (Field comment: The foregoing information is still largely insufficient to make an accurate judgment on the extent of his movement or the probability of success, should he launch a coup. However, the foregoing does indicate that Canales himself feels confident of his capabilities and is marking time until he is presented with the required pretext with which to justify his actions. [less than 1 line not declassified] TDCS-314/14007-71, and [less than 1 line not declassified] TDCS DB-315/00139-72, from a source whose reliability has not been fully tested, reported that Lieutenant Colonel Carol Urzua, Commander of the Puente Alto Engineering Regiment, was involved in military coup plotting. The latter reference indicated that the plotters were also looking for the necessary pretext for their coup attempt. Since Urzua has been reported in the past to be a follower of Colonel Carlos Forrestier, who is considered to be General Canales' right-hand man, there is a possibility of a connection between the Urzua plotting and that of

General Canales. Because Canales is apparently only waiting until a suitable pretext is present before launching his coup attempt, the attempt could occur at any time; however, barring some political miscalculation by President Allende, or a sudden outbreak of violence between the left and the right in Chile, it is not expected that Canales will attempt to move in the immediate future.)

9. Field dissem: Embassy (Ambassador only) at Santiago.

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**97. Conversation Among President Nixon, Secretary of the Treasury Connally, and the White House Chief of Staff (Haldeman)<sup>1</sup>**

Washington, January 17, 1972.

[Omitted here is discussion of foreign economic policy and other matters unrelated to Chile.]

Nixon: Did you notice in the news summary this morning that Allende had a hell of a setback in this election?

Connally: He lost two parliamentary elections.

Nixon: What do you think of that?

Connally: That's great.

Nixon: Now—

Haldeman: They were billing that as very significant. He was fighting like hell.

Nixon: We must not say anything. He wasn't—

Connally: Well, I—this brings up a point.

Nixon: Yeah.

Connally: And I've got a memorandum on the way in.

Nixon: Yeah. Yeah.

Connally: We've got a meeting in Paris—

Nixon: Yeah.

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<sup>1</sup> Summary: Nixon, Connally, and Haldeman discussed recent Chilean elections and the Chilean debt problem.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 469–1. Sensitive But Unclassified. According to the President's Daily Diary, Nixon met with Connally and Haldeman in the Oval Office from 4:05 to 6:33 p.m. (Ibid., White House Central Files) The editors transcribed the portion of the conversation printed here specifically for this volume.

Connally: —the so-called “Paris Club,” where we deal with the Chilean credit, whether or not we let them renegotiate their debts.

Nixon: Yeah.

Connally: They’ve been up here talking. Now, here again—normally, you’d think this clearly fell within the Treasury’s provenance, but State’s asserting jurisdiction over it. As a matter of fact, Weintraub at State has already told the Chilean Ambassador that we’re not only going to Paris, but we’re going to, we’ll renegotiate, before we ever get there.

Nixon: Well, they ought to—the son-of-a-bitch is not supposed to do that, because I’ve issued an order through Kissinger a day ago. You know about the order that you and I had—and when I say “ordered”—

Connally: That’s right.

Nixon: I told Henry, at the time Allende came in, we were not to do a damned thing to help him. Absolutely nothing! Now, is this—I don’t want to get Henry involved, because he’s in enough fights with State at the moment.

Connally: No, Henry shouldn’t have to even fight it—

Nixon: Look, I’ll just say—let me say, John, I am totally opposed to it.

Connally: Well—

Nixon: And we’re not going to do it.

Connally: I’ve got a—I’ve got a memorandum coming to you.

Nixon: Well, what—what is the point of it?

Connally: Well, I’m not going to send you the actual memorandum if you agree with it. I just said that, I think, Treasury ought to head the delegation to the Paris Club meeting. It might be easier if [unclear].

[Laughter]

*[4 minutes and 10 seconds not declassified]*

Nixon: Can you imagine Weintraub going there and apologizing for the fact that the reason we should have met earlier is we were busy with the Christmas holidays? Why the son-of-a-bitch, he knows very well that we’re at a turning point on this thing. Well, we’ll work on that.

Connally: Generally, that’s just—but that’s one of the—

Nixon: Well, the McNamara—

Connally: —little problems that you run in to. This is why you’ve got to have a weak constitution in this damned place. It’s because you have to have it.

Nixon: Yeah.

Connally: And you’re operating with your hands tied behind your back now.

Nixon: Yeah.

Connally: And you can't do anything about it this year, but, my God, with another four years, you can.

Nixon: That's right. Well, I—but the whole country, though, needs it. It's the—our major stroke in international affairs is our economics. Let's face it.

Connally: Sure—

Nixon: We can't send men now anymore, I mean, as we well know. I hate fighting these damned wars and things, and so our major—the major thing we can do is squeeze them economically. And, believe me, that can have one hell of an effect. One hell of an effect.

Connally: It sure can.

Nixon: That's why we're going to drag our feet on the India thing—continue to.

Connally: Yeah.

Nixon: Well, my point is you would have been dragging those trade agreements that everybody else at the State Department is falling all over themselves to produce.

Connally: Well, at the World Bank, I talk to McNamara—

Nixon: Yeah.

Connally: —Friday at noon. And he is firmly committed to no renegotiated Chilean debt.

Nixon: Hm-hmm. Chile. Good.

Connally: And he says under no circumstances. No, sir, we're not about to—

Nixon: And then for us then, for the Paris Group to do this—the Paris Club—is ridiculous.

Connally: Yeah. Well, they—their answer is, "Well, they've defaulted. If we don't renegotiate, we've got to set a new maturity date." I said, "Well, what the hell good is a new maturity date? You're kidding yourself." I said, "If they've defaulted, they've defaulted. Let's try to impose some kind of sanction. Let's try to make them pay us."

Nixon: Can I ask you to do this, Bob? As I said, we've got Henry in too many fights with State at the moment. Anyway, this is an awfully good one for Flanigan to follow up on in every instance. Now, when Flanigan ever—in the future, if you would have such matters—I don't want him to hide them with Henry, you understand. I just don't want Henry to get his bowels in an uproar and raise hell with Rogers. But Flanigan will just toe the line. Don't you agree?

Connally: I agree. That's the way to handle it.

Nixon: Yeah, and let's do it right. Let's do it—to hell with them. You see, Pete's [Peterson] quite aware. When you talk to Pete, he'll love

this, too. He'll love getting into this kind of thing. Good heavens, this is so—such a direct violation of what I, what I've said. You know, you—I mean, basically, John, I may be wrong about Chile. I mean, many people think I am—and about Cuba—but, after all, it's what I—somebody's got to make the policy and, Goddamnit, I've made it!

Connally: That's right.

Nixon: In my view, Cuba, you're not—you can't—you can't, for example—State is always trying to make end runs on the Cuban thing, and I say, "No, we're not going to do it. I'm not going to do it there. They're different from China. We're just not going to do anything with Cuba at the present time." And we've just got to get—it's either got to be one way or the other.

Connally: Yeah.

Nixon: I mean, they got to—they weren't elected. That's the point—another thing those guys forget.

Connally: That's right.

Nixon: And I take the heat. They don't.

Connally: That's right. It's your policy and you're entitled to make it. And if it's wrong, you're entitled to the blame—

Nixon: And I'll get it.

Connally: And if it's right, you know, you're entitled to the credit.

Nixon: [I'll] get less credit but that's all right, too.

[Omitted here is discussion unrelated to Chile.]

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**98. Conversation Between President Nixon and the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, January 20, 1972.

Nixon: Now, we have to get to the bottom of that goddamn Chilean loan. You heard about it, didn't you?

Kissinger: Yes. Yes. Well—

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<sup>1</sup> Summary: Nixon and Kissinger discussed the Chilean loan problem.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 652–17. Secret. According to the President's Daily Diary, Nixon and Kissinger met in the Oval Office from 6:08 to 6:36 p.m. (Ibid., White House Central Files) The editors transcribed the portion of the conversation printed here specifically for this volume.



Nixon: That Connally came in—do you know how Connally found out about it?

Kissinger: [*less than 1 line not declassified*]

Nixon: [*less than 1 line not declassified*] And then, the thing that worried me, though, Henry, without—that I—I don't want you to get your bowels in an uproar about it, but my attitude—I [unclear] Al [Haig] this: "Did you know [*less than 1 line not declassified*] And I said. "Now, Goddamnit, how does Connally have the [*less than 1 line not declassified*] thing, and we don't?" Al says, "We get them, too." Do we?

Kissinger: Yes.

Nixon: Why then didn't somebody on our staff find what this fellow—I don't know Weintraub, whoever he was—

Kissinger: Yeah.

Nixon: Somebody at the State Department?

Kissinger: [Unclear]

Nixon: The son-of-a-bitch said—he apologized! He said we—he said that there were the Christmas holidays or we would have had it earlier. And Goddamnit, that's in violation of my orders.

Kissinger: We'd better get—

Nixon: And when Connally came in, I was embarrassed about it, because I—you know, because usually we're up on such things. And he said, "Well, gee whiz, [*less than 1 line not declassified*] and he says, "I just want authority to be the chief of the negotiating team." I said, "Of course you're chief of the negotiating team."

Kissinger: Absolutely—

Nixon: But what in the hell happens over there on that?

Kissinger: Well, these guys—

Nixon: That's the Goddamnedest thing I've ever heard of.

Kissinger: —they are sucking around, and—

Nixon: They're for economic steps: go over and help make another loan to Chile—when Allende's in trouble!

Kissinger: That's right. And when—well, it's putting him into trouble—

Nixon: The economic thing?

Kissinger: What you've worked out with the Brazilians.

Nixon: Is that right?

Kissinger: Dick Walters told me that Médici—that some of the stuff that's happening in Santiago—

Nixon: Hm-hmm.

Kissinger: —is exactly what the Brazilians did to Goulart: the women rioting in the streets.

Nixon: Right.

Kissinger: You know, Allende just suffered—

[Unclear]

Nixon: Oh, he suffered [a] tremendous defeat in the elections.

Kissinger: Two—two tremendous defeats.

Nixon: Now my view is, if we just cool that off, that [there] would be a coup probably.

Kissinger: Plus, today he dismissed his cabinet. I don't know whether that means he's getting ready for a coup—

Nixon: Yeah.

Kissinger: —but the military may move against him if he—

Nixon: The other point that I was going to make is this: Connally thinks we ought to try to make some trouble in Cuba. I know it's tough. I know it's risky. But Goddamnit—

Kissinger: And the Russians, also—

Nixon: —if we're going to fart around, though—well that's the point, though. Well, tell him—what I'm getting at is you tell Dobrynin tomorrow, "Now look, the President has taken a hard look at Cuba." Just let him know. And it won't be—we—"If you're going to screw us in Vietnam—" We've got to do it that way; that's the way we're going to play. Why don't you do that?

99. Memorandum for the 40 Committee<sup>1</sup>

Washington, January 21, 1972.

## SUBJECT

Status Report on Financial Support to Opposition Parties in Chile, including  
Support for 16 January 1972 By-Elections

## I. Summary

On 5 November 1971 the Committee approved new funds in the amount of [*dollar amount not declassified*] for the following twelve-month period to support Chilean political parties opposed to the Popular Unity (UP) coalition of President Salvador Allende and to influence the Radical Party of the Left (PIR—formerly called MRIL). In approving these funds, the Committee requested a status report every sixty days which would specify the purposes for which these funds were being expended and assess their effectiveness.

Since 5 November, a total of [*dollar amount not declassified*] has been passed to the three opposition parties and the PIR; of this amount, [*dollar amount not declassified*] has been made available to the Christian Democratic Party (PDC); [*dollar amount not declassified*] to the National Party (PN); [*dollar amount not declassified*] to the Democratic Radical Party (PDR) and [*dollar amount not declassified*] to the PIR. Available evidence indicates that the funds passed during November and December 1971 have been employed effectively by the recipients and that they have contributed to the increasing strength and confidence being exhibited by the Chilean opposition.

On 15 December the Committee approved an additional [*dollar amount not declassified*] to support opposition candidates in two by-elections which were held on 16 January. This financial assistance was instrumental in enabling both candidates to defeat their UP rivals; indeed, both the PDC and PN have characterized this support as having been “absolutely indispensable” under the circumstances. Before the voting, President Allende had said that the elections would indicate the electorate’s acceptance of government policies, and there was a massive commitment of government forces and largesse to the election.

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<sup>1</sup> Summary: This status report to the 40 Committee on U.S. covert funding of opposition political parties in Chile recounted the dispersal of funds to each party, the purposes for which the funding was expended, and its effectiveness since November 5, 1971.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 40 Committee Records, Minutes. Secret; Sensitive; Eyes Only. At the bottom of the first page, a notation in an unknown hand reads: “Distributed to the 40 Committee 24 Jan 1972. No Minutes on this item. Hewitt (NSC) read on 11 Feb 1972.”

Both UP and opposition leaders campaigned as if the government's future were at stake. Since the elections constitute a popular rejection of the government's political and economic program, the results are likely to provoke sharp debate within the UP on future strategy.

## II. *Background*

Opposition forces, despite a long history of bitter rivalry with each other, have begun to cooperate on endeavors where it is in their common interest and to their mutual advantage in confronting the government on specific political issues. [4 lines not declassified] For example, in early December, the PDC and PN joined forces in the famous "pots and pans" women's march episode which came to symbolize in a rather dramatic fashion the increased resistance to the Allende government. [1½ lines not declassified] Since that time, the two parties joined in organizing a semi-secret women's organization called "SUN" which conducts telephone and doorbell-ringing campaigns to get women to participate in political activities; the PN sent its supporters to help fill the national stadium in Santiago for a PDC-sponsored rally on 16 December and also supported the PDC move to impeach Minister of Interior Toha. The PN and PDC cooperated in organizing an ad-hoc committee to deal with the government when opposition radio stations were closed for a brief period in December as a result of UP-instigated employees' demands on management. The PDC, PN and PDR worked together in Congress on a bill which defines the sectors of the economy, and cooperated very effectively in the by-election campaigns. During this period the government was troubled by serious politico-economic difficulties in the copper mines and also encountered increasing campesino opposition to its agrarian reform program. Tension also remained high at the University of Chile, although violence there has declined as a result of a 4 January 1972 agreement providing for the resignation of all university officials on 31 January to be followed by new elections and a university plebiscite on 27 April which had been demanded by opposition forces. The military, disturbed by evidences of political disorder and economic mismanagement, have become increasingly politicized, tending to interpret promotions or shifts within their own ranks in terms of political losses and gains for the government or opposition.

Although all these trends appear to favor the opposition—and the by-elections prove that public confidence in the UP government has declined—the UP still has the political leverage with which to regain the initiative. On 29–30 December, President Allende met with leaders and delegates from all the government coalition parties in a special assembly to decide what actions should be taken to regain the momentum the UP enjoyed until late 1971. A special approach was made to the PIR, and on 31 December PIR Deputy Naudon announced that

the PIR, as an independent political entity, would soon join the UP. At the same time, Allende was almost certainly trying to provoke a new split in the PDC. The opposition's newfound unity is fragile, and the hardening of the PDC's position as an opposition party working closely with the PN and PDR created new tensions among left-wing party sectors responsive to Radomiro Tomic and Bernardo Leighton. This restless PDC faction reportedly includes about 10 PDC Congressmen who are opposed to any PDC cooperation with the PN as well as to the PDC's impeachment proceedings against Minister Toha. One of the most positive results of the 16 January by-election has been to vindicate the moderates in both the PN and the PDC, and particularly the PDC's Frei faction, which pushed the PDC-PN alliance. Despite this electoral victory, however, the PDC left wing remains vulnerable to UP pressures. Now that the PIR has apparently returned to the UP fold, the government will certainly spare no effort to divide and weaken the PDC, particularly since a new PDC split might seriously affect the opposition's present parliamentary capability for preventing the UP from gaining dominant power by constitutional means.

[Omitted here are Section III, Section IV, and Section V.]

#### VI. *Conclusions*

As a result of the January by-elections, the UP government is on the defensive for the first time. Voter turnout for a by-election is usually low in comparison with a national election, but in this case the turnout was virtually the same as in the April 1971 municipal elections. In each province approximately 3% of the voters shifted from the government to the opposition, as contrasted with the April results, so that the government can no longer maintain that it represents an electoral majority. The democratic parties, delighted by this victory, have gained new confidence in their ability to obstruct successfully the government's program to "construct Socialism" in Chile.

[3½ lines not declassified] All the opposition parties conducted fund-raising campaigns and in fact received quite substantial contributions, but the massive character of government intervention in the campaign necessitated an opposition effort which would have been impossible without U.S. support. In Linares, for example, the government organized and financed the entire Mery campaign, giving away thousands of dollars worth of sewing machines, boxes of food and all kinds of supplies which were brought in by government transport (a PN leader estimates that the campaign cost the government \$500,000 to \$750,000 in Linares alone). UP paramilitary organizations functioned openly, not only physically harassing the opposition but using violence to intimidate the voters. The systematic campaign of violence and intimidation conducted by the government was so widespread that the large voter turnout and calm atmosphere of election day was almost

certainly made possible because of the physical presence of army units in the voting centers.

The aggressiveness and vigor of the opposition electoral campaigns was possible because new confidence had been engendered by the success of the first organized public efforts to oppose the Allende regime. [15 lines not declassified] There can be no doubt, however, that the opposition's success was made possible largely because of the financial aid provided by the U.S. Government, which significantly built up the confidence and capabilities of the parties. No security problems have arisen in connection with any funds passed to date.

Funds approved by the Committee for the ongoing support of the opposition parties will continue to be used for the purposes specified in the memorandum approved by the Committee on 5 November. It is impossible to predict what action the UP may decide to take to cope with the political problems which have been intensified by the opposition's electoral victory, or with the economic crisis which seems certain to be exacerbated by the proposed U.S. approach to Chilean debt renegotiation. Status reports will continue to be submitted every 60 days on the progress being made by opposition parties in restructuring themselves for increasing political activity. These reports will also attempt to analyze the various options open to the Allende government and to the opposition parties during this critical period.

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**100. Conversation Among President Nixon, the President's Assistant (Flanigan), and the White House Chief of Staff (Haldeman)<sup>1</sup>**

Washington, January 24, 1972.

[Omitted here is discussion unrelated to Chile.]

Flanigan: Do you want Korrry to get a post badly enough to force it down Rogers's throat?

Haldeman: We've got to force it. Korrry's got to have a job.

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<sup>1</sup> Summary: Nixon, Flanigan, and Haldeman discussed possible jobs for Korrry.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 654–1. Sensitive But Unclassified. According to the President's Daily Diary, Nixon, Flanigan, and Haldeman met in the Oval Office from 5:18 to 6:05 p.m. (Ibid., White House Central Files) The editors transcribed the portion of the conversation printed here specifically for this volume.

Flanigan: I got him a job at—as a—

Nixon: Why? Is he open to—

Flanigan: —a consultant to OPIC.

Nixon: —something?

[14 seconds not declassified]

Haldeman: He's also, though, strongly backed by the right-wing, for some reason.

Flanigan: That's right.

Haldeman: Irving Kristol—

Flanigan: Bill Buckley.

Haldeman: Bill Buckley, and people like that.

Flanigan: Yeah.

Nixon: [Unclear]

Haldeman: A lot of the conservative intelligentsia.

Flanigan: Well, we can either do something with him like let him be a consultant to the Overseas Private Investment Corporation—which we'll just tell them that they got to keep him on as a consultant through the end of the year—which is a nothing job. Or, if we wanted, give him something like Ceylon, which is open, you'd have—you would just have to lean on Bill, because Henry can't do it, and I can't do it. He's just—maybe Bob can do it, but he [Rogers] said, "No."

Nixon: You'll have to do it.

Haldeman: Bill has flatly said, "No"?

Flanigan: He's told this fellow he's out. They're not going to buy it. Time is up.

Nixon: Why? Because Korry—?

Flanigan: I guess because Korry loused this up. He thinks that since he was a Kennedy fellow and brought in by Kennedy, we don't have any obligations, and because he's, I'm told, he recommended taking some of these economic things out of State when he was asked to, some time ago. And I, frankly—

Nixon: Yeah. Well, Korry—Korry's the guy who writes memoranda, and all that sort of thing, and he raised hell when he was in Ethiopia about the State Department's Africa department. He was right.

Haldeman: The problem is if he isn't given gainful employment for the next year, he's going to turn to his trade, which is writing. And the best thing for him to write is something we just—

Nixon: Whether and how we—how we screwed up Chile?

Haldeman: We just don't want him to write until after the election.

Flanigan: Well, if that's all it is—

Haldeman: Henry's viewpoint is we've got to keep the guy employed through the election. After the election, he couldn't care less.

Flanigan: Well, supposing I tell Brad Mills he's just got to keep him on as a consultant, but get him out of town?

Haldeman: Will Korry stay as a consultant? Will he—? Is he willing to accept that?

Flanigan: Brad Mills runs this Overseas Private Investment Corporation—

Nixon: Yeah, OPIC. [Unclear]

Flanigan: —and he's got him now till April 1st, at our request. He likes Korry. He thinks Korry's good.

Nixon: Will Korry be interested—

Haldeman: If Korry will keep it, then, if he—

Nixon: I'd rather keep him there.

Haldeman: If he'll settle for that, that's better.

Flanigan: All right.

Haldeman: There's no point in wasting—

Nixon: Yeah.

Haldeman: —an ambassador's post on him.

Nixon: And then we don't have to press it with Bill, if we can do that.

Flanigan: Right.

Nixon: And tell him to make it helpful. I'll tell you what you do. Have him make a study in there of that business of what Connally's thinking about: How do we—how do we get the raw materials of the world all lined up for the United States? Brilliant.

Flanigan: Sure.

Nixon: Why not? You ever meet Korry?

Flanigan: Never met him.

Nixon: You've got to admit that he's smart as hell. Very imaginative, very—I mean, he's articulate, and somewhat emotional, and so forth. But he's way above the average State Department—

Flanigan: Maybe the thing to do is—

Nixon: Most of the ambassadors are as dumb as hell.

Flanigan: Maybe the thing for me to do is to let Brad Mills pay him and use him, since I have to get people—

Nixon: [Unclear]

Flanigan: —detailed to me. If he's good enough, then, and—

Nixon: He could be a big help.

Flanigan: —reliable enough, ask him to work for me.



Nixon: He could. He could. I think he could work for you. I think he can certainly come up with some grand, damned imaginative stuff.

Flanigan: All right.

Nixon: Damned imaginative stuff. But you meet him first.

Flanigan: All right.

Nixon: You get him in, and you better meet him sometime, because he's damned impressive.

Flanigan: All right.

Nixon: Korry is no slouch. I know him well.

Flanigan: Good.

[Omitted here is discussion unrelated to Chile.]

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# **101. Memorandum From the Chairman of the Ad Hoc Interagency Working Group on Chile (Meyer) to the Working Group<sup>1</sup>**

Washington, January 27, 1972.

## SUBJECT

A.I.D. Funding for AIFLD Program

As part of its FY 1972 grant program the Chile A.I.D. Mission, with the Embassy's concurrence, proposes to obligate up to \$125,000 to continue financing the activities of AIFLD (the American Institute for Free Labor Development, an affiliate of the AFL–CIO) in Chile through December 31, 1972. The current AIFLD contract, which is financed with FY 1970 funds, will expire on February 28, 1972. Since President Allende took office the principal AIFLD activity has been to finance overseas training and seminars for Chilean union leaders. Other aspects of the program, such as in-country union seminars, were discontinued because of their sensitivity.

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<sup>1</sup>Summary: This memorandum outlined a proposal to the Ad Hoc Interagency Working Group on Chile that AID grant \$125,000 to the American Institute for Free Labor Development for programs in Chile.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VII. Secret. Sent to the Working Group members: Selden, Leddy, Kendall, Hartman, Hewitt, Broe, Carter, and Eaton. A February 9 covering memorandum from Hewitt to Kissinger, stated, "The AIFLD overseas program permits the U.S. to maintain a toe-hold in Chilean labor, and is consistent with the President's decision to continue people-to-people type programs." Haig initialed approval for Kissinger on the covering memorandum.

The overseas training program permits AIFLD to maintain a limited U.S.-oriented presence in the labor union sector. To minimize possible political difficulties, AIFLD carefully selects leaders both from opposition and pro-government unions who are willing to participate in the training programs. In addition, USAID and Embassy staff maintain close contacts with the AIFLD Country Program Director to insure that potential stumbling blocks are avoided. In the last half of CY 1971 eighteen union leaders received training or attended seminars under this program. About 32 leaders are expected to participate in 1972. The programs are generally of a short-term nature, averaging about one month in duration.

I propose, subject to appropriation levels, that the Embassy/USAID proposal be approved. On December 23, 1970 the Senior Review Group *approved inter alia* a recommendation that the A.I.D. Mission in Santiago "... continue those existing activities which have little benefit for the Chilean Government but keep individual Chileans well disposed toward the United States." An extension of the AIFLD contract would be consistent with this decision. If at some point this policy were changed, we could terminate the contract by giving AIFLD thirty days notice. (As an alternative, we could continue financing beyond that point for union leaders already in training if we chose to do so.) It would not be necessary to notify the Chilean Government to terminate the contract.

*Recommendation* Please telephone to John Fisher, 623–3023, by c.o.b. February 4, your decision or comments on this proposal.

**102. Memorandum From the Deputy Director for Coordination,  
Bureau of Intelligence and Research (McAfee) to the Director  
of the Bureau of Intelligence and Research (Cline)<sup>1</sup>**

Washington, February 3, 1972.

SUBJECT

ARA–CIA Meeting, 3 February

PARTICIPANTS

ARA—Messrs Meyer, Crimmins, Fisher (Chile), Broderick (Guyana), Pringle (Panama) and Little (Venezuela); CIA—[2 *names not declassified*]; INR—James R. Gardner

*Chile*

[2 *paragraphs (27½ lines) not declassified*]

Mr. Crimmins asked for a run-down of how we stood on our current disbursements in Chile. [*name not declassified*] briefly reviewed these, noting that some [*dollar amount not declassified*] of the [*dollar amount not declassified*] authorized by the Committee in November for general opposition activity had been disbursed, and that all of the [*dollar amount not declassified*] authorized for the two January by-elections had all been used.

Mr. Crimmins then asked if we were in danger of overploughing the ground, if we were not running the risk, in other words, of putting in money in sufficient quantities to arouse the suspicions of the Allende Government. [*name not declassified*] said the Agency was sensitive to this problem, but that in fact the situation was better now than it had been. The growing confidence of the opposition, coupled with the successes it had won in the January by-elections, could be assumed to bring out money for the opposition that hitherto had been “kept in mattresses”; such an assumption, whether justified or not, could cover the introduction of considerable amounts.

Introducing a new subject, [*name not declassified*] surmised that if debt renegotiations with Chile did not go well from that country’s point of view we might expect a vigorous Chilean propaganda campaign against the United States. Should we perhaps now start preparing, or even pushing, a propaganda campaign of our own to fore-

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<sup>1</sup> Summary: This memorandum provided an overview of the discussion of the February 3 ARA–CIA meeting. The discussion focused on the disbursements of funds in Chile for opposition activity.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile, Jan–June 1972. Secret. This copy of the memorandum, which is dated February 9, was not initialed.

stall such a development? Mr. Crimmins said this deserved thought, but we should be careful lest moving onto the offensive here would create the very problem we were hoping to correct. The consensus was that we leave this one for the future.

[Omitted here is discussion of unrelated matters.]

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### 103. Conversation Between President Nixon and Secretary of the Treasury Connally<sup>1</sup>

Washington, February 8, 1972.

[Omitted here is a brief exchange on Robert S. McNamara, President of the World Bank.]

Nixon: Now, on the Chilean thing, despite the pressure with Allende, I do—I know the argument that Chile—that the Chilean Foreign Minister made, that—I’m sure everybody’s saying it’ll weaken the dollar. So be it. I think, of course—I just don’t think—I just don’t think that you can, you can keep Allende down there. John, [unclear], they brought this on themselves. They’re ruining the Chilean economy with their expropriation and everything else. Now, for us to step in and rescue it, means that we are subsidizing, basically, the communization of Chile.

Connally: That’s right.

Nixon: To hell with it.

Connally: That’s right.

Nixon: Do you agree?

Connally: Absolutely.

Nixon: All right.

Connally: Let Russia—let Russia support them, if they have no other option.

Nixon: I think we should—

Connally: Hell, Russia can’t support themselves, Mr. President.

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<sup>1</sup> Summary: Nixon and Connally discussed the Chilean economy.

Source: National Archives, Nixon Presidential Materials, White House Tapes, Conversation 320–28. Sensitive But Unclassified. According to the President’s Daily Diary, Nixon met first with Connally, Kissinger, and McNamara in the Executive Office Building at 3:15 p.m. The conversation transcribed here—which the editors transcribed specifically for this volume—began after McNamara and Kissinger left at 4:20 and continued until Nixon and Connally both left at 5:06. (Ibid., White House Central Files)

Nixon: Right. [Unclear]—

Connally: And they're coming to us and saying, "We're not making [unclear]. We want to trade with you. We want—"

Nixon: That's right.

Connally: "We want your credits to develop our resources." They need their support to come from Russia.

Nixon: You see, Cuba sucks from Russia a million dollars a day, and that's one of the reasons we are not going to change our attitude toward Cuba. Let them talk. Let them pay a million dollars a day. Now, the same with Chile: If the Soviet, the Russians, have to support them, then they will have to be supported by the Russians. The way that Chile—if they want more support from us, they must come a long way. That—we won't tell them that but they will know damn well. They'll get the message.

Connally: Well, he [Allende] just lost two elections. I don't know if he's doing so well down there with his communization.

Nixon: You're right.

Connally: I think he's in trouble. And I believe, just hold his feet to the fire and he'll be in trouble.

Nixon: And that's—and we would pull him right out of the trouble, or help to pull him out, if we got together with the Paris Group and—

Connally: Well, if we do, Mr. President, we're going to do to him, we're going to do to Chile what we did to Argentina 25 years ago. We let the Peróns run high, wide, and handsome there, and they destroyed Argentina for a quarter of a century.

Nixon: Yeah.

Connally: Argentina has got no chance.

[Omitted here is further discussion of Argentina, U.S. foreign economic policy, and other matters unrelated to Chile.]

**104. Memorandum Prepared in the Central Intelligence Agency<sup>1</sup>**

Washington, March 21, 1972.

## SUBJECT

Background for Chilean Hearings

1. The Agency involvement in large-scale political action programs in Chile began with the 1964 presidential elections in response to the threat posed by the Communist-dominated Popular Action Front (FRAP) supporting Salvador Allende. Preparations for the 1964 campaign had begun more than two years earlier during the administration of President Kennedy when the Special Group on 19 April 1962 approved an expenditure of [*dollar amount not declassified*] to support the left-of-center Christian Democratic Party (PDC) in order to build it up as a democratic alternative to the FRAP coalition.

2. Initially, it appeared that the presidential candidate would be Senator Julio Duran who was backed by a coalition of centrist and rightist parties known as the Democratic Front. By March 1964, by-election results and polls indicated that the Democratic Front was in a state of disarray and that Duran had no chance of winning the presidency. As a result, a new program for [*dollar amount not declassified*] was approved by the Special Group on 14 May 1964 to support Christian Democratic presidential candidate Eduardo Frei. An additional [*dollar amount not declassified*] for the Chilean elections was approved by the Special Group on 21 July 1964.

3. Election day, 4 September 1964, produced an overwhelming victory for Frei who won 56.1 percent of the valid votes cast, as against 38.9 percent for Allende. Duran, [*2 lines not declassified*], received the remaining five percent of the votes.

4. The September 1970 presidential elections were preceded by many months of intensive politicking to determine who the candidates would be. Mr. Jorge Alessandri quickly emerged as the candidate of the Right, as did Mr. Radomiro Tomic for the Christian Democrats. By early 1970, Allende again emerged as the candidate of the Popular Unity forces. In March to June 1970, the 40 Committee approved [*dollar amount not declassified*] for the Agency to initiate a propaganda program

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<sup>1</sup> Summary: This memorandum provided background information on covert political action in Chile since 1964 for DCI Helms and other CIA officials who were required to testify before Congress.

Source: Central Intelligence Agency, Office of the Director of Central Intelligence, Job 80B01086A: White House Correspondence Files, Box 12, Folder 29: C-7: Chile. Secret; Sensitive.

alerting the Chilean people to the dangers of a Marxist Government under Allende. The 40 Committee excluded support to either of the candidates opposing Mr. Allende.

5. It was in this period and context that, at the suggestion of Mr. John McCone, Mr. Broe held his two discussions with Mr. Harold S. Geneen, Chairman and President of ITT, on 16 and 27 July 1970. At the same time the Chief of Station, Santiago had just been contacted by [3 lines not declassified]. At the first meeting, Mr. Broe turned down a request by Mr. Geneen to have CIA channel "substantial" private business funds to Alessandri and made it clear that the U.S. Government was not supporting any candidates. Mr. Broe did agree that, after consulting with Station Santiago he would advise Mr. Geneen on how ITT might best go about this on its own. His check with the COS, Santiago indicated that [name not declassified] with the advice of the COS, Santiago was already in contact [less than 1 line not declassified] and had set up a secure funding channel. Mr. Broe so notified Mr. Geneen in their 27 July discussion.

6. The Chilean people went to the polls on 4 September 1970; and Allende came out with a slight plurality (36.3%) over Alessandri (34.9%). On 24 October, the Congress was to choose the President from among these two front-runners; and, traditionally, the Congressional choice had been the individual with the highest popular vote. The prospect of Allende as President had caused some economic disruption and coup rumors were abounding. Thus, in late September (29 September), the 40 Committee agreed that strong efforts should be made to add to the economic pressures in Chile [1½ lines not declassified]. It was hoped that economic deterioration might have some effect on the Congressional presidential vote by persuading a sufficient number of Christian Democrats to vote against Allende.

7. [1 paragraph (15½ lines) not declassified]

8. Mr. Allende was elected by Congress on 24 October and was inaugurated within two weeks as President of Chile. In late October and November 1970, this new situation was recognized by 40 Committee authorizations amounting to [dollar amount not declassified] for support of opposition newspapers and radio stations. On 28 January 1971, the 40 Committee authorized [dollar amount not declassified] for support of the three opposition parties in the impending April 1971 municipal elections as well as further aid to the radio stations, newspapers and propaganda activities of the three opposition parties. Subsequent 40 Committee authorizations in the period March through December 1971 and totaling [dollar amount not declassified] provided opposition funding for [number not declassified] Congressional by-elections, [1½ lines not declassified] and the continuance of a wide spectrum of organizational type support for the opposition parties. The op-

position almost split the vote evenly with the Government in the April municipal elections and won all seats disputed in the two Congressional by-elections. Today, Allende finds himself in serious economic trouble while facing an increasingly confident and aggressive opposition.

9. Over the past year, Mr. Broe has had five luncheon meetings with [*less than 1 line not declassified*] in charge of the [*less than 1 line not declassified*] office. All of these contacts have been at the initiative of [*name not declassified*] who had been instructed by Mr. Geneen to stay in contact. Discussions at these luncheons did not involve any Chilean proposals but were devoted mainly to the general situation in Latin America at that time. Contact with ITT has also been maintained through a Headquarters officer, [*5 lines not declassified*].

10. Some of the questions it is anticipated might be raised with the DCI along with suggested answers are the following:

a. What is the relationship of the ITT with the Agency regarding Chile?

—ITT contacted the Agency in July 1970 and indicated that it wished to put a fairly substantial amount of funds into the Allende opposition camp during the presidential election campaign.

—ITT wanted us to handle the funds for them but we refused. The Agency was precluded from supporting any candidate in the election.

—We did, however, advise ITT concerning the security of their proposed funding channels in order to avoid taking chances on giving Allende an issue at some critical point. [*2 lines not declassified*]

b. How much did ITT put into the Chilean presidential elections?

—I don't know.

c. Was William V. Broe, an Agency employee, in contact with ITT as reported?

—Mr. Broe was formerly the Chief of the Latin American Division of the Clandestine Service and is now the Inspector General of the Agency.

—[*5½ lines not declassified*] The purpose of this policy in that particular situation was to try to persuade the Chilean Congress not to select Allende as president. Because none of the candidates had a majority of the popular vote, the Chilean Congress was to choose between the two leading candidates, Salvador Allende (36.3%) and Jorge Alessandri (34.9%). The U.S. business community with interests in Chile was viewed as an important part of this program, [*1½ lines not declassified*].

d. When Mr. Broe saw [*name not declassified*] on 29 September 1970, was he acting under instructions from you?

—Yes. Mr. Broe indeed was instructed to see [*name not declassified*] with a view to ascertaining what U.S. business with interests in Chile,



including ITT, was doing there and to determine the extent of its capability and willingness to intensify the economic problems already becoming apparent there.

e. Did Mr. Broe continue these contacts after Allende was inaugurated?

—Yes, on a sporadic basis, but they consisted of general discussions about the Latin American situation and did not cover any specific proposals or activities regarding Chile or any other country for that matter.

f. Has the Agency had any other contacts other than Mr. Broe's with ITT on Chilean matters?

—An Agency representative in Latin America did discuss the security of the ITT funding program during the 1970 presidential elections with ITT representatives. This, as I noted before, was in order to avoid taking chances on giving Allende an exploitable issue during the campaign. [10½ lines not declassified]

g. Did in fact ITT and CIA consider triggering a coup by economic pressures or other means?

—Coup talk abounded amongst the Chileans in the period between Allende's plurality at the polls (4 September) and his election by Congress (24 October) and his inauguration (3 November). Our intelligence indicated this was a quite remote possibility despite all the discussion about it. It was also clear from our reporting that Frei and all the major military leaders were very much opposed to any abrogation of the constitutional process.

—The major U.S. objective in generating economic pressures at the time was to have Allende enter office by as narrow a vote in the formal Congressional elections as possible; then neither he nor his constituency would think he had a strong enough mandate to move quickly on a number of key Marxist measures which would, as he had promised, make Socialism irreversible in Chile. Instead, in political terms, he would have to feel his way along cautiously.

—In the end, we were counting on the fact that the economic results of his actions (raising wages, nationalizations, inflation, flight of capital, etc.) would eventually take their economic toll and catch up with him, and this is pretty much what has happened in the last year and a half. Ultimately, we expected this would cause him to lose some of his fringe political support and render him incapable of pursuing his Marxist goals.

—In short, we thought his economic policy would be his ultimate undoing and that a coup was not feasible at all.

h. Did the Agency make approaches to members of the Armed Forces in an attempt to provoke an armed uprising?

—No, we were in contact for intelligence gathering purposes only—as we are expected to be. It was clear, despite the loose coup talk around, that the Chilean military were constitutionally oriented. [*name not declassified*] did talk coup to three key Chilean military officers [*less than 1 line not declassified*] as did [*3 lines not declassified*].

i. Did the Agency have contact with General Viaux or offer him material assistance and support?

—No, but we were watching him closely through intelligence sources. He had tried, unsuccessfully, to instigate a coup in October 1969 from Tacna, a garrison town in the interior of Chile. He was retired shortly after that and, at the time of Allende's election a year later, he was on the outside and did not have appeal to the active duty military. (In fact, we were in contact with some of his supporters trying to foment a coup, but this was done through case officers under third national cover.)

j. Was CIA involved in any way in General Schneider's assassination?

—No.

k. What, if anything, did the Agency do during the 1970 election campaign?

—The Agency spent [*dollar amount not declassified*] over a period of six months during the pre-election period on propaganda activities to emphasize the dangers of Marxism to Chile. This campaign included media placements in both radio and publications and underwriting numerous leaflets and posters. I want to emphasize that no money was given by the Agency or the U.S. Government to any candidate. This program was approved by the 40 Committee.

—[*1 paragraph (2 lines) not declassified*]

l. What has CIA done since Allende's inauguration in Chile?

—We have attempted to determine what Allende, the Soviets, the Cubans, and other Bloc countries, as well as the extreme leftist exiles from other Latin American countries, are up to in order to expose their activities in both Chile and the rest of the Hemisphere, and we have been supporting the opposition in a variety of ways. (This includes support to parties, candidates, and media—particularly in connection with [*number not declassified*] Congressional by-elections as well as the 1971 Municipal elections—in an effort to assist the opposition to Allende.)

m. Was the CIA in touch with President Frei at that time?

—No.

—Our information at that time was that Mr. Frei was subjected to many pressures from fellow Chileans to do something to stop Allende from becoming president. Ultimately Mr. Frei and his party decided to

vote for Mr. Allende when Congress met on 24 October 1970 to select the president.

—[1 paragraph (8½ lines) not declassified]

n. [less than 1 line not declassified]

—[1 paragraph (11½ lines) not declassified]

[Attachment (4 pages) not declassified]

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**105. Memorandum Prepared in the Office of National Estimates,  
Central Intelligence Agency<sup>1</sup>**

Washington, April 4, 1972.

SUBJECT

Chile: Conciliation, Confrontation, or Coup?

During the year and a half under the Allende government, the Chilean tradition of accommodative politics has survived, despite rising pressures to by-pass the constitutional system through coercion and confrontation. The strength and resiliency of the Chilean political system is seen in the willingness of most of the chief political actors to turn to conciliation and compromise to defuse potentially explosive situations, rather than let the advocates of political violence carry the day. This memorandum assesses recent Chilean developments which, taken together, seem to tilt the odds away from conciliation and towards confrontation. We still believe that the system of accommodation will persevere over the next year or so. But the strains are becoming much greater and the political polarization more obvious, and we are less confident than before that the professional politicians will be able to put together compromises and make them stick. Thus the odds on a rupture or major alteration of the Chilean constitutional tradition are rising.

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<sup>1</sup> Summary: This Office of National Estimates's assessment of the first year and a half of Allende's Presidency noted the resiliency of the Chilean political system, but argued that recent developments indicated a movement away from conciliation and toward confrontation.

Source: Central Intelligence Agency, Office of the Director of Central Intelligence, Job 80B01086A: White House Correspondence Files, Box 12, Chile, Office of National Estimates. Secret.

1. Summer is over in Chile, but the political atmosphere is again heating up. Government and opposition leaders alike glibly refer to a threat of civil war and there is much talk about a “fascist” conspiracy on one side and a “Stalinist” spectre on the other. Illegal armed groups representing the extreme left and far right are becoming more active in the countryside. In addition to the illegal land seizures by groups identified with the Movement of the Revolutionary Left (MIR), there are now reports of armed landowners (some dubbed “White Guards”) reclaiming seized properties. There are signs that the military is becoming increasingly concerned and restive, with rightist politicians stepping up efforts to interest them in a coup. In the face of the rising political heat, Allende has alluded darkly to the fate of reformist President Balmaceda whose conflict with Congress led to a civil war, his overthrow, and his suicide in 1891. Government spokesmen have even recalled the liquidation of the left in Indonesia in attempting to dramatize the danger of counterrevolution. At the same time economic problems are mounting and add still one more set of pressures to the political arena. Shortages persist and the rate of inflation is rising.

2. If one were to take literally the inflammatory rhetoric of Chilean politicians, it might easily be concluded that Chile today resembles Spain on the eve of its Civil War. While there may be some parallels, there are important differences. In Chile, the traditional rules of the political game are still in force. At the same time that the main actors engage in verbal brinksmanship publicly on supposedly non-negotiable positions, some of them meet privately to try for compromise solutions. Recently, when the opposition-dominated Congress passed a constitutional amendment restricting the President’s power to nationalize private businesses, Allende threatened to veto key portions, and claimed that a two-thirds vote of the Congress would be necessary to override the veto. The opposition denied this, stating that an absolute majority would be sufficient to override, after which Allende’s only recourse would be to call a plebiscite to decide the issue. Allende, unwilling to test his popularity in a referendum at this time, maintained that the entire question would be decided by the Constitutional Tribunal. The opposition countered that the problem was outside the Tribunal’s jurisdiction. Amid suggestions from both sides that the conflict could trigger a civil war, Allende entered into talks with the Christian Democrats to reach a compromise. The immediate impasse and the violent rhetoric continue, but so do efforts for a compromise agreement.

3. This Chilean peculiarity of striving for political accommodation is one of the striking differences between Chile now and Spain in the early 1930s. In the highly charged atmosphere prevailing, the willingness of seemingly implacable political foes to engage in behind-the-scenes bargaining is a crucial element in preserving the essentially

democratic character of the existing Chilean political system. The relative ease with which Chilean politicians are able to retreat and compromise when violent confrontation appears imminent is in part indicative of a shared stake in the perpetuation of the existing system by leaders of various and antagonistic political persuasions. Allende himself and the men who now lead the major Chilean political parties are successful products of this system who at one time or another have savored the fruits of power. They are skilled practitioners of the occult political arts. Practically all have served or are serving in the Chilean Senate, a body which places a premium on cloakroom conciliation and compromise, notwithstanding the vitriolic debate on the floor.

4. Yet this "political transactionalism", as it has been called, faces an uncertain future in Chile. Extremists of the left and right perceive little advantage in perpetuating the existing system, and increasingly appear to be spoiling for what they hope will be a decisive armed confrontation that settles the issue of Chile's political future their way. Moreover, while it is difficult to gauge the extent to which the Chilean public is influenced by repeated allegations of sedition, impending civil war, etc., these charges may speed the process of polarization to the point where it would be difficult to check or reverse. Indeed, there is the danger that the politicians are becoming captives of their own rhetoric, fearful that their opponents in fact are out to annihilate them politically and have few compunctions about destroying Chile's democratic institutions in the process. The usual Chilean political horsetrading would in time become all but impossible under such circumstances.

5. One of the great uncertainties is how much and how fast the attitude of the military may be changing. Reports are accumulating of military officers professing a willingness to intervene when "the time is ripe". Although they are vague on the question of how and when this condition will be fulfilled, the most likely circumstance would be an actual or threatened breakdown of public order. The conservative National Party and possibly some Christian Democrats may already favor a coup, but the military would probably be reluctant to assume responsibility for an unconstitutional change of government unless it perceived that a broad range of Chilean public opinion favored such an outcome. Clearly, this is not yet the case. The revelations of Jack Anderson are bound to exert some inhibitory effect on the plans of military and civilian plotters, if only because any move against the regime now would be associated in the public mind with US machinations. On the other hand, if the Allende government and especially the leftist extremists move too quickly and crudely to take advantage of this issue—i.e., by a broad crackdown on opposition groups—disgruntled military and civilian elements may be forced to move in self defense.

6. For a number of reasons, a direct military seizure of power does not seem to be the most likely outcome even if a major crisis were to

force the military's hand. Like most Chileans, military men generally take great pride in the national heritage of respect for legality and constitutional order. And unlike many other Latin American military establishments, the Chilean armed forces take their role to be servants rather than arbiters of the national constitution. Consequently the military would not relish forcing Allende out of office except in circumstances which appeared to allow no other acceptable solution. A more likely military response in a crisis would be an effort to exert heavy pressure on Allende to force changes in personnel and policies, to defuse the crisis and foster a return to order. While the constitution technically would remain inviolate, even this level of military intervention would represent a sharp break with Chilean political practice.

7. If there were widespread violence and the government appeared unable or unwilling to restore order, one could thus envisage a military ultimatum to Allende which at a minimum would demand *carte blanche* to re-establish peace. In such circumstances, the odds are that Allende (backed in particular by the Communist Party which has long had a phobia about the threat of a military coup) would yield to military demands. This would probably involve allowing the military and the Carabineros to crack down on those leftist extremists who would not accept the curbing of their revolution (including some in Allende's own Socialist Party). But Allende would perceive that he had little choice if he wished to remain in office and consolidate the considerable gains already made. Once some semblance of order was reconstituted the military would be in a good position to demand a major continuing voice in policy on the grounds that a renewal of large-scale violence had to be averted.

8. A development that could foreclose the possibility of effective military intervention would be the emergence of a deep division within the Chilean military itself. If concurrent with escalating violent encounters between pro- and anti-Allende forces, the military is riven by the same kind of conflict that divides the populace as a whole, the consequence could be military inaction. If this occurred, the prospect of civil war would loom larger. We would estimate that the likelihood in the immediate future of either a fullscale civil war, or of a military seizure of power, is quite low. The odds that the military will assume an important political role sometime over the next year or so is of a distinctly higher order of magnitude. In fact, growing numbers of professional politicians, in as well as out of the government, may come to welcome some form of military intervention to save the system from what they would perceive as a worse disaster—such as civil war.

9. If obliged at this point in time to make a prediction, we would still say that the Chilean proclivity for avoiding the brink is likely to prevent an early breakdown or major alteration of the political system.

But we nonetheless recognize that the resort to political violence and inflammatory rhetoric is rising and the strength of the constitutional system is eroding—processes which cannot continue indefinitely without dramatic consequences. Thus we would conclude that the chances of the present constitutional arrangement surviving intact over the next several years are poor.

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**106. Paper Prepared for the Senior Review Group by the Ad Hoc Interagency Working Group on Chile<sup>1</sup>**

Washington, April 4, 1972.

NEXT STEPS OPTIONS ON CHILE

[Omitted here is the Table of Contents.]

*I. Introduction*

Our basic policy objectives in our relations with Chile are to prevent the consolidation of the Allende regime and to limit the ability of the Allende regime to carry out policies contrary to United States and hemisphere interests. To achieve these objectives, we seek to maximize pressure on the Allende Government while maintaining a correct but cool posture. Thus, pressure is to be balanced by a restrained posture so that measures intended to prevent consolidation of the Allende regime do not in fact contribute to its consolidation of power or its ability to rally support. Our policy on Chile has proven reasonably successful to date and has been so acknowledged by our friends in Chile and elsewhere in the world. The unvarying advice we continue to receive from Allende's opponents and those who wish us well is to continue on the course we have taken. The publication of the Anderson–ITT documents has been, however, a setback to the policy and a corresponding gain for Allende.

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<sup>1</sup> Summary: This paper prepared for the Senior Review Group examined the political and economic developments in Chile during Allende's term in office. It highlighted the deteriorating economic situation and the international Communist stake in seeing Allende's socialist revolution succeed. The final third of the paper outlined the various U.S. policy options available.

Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H-64, SRG Meetings, Chile 4/11/72. Secret, Sensitive; Nodis. Annexes A and B are attached but not published.

Though hard-pressed, the basic elements of democratic choice are still intact in Chile. The outcome of the political struggle is still uncertain and Allende's revolution has not reached the point of irreversibility.

The following sections discuss current and projected developments, internal and external, and conclude with a discussion of questions relating to debt rescheduling which require most immediate decision. With respect to other aspects of our relations with Chile, the options as stated in the paper submitted to the Senior Review Group on Next Steps in Chile on November 23, 1971 continue to stand.

## *II. Internal Developments in Chile*

*Political*—In the first few months following his accession to power, Allende enjoyed the "honeymoon" traditionally accorded a new administration in Chile. The opposition managed to block or divert certain governmental legislative initiatives, but for the most part the administration built up considerable momentum as it went about implementing its program at a rapid rate. The April 1971 municipal elections, which showed a sharp rise in the vote polled by Allende's Socialist Party (12% to 22%), was the culmination of that period.

The opposition, nevertheless, held the Popular Unity government just short of a majority in those elections, and since then the government's popularity has steadily slipped. Anti-government manifestations accompanied worsening economic problems, particularly shortages of food and other consumer items, and by last September political polarization began to acquire a momentum of its own. As measured by the results in congressional by-elections, the opposition margin over the government coalition increased from a slight majority in Valparaíso Province in July 1971 to a substantial one in three other provinces in January 1972.

It is far from certain that the pattern will hold through the future. Allende as Chief Executive enjoys a broad range of constitutional powers which he is clearly prepared to utilize to the utmost. His political support has receded measurably from its inflated display of last April, but he has not lost his political skill. The coalition which supports him has been strained by the internal recriminations which have followed the January electoral setback, but it shows no sign of coming apart prior to the March 1973 congressional elections. Were it to gain a majority in the Congress in those elections, there would be virtually no impediment to the definitive restructuring of Chile sought by Allende and his supporters, for they would be able to accomplish it legally. By the time of the presidential election in 1976, the opposition parties would most likely have found organization, financing, and mass communications so difficult as to make their chances of winning that election, no matter how honestly held, virtually nil.



Up to now, however, it has been more probable that the opposition would retain its control of the Congress in the March 1973 elections. The political polarization already occurring, the poor economic prospects, the continued independence of the military, and the disposition to cooperate of the two major opposition parties, the Christian Democrats and the Nationals, formed the basis for this judgment. The publication of the Anderson–ITT papers has been, however, a windfall for Allende at a critical moment for him. This development is certain to assist him politically to a degree not yet possible to assess. It will serve to heighten credence among moderates in habitual leftist charges of foreign plotting against Chile. It will leave a taint on some oppositionists, thus undercutting their effectiveness. It can drive the Chilean military further into its constitutionalist shell. (See Annex A for Santiago telegram 1536, April 1, 1972, giving Ambassador Davis' current assessment on debt renegotiation and the Anderson–ITT papers.)

*Economic*—During 1971 the GOC increased the purchasing power of lower-income sectors by about 40%, stimulating consumer-goods industries and reducing unemployment. While it claimed to hold price inflation at around 22%, moderate for Chile, and to have increased GNP for the year by 8% with unemployment at only about 3.5%, these momentary accomplishments will exact a severe economic and political price in 1972. The doubling of the money supply and stimulation of demand for consumption items has produced pent-up inflationary forces of major proportions. The anti-private enterprise policies of the regime resulted in net disinvestment in 1971 in this sector. Bad management and worker performance in much of the public sector, especially copper, left foreign exchange earnings well below goals. Accelerated expropriation of farms, much of it carried out by extreme leftist factions out of the government's control, dislocated agricultural production and left requirements for heavy food imports this year. All together, the outlook for the Chilean economy in 1972 is so bleak that no likely combination of debt relief, new credits or default will avert serious economic problems. (See Annex B for Embassy Santiago telegram 1466, March 28, 1972, Review of Chilean Economy.)

The implications in the economic sphere for U.S. strategy with regard to Chile are virtually the same as, and intimately connected with, those in the political sphere. As Embassy Santiago pointed out in a recent telegram—transmitted, it should be noted, before the publication of the Anderson–ITT memoranda—"Economics will largely determine politics during months to come," and "The odds in favor of an opposition victory in 1973 are steadily improving, and will probably continue to do so as long as the process unfolds normally and Allende remains unable to unify Chile against a credible and emotionally overwhelming foreign threat."

### III. *Chile's International Relations*

Allende's primary concerns are the survival of his regime and accomplishment of a socialist revolution in Chile. His foreign policy is designed to serve these objectives.

The USSR and the PRC have an ideological stake in the success of the Allende Government and have begun to make available some economic assistance. The USSR has raised to \$97 million a vague and unused offer of \$57 million in credits left over from the Frei Government, and is reportedly developing with the GOC plans for their utilization in industrial development projects. It has, in addition, opened a \$37 million line of bank credit to the GOC, said to be freely convertible and without strings. There are unconfirmed intelligence reports that the USSR is dangling a \$300 million offer of credits to the Chilean military for arms and equipment.

The PRC has furnished a five-year \$65 million credit to Chile, \$13 million of which is reportedly available in 1972; no further details are available. GOC officials have claimed a total of nearly \$400 million in new credits from the socialist countries (our own count is closer to \$250 million), but it is clear that a large part of this is in supplier credits of doubtful economic value or in project financing for which plans are still in drawing-board stages at best.

We believe, however, that if the Allende regime were *in extremis* economically, the Communist nations (principally the USSR) would attempt to save it. On the other hand Allende probably does not want to become completely dependent on these nations. Except in an emergency, new involvement in Chilean affairs on a large scale by the USSR and/or the PRC would contribute to Allende's domestic political problems. In any event, it would complicate his relations with neighboring countries, which the USSR, PRC, and GOC would all prefer to avoid. We estimate that the USSR and PRC would also prefer to limit Chilean demands on their resources to the minimum needed, and for this reason as well would be cautious about increasing their involvement and presence unless Allende became hard pressed. The PRC's relatively limited resources make this consideration even more important in its case. Both the Soviets and even more so the Chinese accordingly have up to now carefully kept a fairly low silhouette on the Chilean scene, both in the numbers of representatives in the country and in the prominence given them in national life.

During his first 16 months in power Allende has not moved to disrupt relations between the Chilean military and the United States, and apart from not compensating for expropriated property has not chosen to open up a confrontation with us in other respects.

Allende's most notable initiative in foreign relations, apart from his efforts to draw Chile away from the United States, has been to im-

prove his relations with the socialist countries and with other Latin American countries. Under his leadership Chile has become a new seat for international leftist organizations and he is trying to become a leader of the Third World. A number of forthcoming international conferences, including UNCTAD III in Santiago in April, will provide him with a platform and setting suited to his aims. He can be expected to make a major effort to win international sympathy and support in the Third World and beyond for Chile as a leader of underdeveloped countries in their struggle to obtain better treatment by the developed countries, led by the United States. As a part of this effort, he will undoubtedly exploit the ITT memoranda and our current position in the Paris talks.

While so far there has been no known direct GOC support for subversives against other neighboring countries, some extra-legal support, principally from the Socialist Party, has already been given, and aid to subversives from Castro or other sources will almost certainly transit through Chile.

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 will depend on the evident success or failure of the Allende regime, and whether Allende can persuasively attribute his difficulties to external factors. The implications for U.S. strategy are clear.

In sum, the course of political and economic developments in Chile has been in the direction we desire in dealing with the Chilean problem. Allende has problems, but so far he has remained unable to escape the political and economic damage of these problems by credibly transferring the blame for them from himself to us. The ITT memoranda represent the first significant opportunity for him to rally support by using the United States as an alibi.

These trends confirm the general correctness of our established policy, namely maximizing pressure on the Allende government within a cool but correct framework which ensures that measures intended to prevent the consolidation of the Allende regime do not in fact contribute to that consolidation or the regime's ability to rally support.

#### *IV. Basic Debt Renegotiation Issues*

The basic issue in our relations with Chile on which SRG guidance is required now is the question of whether it is in our interest to sign a multilateral debt rescheduling agreement for Chile this year. The principal determinants of this decision are:

- (1) its effects on Allende's political and economic prospects; and
- (2) certain basic tenets of U.S. foreign economic policy.

With regard to (1), our principal political objectives are:

a) to assure that the effects of a debt renegotiation will be of minimum assistance to Allende in solving his economic problems, both with respect to the amount of debt relief and the flow of new credits;

b) to avoid being made a scapegoat for Allende's current economic difficulties in a manner which would help consolidate his regime.

We need to determine whether these objectives can best be achieved by a) signing a multilateral debt rescheduling agreement or b) not signing and having other creditors reach agreement without us. We do not believe other creditors can be prevented from eventually proceeding to a separate agreement if we decide not to sign.

With regard to (2), the economic issues of fundamental importance to the US are: 1) that debts not be repudiated, selectively or otherwise; 2) that provision be made for prompt, adequate and effective compensation for expropriated investment; and 3) that immediate USG interests represented by Chilean obligations affecting ExImBank, AID, OPIC, and other USG agencies, (totaling over \$1.1 billion) be protected.

The political and economic determinants are, of course, interrelated. The outcome of the debt rescheduling negotiations which would probably be of most political and economic benefit to Allende would be one in which the U.S. refuses to reschedule while all other creditors agree to reschedule. This outcome would be credible evidence of U.S. "persecution" of the Allende government which he could use (1) to rally domestic and international support, and (2) to explain away the economic problems he has created for himself. This outcome could also leave Allende better off economically if the damage to Chile's creditworthiness resulting from continuing default on obligations to the United States were mitigated. This could result from a readiness by some of the other creditors (and possibly United States banks) to provide enough new credits in addition to the relief obtained by continued default on the U.S. Government debt (an average of \$80 million per year in the next three years), so that net capital inflows would be maintained at 1970 levels.<sup>2</sup>

This outcome would be most damaging to U.S. interests. Allende's hold on Chile would be strengthened. There would be great sympathy for him both in Chile and in the rest of the world. Economic pressures on him would be somewhat lessened. Closer relationships between Chile and the socialist countries would be encouraged. And U.S. public institutions could lose \$1.1 billion.

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<sup>2</sup> Footnote. Treasury dissents; see page 14 for its views. [Footnote is in the original. The Treasury Department dissents are at the end of the paper.]

If a multilateral agreement is reached on a basis acceptable to the U.S., we would still not be bound to implement the agreement by signing a bilateral accord with the Chileans. This decision could be taken later in bilateral negotiations with the Chileans.

The extent to which we achieve our objectives depends in part upon the willingness of other creditors to support us. After three meetings of the Paris Club, it has been increasingly clear that other creditors are anxious to terminate the debt default and encourage resumption of payments by Chile. Some of them are concerned that inflexibility on key issues may lead to a break in the talks, continuing default, and Chilean dependence upon Socialist countries.

The other creditors are therefore more prone to accommodate Chile being less concerned with the establishment of undesirable precedents. We believe there is a serious danger that the other creditors may be prepared to settle with Chile at the next meeting (April 17–18) provided that Chile accepts harder terms than it has offered to date, but without giving the U.S. meaningful support on debt and compensation clauses.<sup>3</sup>

We expect the other creditors will be willing to insert clauses in the multilateral agreement relating to debt repudiation and compensation for expropriated copper interests of U.S. companies, but these clauses are not likely to provide firm assurance that GOC-guaranteed debt or adequate compensation will be paid.<sup>4</sup>

If properly drafted, however, such clauses could support the principles we are concerned about, calling upon Chile to engage in a meaningful process, e.g., negotiation or arbitration, looking towards discharge of its obligations and opening the way for further consideration of Chile's performance in future debt rescheduling negotiations. A properly drafted clause could also provide a basis for U.S. refusal to sign a bilateral debt rescheduling agreement, and for a U.S. position in the I.F.I.'s, if Chile does not perform.

With regard to terms, we expect the creditors may move further toward the Chileans in the interest of reaching agreement. The creditors at present want a one year consolidation period with relief limited to 70–75% of principal, a grace period of two years and repayment over 5–6 additional years with interest at commercial rates. The Chileans want a three year consolidation period with relief covering 85% of principal *and interest*, a grace period of three years and repayment over seven additional years with interest at four per cent.

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<sup>3</sup> Footnote. Treasury dissents; see page 14 for its views. [Footnote is in the original.]

<sup>4</sup> Same. [Footnote is in the original.]

The United States has strong tactical interest in holding the consolidation period to a single year, so that any subsequent consideration of additional debt relief can be made contingent upon adequate performance under the debt and compensation clauses.

There is no further hope that an IMF standby can be obtained. The creditors have pressed for alternative commitments which are more demanding than the Chileans have offered. While the Chileans, with IMF technical assistance, are considering ways to strengthen the measures they offered as an alternative, it is unlikely that the next version will be significantly closer to a standby, particularly with respect to internal policies. However, after three meetings, the creditors are becoming impatient to reach a conclusion, and will probably concede this issue but may use that concession to bargain on terms.

The basic decision before us is whether we will sign a multilateral agreement which falls short of our aspirations with respect to the copper debt and equity issues. Based on trends in the Paris meetings to date, there is a high probability that the other creditors would proceed to sign such an agreement without us. Our negotiators would in any event make every effort to secure agreement on the options most beneficial to our interests. Decisions on two specific issues are needed at this time:

1. Repayment of the debts of nationalized American companies.
2. Provision for just compensation for the value of expropriated United States companies.

During the negotiations in Paris we are almost certain to encounter suggestions that we accept relative success on one of these issues in exchange for our ceding on the other or on the terms of rescheduling.

#### *1. The Debt Issue*

The issue here relates to the unilateral repudiation of contractual obligations undertaken by a sovereign government to its creditors. The Chileans have passed a constitutional amendment which—

a) allows the President of Chile to determine that the copper loans will not be repaid if a finding is made that they were not “usefully invested.” (Allende has ruled that \$8.1 million of the \$92.9 million Braden debts should not be repaid on this ground); and

b) provides that Chilean Government promissory notes to Anaconda arising from the 1969 partial nationalization will be paid only to the extent that a positive compensation award is made to the company. (Allende has made an excess profits determination which would appear to cancel out any compensation.)

The Chilean repudiation of debt is one issue on which most other creditors share much of our concern. This issue is complicated, however, by the different manner in which the Chileans are treating the

debts owed to the two American companies: the constitutional process is completed in the case of the Braden debt but not for the Anaconda debt. Both of these debts should receive equal treatment.

There are basically three options:

1. Require the GOC to acknowledge its obligation to pay in full all its debts, specifically including the \$8.1 million debt to Braden and the outstanding promissory notes to Anaconda.

2. Require the GOC to acknowledge its obligation to pay in full all its debts; however, in the event that differences exist after the internal process in Chile has been finished, both parties agree to submit immediately to binding arbitration under international law, to be completed within a reasonable time period.

3. Require that the agreement include a clause clearly recognizing the obligation under international law to honor debts, and a clause calling upon Chile to meet these obligations through bilateral negotiation or arbitration.

4. There is very little likelihood of obtaining Option 1. There could be some possibility of obtaining Options 2 or 3.

Issue: Do we refuse to sign the agreement if we do not achieve satisfaction under

Option 1? Yes \_\_\_\_\_ No \_\_\_\_\_

Option 2? Yes \_\_\_\_\_ No \_\_\_\_\_

Option 3? Yes \_\_\_\_\_ No \_\_\_\_\_

The remaining alternative would be to sign a multilateral agreement containing the best language we can obtain to preserve our position on this issue.

## *2. The Compensation Issue*

It will be virtually impossible to achieve prompt solution of the compensation issue. Moreover, there is solid evidence that the other creditors will not support a tough compensation position. While any language on compensation agreed upon with the other creditors would be useful to us in bilateral negotiations and in any future multilateral negotiations with the Chileans, we still must insist on a wording which closely reflects the international legal principle of prompt, adequate and effective compensation.

### *Options:*

1. Require that the Chileans agree to pay prompt, adequate and effective compensation for expropriated property, and if differences exist that they agree to submit the case to binding arbitration under interna-

tional law after a reasonable period of time for the completion of the Chilean judicial process.

2. Require that the agreement include a clause clearly recognizing the obligation under international law to pay just compensation for expropriated property, and a clause calling upon Chile to meet these obligations through bilateral negotiations or arbitration.

Option 1 has some chance of success, although it is possible that the Chileans will refuse to accept it. Option 2 has better chance of success.

Issue: Do we refuse to sign the agreement if we do not achieve satisfaction under

Option 1? Yes \_\_\_\_\_ No \_\_\_\_\_

Option 2? Yes \_\_\_\_\_ No \_\_\_\_\_

The remaining alternative would be to sign a multilateral agreement containing the best language we can obtain to preserve our position on this issue.

Footnotes on Treasury views.

1) Treasury believes that “This result is unlikely as shown by Chile’s tenacity in seeking a debt settlement.”

2) It is Treasury’s judgement that the other creditors as a group “are probably almost as serious and as inflexible as the U.S. on keeping the Chileans on hard terms.”

3) Treasury believes that the other creditors are only unlikely to accept a clause which makes it a precondition for the Chilean Government to agree to repay its public debt or guaranteed debt to U.S. companies.



107. Memorandum for the 40 Committee<sup>1</sup>

Washington, April 6, 1972.

## SUBJECT

Status Report on Financial Support to Opposition Parties in Chile

## I. Summary

On 5 November 1971 the 40 Committee approved new funds in the amount of [*dollar amount not declassified*] for the following twelve-month period to support Chilean political parties opposed to the Popular Unity (UP) coalition of President Salvador Allende and to influence the Radical Party of the Left (PIR). In approving these funds, the Committee requested a status report every sixty days which would specify the purpose for which these funds were being expended and assess their effectiveness. This is the second status report, the first having been delayed for two weeks in order to include the results of the 16 January 1972 by-elections. The opposition's success in these by-elections was made possible largely because of the financial aid [*dollar amount not declassified*] which had been approved by the Committee for this purpose on 15 December 1971.

The basic period covered by this second status report, January and February 1972 (but with some carry-over into March for continuity purposes), was the summer vacation period in Chile. Party political activity diminished considerably after the extensive effort demanded by the 16 January by-elections, although the inevitability of a new confrontation between the government and the opposition over the "three areas" bill became evident toward the end of February. Funds provided to the opposition parties during this relatively tranquil summer period were used primarily to create new, and improve existing, party mechanisms and to build party media in anticipation of the impending conflict. A total of [*dollar amount not declassified*] was passed to the three opposition parties and the PIR during January and February; of this amount, [*dollar amount not declassified*] was made available to the Christian Democratic Party (PDC); [*dollar amount not declassified*] to the National Party (PN); [*dollar amount not declassified*] to the Democratic Radical Party (PDR); and [*dollar amount not declassified*] to the PIR. A total of

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<sup>1</sup> Summary: This memorandum provided a status report on the covert funding of opposition political parties in Chile. It outlined the purposes for which the funding was being expended and its effectiveness for the months of January and February 1972.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page indicates the 40 Committee approved the memorandum by telephone on April 24.

[*dollar amount not declassified*] of the [*dollar amount not declassified*] authorized by the Committee has been passed securely since 5 November 1971.

## II. *Background*

Declining popular support for the UP government was evident in the outcome of the January 1972 by-elections; this decline, coupled with the government's increasing economic problems, has encouraged opposition parties to believe that they have a chance to retain their control of Congress in the March 1973 general elections. These elections are crucial since the government could carry out its revolutionary program without any legal impediment if it gained a Congressional majority. President Allende's 7 February announcement of his hope that UP parties would form a single "Democratic Federation" for the March 1973 elections has generated much politicking, including a variety of proposals for changing the electoral laws to permit formal electoral alliances or to bar single slates. So far, no official move toward unification has been made by either side. In recent days the subject of hypothetical party combinations and voting strengths for the 1973 elections has been submerged by more immediate and mounting political considerations.

Political tension began rising in the wake of President Allende's 21 February statement regarding the PDC's "three areas" bill. This bill, which has been passed by Congress with the backing of all opposition parties, divides the economy into three areas—state, mixed, and private. The bill would authorize the government to nationalize only those firms defined in the bill as being essential to the state, and the government also would theoretically have to restore to private or mixed ownership any previously-nationalized firms which did not meet this criterion. The opposition recognizes that this bill is essential to save private enterprise in general, and, especially the 91 major firms designated by the government in January as firms soon to be nationalized.

On 21 February, Allende not only announced his intention of vetoing the key provisions of the "three areas" bill, but said he would appeal to the Constitutional Tribunal if Congress did not accept his interpretation of the Constitution as requiring a two-thirds majority in each house to override his vetos. PDC President Fuentealba responded with a statement, subsequently endorsed by the other opposition parties, contending that a simple majority is all that is required to override Presidential vetos, that the President's only proper recourse if overriden would be a plebiscite, and that the Constitutional Tribunal is incompetent to hear the case. Negotiations were initiated between the PDC and the government aimed at reconciling differences over the "three areas" amendment, but in early March the government began to move against some of the 91 companies on the government list. On 9 March Minister of Economy Vuskovic personally led raids on several

companies accused of hoarding, evading price ceilings, etc., and last word was that of the 91 firms on the list, three had already been intervened or requisitioned, 20 had had merchandise seized, and seven had been fined. This government action caused the PDC to break off negotiations. The National Manufacturers Association (SOFOFA) issued a strongly worded statement denouncing the government's actions as flagrant legal and constitutional violations. The PN asserted that the opposition was studying the possible impeachment of Vuskovic. On 10 March Minister of Interior del Canto announced that the government would bring sedition charges against the PN's leadership as well as against the PN newspaper and radio station for statements they carried on this question.

Future developments in this escalating situation cannot be predicted, but the issue is fundamental and, for the first time, includes a constitutional issue. In by-passing the pending constitutional amendment defining the "three areas" of the economy, the government is achieving *de facto* nationalization which, if unchecked, will eventually erode the financial base of the entire opposition. By flouting the obvious intent of Congress, Allende is also risking the displeasure of the military, which is committed to maintaining constitutional norms. Ambassador Davis recently wrote that we are witnessing a race between the deteriorating Chilean economic situation and the deteriorating economic situation of the opposition parties. Neither the duration nor the outcome of this race can be predicted, but the funds now being provided to the opposition are essential to enable these parties to survive and to be prepared for contingencies. No security problems have arisen in connection with any funds passed to date.

[Omitted here are Sections III and IV.]

**108. Memorandum for the 40 Committee<sup>1</sup>**

Washington, April 10, 1972.

## SUBJECT

Request for Additional Funds for *El Mercurio*

## I. Summary

In September the 40 Committee was presented with options of providing support to *El Mercurio*, the largest and most prestigious independent daily newspaper in Chile, to help bail it out of its financial problems or permitting it to go out of business. The ultimate decision was to support *El Mercurio*. As a result \$700,000 was authorized and expended in support of *El Mercurio*. An additional [dollar amount not declassified] was given to *El Mercurio* between October and December 1971.

As a result of the current political and economic situation in Chile, it is proposed that an additional [dollar amount not declassified] be made available to *El Mercurio*. Of this amount [dollar amount not declassified] would be used to pay off a bank loan which may be called for payment at any time and [dollar amount not declassified] would be made available to cover *El Mercurio's* monthly operating deficit through the March 1973 Congressional elections.

The balance of [dollar amount not declassified] would represent a contingency fund for meeting at least some of the bank debts, new taxes and other emergencies which seem to be constantly confronting the newspaper. One such emergency may arise from *El Mercurio's* need for a better line of credit with the U.S. company from which it obtains essential printing and photographic material. Commitments from the contingency fund would be made to *El Mercurio* based on a documented need for such funds and the endorsement of the Ambassador.

The Ambassador and the Chief of Station indicate that *El Mercurio* is a significant element in promoting the opposition cause. In our view *El Mercurio's* continued existence as an independent voice, highly respected both inside and outside Chile, is deemed essential in the forthcoming period leading up to the Congressional elections which, if Allende wins, will permit him to govern on his terms. This means any

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<sup>1</sup>Summary: This memorandum requested additional funding for *El Mercurio* to prevent the independent newspaper from going out of business and thus losing an important opposition voice to Allende.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page indicates the memorandum was approved by the 40 Committee on April 11.

decision on future support for *El Mercurio* must be made on the basis of political rather than fiscal considerations.

This proposal has been approved by the Assistant Secretary of State for Inter-American Affairs. The Ambassador has also endorsed this proposal but he believes that it could be implemented with [dollar amount not declassified].

## II. Background

### A. Previous Funding of *El Mercurio*

1. In early September 1971 a memorandum presented two options to the 40 Committee in reference to the pressures being exerted by the Allende government on *El Mercurio*. One option would have withheld any financial support and allowed *El Mercurio* to go out of business, while the other involved financing the paper in the amount of \$1,000,000 with an initial commitment of at least \$700,000. On 13 September \$700,000 was authorized to keep *El Mercurio* in business. These funds subsequently reached the *El Mercurio* principals. An additional \$300,000 was authorized and expended in the period prior to the 16 January 1972 by-elections.

[2 paragraphs (19 lines) not declassified]

[chart not declassified]

### B. Current Situation (see attached financial résumé in Tab A)

1. Despite the input of [dollar amount not declassified] *El Mercurio* still faces serious financial problems which could be aggravated by government credit policies, nationalization of the paper industry, additional back or new taxes, restriction of essential equipment imports, or, by the adverse effects on advertising caused by a further general decline in the Chilean economy. The paper's operating deficit, partly due to loss of advertising, is now [1 line not declassified] and this monthly deficit may well increase as Chilean economic problems become more acute.

2. *External Bank Debts*. The newspaper also has three pending external bank debts which were not covered by the previous [dollar amount not declassified] subsidy and are not included in the current operating deficit. These debts, with accumulated interest, now are at the following levels:

First National City Bank	[dollar amount not declassified]
First Wisconsin National Bank of Milwaukee	[dollar amount not declassified]
Banco Frances	[dollar amount not declassified]
TOTAL	[dollar amount not declassified]

Our information indicates *El Mercurio* will have to liquidate the First Wisconsin National Bank debt in the near future. A factor affecting repayment of this debt is that Chilean law requires such debts be paid through the Chilean Central Bank at a special official rate of 43.4E:\$1.00. (It should be noted that *El Mercurio* would need only [dollar amount not declassified] to handle its external bank debts totalling [dollar amount not declassified] if it could use escudos purchased at the current black market rate of 80E:\$1.00.) It is our intent to enable the *El Mercurio* principals to obtain black market escudos so that the First Wisconsin National Bank debt could be liquidated in the near future at the least possible cost. This is necessary because the First Wisconsin National Bank has already requested full payment of indebtedness to it [dollar amount not declassified] and has been led to believe by *El Mercurio* that the requisite escudos have been deposited in the Central Bank, when in fact *El Mercurio* has not done so and does not have the funds available to do so.

A complicating factor in this transaction is that payment by the Chilean Central Bank to the First Wisconsin National Bank of Milwaukee is tied to the outcome of the Chilean government's current negotiations with U.S. banks on private Chilean debts as well as any re-scheduling agreement reached with major foreign creditors in the Paris debt renegotiations.

Recently, the Ambassador requested the Department of State to intercede with the First Wisconsin National Bank in an attempt to have the bank relax its pressure on *El Mercurio*. This was done, but to no avail. In short, *El Mercurio* will have to pay the First Wisconsin National Bank debt in the very near future or stop publishing under the present management.

3. *Government Pressures.* In addition to its operating deficit and its foreign bank debts, *El Mercurio* has tax problems. The government has been trying for some time to force *El Mercurio* to pay 20,700,000 escudos in additional back income taxes. The newspaper's lawyers will contest the payment in the courts, but this claim nonetheless remains a serious threat since, under Chilean law, a substantial portion of such a claim may well have to be placed in escrow pending the outcome of the case.

*El Mercurio* also is quite vulnerable to other government pressures including actions restricting the importation of essential printing supplies and equipment, labor problems, credit restrictions, and various types of legal harassments. For example, *El Mercurio* must import some \$500,000 worth of printing and photographic materials each year from the Sun Chemical Company in the United States. These supplies have been purchased on a line of credit which now runs at the \$100,000 level, but may have to be raised to \$300,000 to cover delays encountered with the Chilean Central Bank in exchange authorizations. *El Mercurio* com-

puts this expense into its normal operating costs, so it does not require any special allocation of funds for this purpose. It only needs an extension of its line of credit with the Sun Chemical Company. This is no longer possible through regular commercial channels because U.S. banks have ceased guaranteeing credits for exportations to Chile.

If circumstances require us to extend *El Mercurio's* line of credit from \$100,000 to \$300,000, [2 lines not declassified]. This would provide cover as well as the basis for a bank to underwrite the new line of credit. The [dollar amount not declassified] will be a guarantee to the bank but not subject to expenditure [less than 1 line not declassified] without U.S. Government assent [1½ lines not declassified].

### III. *El Mercurio Effectiveness*

In terms of public impact and political effect, *El Mercurio* is considered by both the opposition and the Allende government as the most effective anti-Allende media outlet operative in Chile today. (See Tab B for substantiating detail.)

### IV. *Proposal*

It is apparent that *El Mercurio* is in serious financial difficulty while at the same time being quite vulnerable to various forms of government harassment. Thus, any intermediate steps to provide *El Mercurio* with financial relief, including those proposed herein, do not guarantee the U.S. Government immunity from future requests to help bail it out financially. If, as it now appears, the First Wisconsin National Bank of Milwaukee cannot be persuaded to relax its pressure on debt payment, the paper's most pressing need will be to meet this debt of [1 line not declassified]. The next problem is its operating deficit, which so far has been covered by short-term promissory notes with local banks. These banks may well be reaching the limits of their ability to accommodate *El Mercurio*, thus each additional loan will become more difficult.

Because of many uncertainties, such as the outcome of the Paris debt renegotiations and the attitude of the Chilean courts toward the current *El Mercurio* tax case, it is not proposed that funds be approved at this time to cover all of the major deficits which might have to be met by *El Mercurio* between now and the 1973 elections. It will, however, be essential to have sufficient funds authorized and readily available to meet legitimate and urgent needs which cannot be predicted with any precision. It is, therefore, proposed that an additional [dollar amount not declassified] be approved for support to *El Mercurio*. From these funds [dollar amount not declassified] will be used to pay off the loan with the First Wisconsin National Bank of Milwaukee; [dollar amount not declassified] will be used to cover *El Mercurio's* current operating deficit of [dollar amount not declassified] monthly (through the March 1973 elections); and [dollar amount not declassified] will be held in reserve to un-

derwrite with Sun Chemical Company an extension of *El Mercurio's* line of credit from \$100,000 to \$300,000 while the balance of [*dollar amount not declassified*] will be used to meet other contingencies. This latter amount obviously is much less than the total of *El Mercurio's* indebtedness considering back taxes, foreign bank loans and purchases of supplies abroad. Commitments from contingency funds would be made based on documented need and with the concurrence of the Ambassador.

The secure passage of funds and their insertion into *El Mercurio* in Chile in a legal manner will employ techniques previously used [1 *line not declassified*].

#### V. *Risks and Contingency Planning*

It is considered that the funds requested in this proposal can be made available securely to *El Mercurio* without making outside support of the newspaper obvious to the Allende government, since the advances would be made in comparatively small increments. Each new infusion of funds, however, does increase the security hazards, because insertion of funds requires some legal transactions for cover purposes which do leave a trail that is subject to possible future examination. The trail will, however, not lead back to the U.S. Government. Without doubt Allende wants badly to put *El Mercurio* out of business prior to the 1973 elections, and it must be assumed that past pressure on the paper will only increase in the future. The paper is vulnerable to legal actions under the Chilean system as well as to physical attack. (One of *El Mercurio's* publishing plants was vandalized recently, and the paper has been forced to stop its presses three times as a result of technical difficulties which are suspected to have been caused by sabotage.) If Allende is determined to silence *El Mercurio*, he will probably find the means with some semblance of legality regardless of the amount of financial support the U.S. Government may provide. Under these circumstances any decision with regard to further financial support of *El Mercurio* must be based, not on fiscal considerations, but on value judgments regarding the importance of attempting to ensure the paper's continued existence for political purposes.

#### VI. *Coordination*

This proposal has been approved by the Assistant Secretary of State for Inter-American Affairs. The Ambassador has also endorsed this proposal but he believes that it could be implemented with [*dollar amount not declassified*].

#### VII. *Cost*

The cost of this proposal is [*dollar amount not declassified*] which is not available within the Agency budget and would have to be sought from the Agency Reserve for Contingencies.



### VIII. *Recommendation*

It is recommended that the 40 Committee approve funds in the amount of [*dollar amount not declassified*] for *El Mercurio* and on the basis outlined in paragraph IV above.

#### **Tab A<sup>2</sup>**

Washington, undated.

#### SUMMARY OF EL MERCURIO FINANCIAL STATUS (thru February 1972 and calculated at 80E:\$1)

[*chart not declassified*]

#### **Tab B<sup>3</sup>**

Washington, undated.

#### COMMENTS ON EL MERCURIO'S EFFECTIVENESS

1. If the *El Mercurio* chain, which includes *La Segunda* and *Las Ultimas Noticias*, should cease publication the opposition forces would be gravely handicapped. In terms of circulation, available data indicates *El Mercurio* averages 120,000 copies daily and 300,000 on Sunday; *La Segunda* 80,000 daily; and *Ultimas Noticias* 100,000 daily. Also, both the Christian Democratic Party's (PDC) *La Prensa* (estimated circulation 12,000), and the National Party's (PN) *La Tribuna* (estimated circulation 28,000) rely completely on *El Mercurio's* facilities for distributing their newspapers outside Santiago.

2. *El Mercurio's* reputation for reliable reporting is unequalled in Chile. The government makes a clear distinction between what *El Mercurio* says about an issue and what is being said by other opposition media outlets. Articles in *El Mercurio* produce a quick response from government officials and the government-oriented press, while hard-hitting articles in the other papers cause a lesser reaction. For example, last month Allende, in a series of private conversations with UP leaders, repeatedly stressed that the two major problems facing his government at the present time are the Chilean Armed Forces and "the information media of the political opposition" (of which *El Mercurio* is

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<sup>2</sup> Secret; Sensitive; Eyes Only.

<sup>3</sup> Secret; Sensitive; Eyes Only.

acknowledged as by far the most respected and influential). In the past months, Allende himself has responded to *El Mercurio* editorial criticism in a nationally broadcast speech, sent personal letters to *El Mercurio* challenging or criticizing specific editorials on at least several occasions, and even characterized *El Mercurio* as a “defender of bastard interests” at a public rally. In addition, UP congressmen and Allende’s cabinet ministers have engaged in a running battle of attacks and exchanges with *El Mercurio*.

3. *El Mercurio* has provided the spiritual leadership and acted as a rallying point for the opposition forces on such key issues as the University of Chile crisis, the “single chamber” issue, and the “three areas of the economy” bill—all extremely significant in the Chilean political context. *El Mercurio* has highlighted in a continuing campaign the economic chaos brought on by Allende’s policies, stressing such aspects as the scarcity of food and consumer items, lack of production, worker dissatisfaction, and credit difficulties.

4. It has also taken advantage of political “windfall” incidents, such as the recent physical harassment by the police of cripples demonstrating in front of the presidential palace, and the government’s dual standard in permitting a 23 March demonstration by the Communist-controlled labor confederation while cancelling an opposition rally scheduled for the following night.

5. *El Mercurio*, in addition, regularly publishes items designed to influence the military’s attitude on the Allende government. For example, the surfacing of Communist Party (PCCh) documents in a four-part series by *El Mercurio* in early March 1972 exposed the PCCh’s efforts to infiltrate the Chilean Armed Forces. This is, of course, a most sensitive issue with the military. The pro-government press reacted quite strongly to the publication of these stories.

6. It is for the foregoing reasons that *El Mercurio*’s continued publication is considered an essential part of the opposition effort now and through the March 1973 elections.

[attachment (2 pages) not declassified]

**109. Memorandum From Michael Kozak of the Office of the Assistant Legal Adviser for Inter-American Affairs to the Assistant Legal Adviser for Inter-American Affairs (Feldman)<sup>1</sup>**

Washington, April 14, 1972.

SUBJECT

Chile Copper-Arbitration Procedures

The General Treaty of Inter-American Arbitration, signed January 5, 1929 appears to be the only existing agreement within the Inter-American System which would provide a framework for binding arbitration of the present disputes between the U.S. and Chile and to which both countries are signatories. The bilateral 1914 Treaty for the Settlement of Disputes between the U.S. and Chile has previously been suggested as a possible alternative. This memo considers the applicability of these treaties to the issues presented by the present controversy, the procedural advantages and disadvantages of each, and the character of the arbitral panel each procedure might produce.

*The Frame of Reference*

The 1914 Treaty provides that “the . . . Parties agree that *all disputes* that may arise in the future between them, shall . . . be submitted [to the procedures specified in the treaty which include arbitration].” However, Article IV provides:

“Notwithstanding, any question that may affect the independence, the honor or the vital interests of either or both of the countries, or the provisions of their respective Constitutions, or the interests of a third nation, will not be submitted to such *or any other* arbitration.” (emphasis added).

Under Article 1 of the 1929 Treaty, the Parties “bind themselves to submit to arbitration all differences of an international character . . . which it has not been possible to adjust by diplomacy and which are juridical in their nature, including “the interpretation of a treaty; any question of international law; the existence of any fact which, if established, would constitute a breach of an international obligation; and the nature and extent of the reparation [for such breach].” Excepted under Article 2 are disputes “within the domestic jurisdiction of any of the

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<sup>1</sup> Summary: This memorandum set forth a legal framework for possible binding arbitration of the Chile-U.S. disputes.

Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. No classification marking. All brackets are in the original.

Parties to the dispute and . . . not controlled by international law, and those which affect the interest of [a non-Party State].”

Chile signed the 1929 Treaty with the reservation that it did not accept obligatory arbitration with respect to disputes arising out of acts occurring before the treaty entered into force nor

“for those questions which, being under the exclusive competency of the national jurisdiction, the interested parties claim the right to withdraw from the cognizance of the established judicial authorities, unless said authorities decline to pass judgment on any action or exception which any natural or juridical foreign person may present to them in the form established by the laws of the country.”

This reservation interprets the exception contained in the treaty for “disputes within the domestic jurisdiction of any of the Parties to the dispute” as precluding resort to international arbitration where domestic remedies have been made available.

The range of disputes arbitrable under the 1914 Treaty is not restricted to strictly “legal” questions. But, given the fact that the copper expropriations were carried out pursuant to a Constitutional amendment, the disclaimer contained in the 1914 Treaty could be seized upon by political elements in Chile opposed to arbitration of the expropriation question. Furthermore, it would seem desirable to de-emphasize the importance of that Treaty in order to avoid focusing the attention of such groups on the troublesome language contained therein which purports to extend that disclaimer to “any other arbitration.”

An agreement to submit the issue of compensation to arbitration under the 1929 Treaty, would necessarily imply agreement that the question was not “under the exclusive competency of the national jurisdiction” and was “controlled by international law.” Thus, it seems that the Chilean Government could not agree to arbitration under this treaty of all aspects of the current controversy without prejudicing its position that the measure of compensation to be paid in cases of expropriation is a matter within the exclusive competence of domestic jurisdiction.

#### *Procedures*

The 1914 Treaty establishes a permanent International Commission to which disputes may be submitted, on the motion of either Government, for investigation and report. The Commission must complete its report within one year from the date it begins the investigation, although this period may be extended by mutual agreement. The Commission’s report is not binding on the parties, but is to serve as the basis for renewed attempts for a negotiated settlement. The scope of this investigatory process is not restricted by the disclaimer previously cited which becomes applicable once the matter is submitted to arbitration. If

after six months from the date the Commission's report is received a settlement has not been reached, "the dispute will then be submitted to the Permanent Court of Arbitration established at The Hague." A special convention agreed to by both parties is required to specify "the matter in controversy, the extent of the Arbiters' powers, [and procedural regulations]." Under Article V, the special convention "remains . . . subject to the constitutional requisites of both countries."

The 1929 Treaty provides for the establishment of an ad hoc arbitral panel in each case. No time limit is set for the selection process. Article 4 provides:

The Parties to the dispute shall formulate by common accord, in each case, a special agreement which shall clearly define the particular subject-matter of the controversy, the seat of the court, the rules which will be observed in the proceedings, and the other conditions to which the Parties may agree.

If an accord has not been reached with regard to the agreement within three months reckoned from the date of the installation of the court, the agreement shall be formulated by the court.

The U.S. ratified the treaty with the understanding "that the special agreement in each case shall be made only by the President, and then only by and with the advice and consent of the Senate, provided two thirds of the Senators present concur." Under article 8, the reservations made by a party may be invoked against it by the others.

The 1914 Treaty would not appear to provide a suitable framework for "prompt" submission of the current disputes to binding arbitration. The apparently mandatory prerequisites of investigation and report by the International Commission and renewed negotiations by the parties would undoubtedly require the full 18 month period provided for in the treaty before the matter could even be submitted to binding arbitration.

In addition, the scope of the Commission's investigation and report would not be restricted by a prior compromise, and the possibility should not be overlooked that should the matter eventually go to arbitration, the decision of the arbitrators might be influenced by the outcome of the prior proceedings before the Commission. It should be noted that either party may invoke the investigatory process, and that both are bound to "furnish the Permanent International Commission with all the means and facilities required for its investigation and report." Thus, if Chile were so disposed it could force submission of the question to this procedure.

The 1929 Treaty also contains potential for delay. Article I of that Treaty provides that "the provisions of this Treaty shall not preclude any of the parties, before resorting to arbitration, from having recourse to procedures of investigation and conciliation established on conven-

tions then in force between them.” In testifying before the Senate Committee on Foreign Relations the Secretary of State, Mr. Kellogg, stated with respect to this provision that “if any of the parties desires conciliation first, it is entitled to have recourse to that procedure by an unilateral request.” Thus, the 1929 Treaty, like the 1914 Treaty, could be seized upon by a party to delay the initiation of the arbitration process. Unlike the 1914 Treaty, however, this Treaty does not of its own force require prior investigatory proceedings.

The major procedural obstacle to prompt arbitration of the current dispute under the 1929 Treaty would be the U.S. reservation. It would clearly make necessary the approval of the U.S. Senate to any compromise that might be formulated between the executive branches of the U.S. and Chilean Governments. In addition, although the Treaty does not explicitly require the approval of the compromise by the Chilean Senate, the fact that the reciprocity provision would permit the Chilean Government to insist upon such a procedure vis à vis the U.S. could tend to engender political pressure within the Chilean system to do so. The reservation also precludes the alternative of formulation of the accord by the court itself.

A question has been raised as to whether the reservation could be construed as applying only in cases where the United States is the real party in interest. The 1929 Treaty was first submitted to the U.S. Senate for its advice and consent in 1929. In 1932, the Senate consented with reservations which were determined by the Department to be unacceptable. Accordingly, the President declined to ratify the Treaty and in 1934 resubmitted it to the Senate with a view to eliminating the most unacceptable of the reservations. In a letter to Senator Pittman, Chairman of the Senate Committee on Foreign Relations, dated February 19, 1934 the Secretary of State, Cordell Hull, proposed a substitute resolution which included the following provision:

*“Resolved (two-thirds of the Senators present concurring therein), That the Senate advise and consent to the ratification of Executive \_\_\_\_\_, \_\_\_\_\_ Congress, \_\_\_\_\_ Session, a General Treaty of Inter-American arbitration, signed at Washington, January 5, 1929, with the understanding to be made a part of such ratification, that the special agreement provided for in Article 4 of the treaty, in each case where the question to be arbitrated concerns a claim against the United States, shall be made on the part of the Government of the United States of America only by the President by and with the advice and consent of the Senate, notwithstanding any provisions of the treaty to the contrary.”*

The language limiting the requirement of Senate approval to cases involving claims against the U.S. was deleted from the reservation finally adopted by the Senate and approved by the President. It would be difficult to overcome the argument that the Senate was well aware that the effect of the reservation could have been restricted to particular

types of matters and that it rejected this approach in favor of a generally applicable provision.

As previously noted, the special convention required in each case under the 1914 Treaty procedure "remains . . . subject to the constitutional requisites of both countries." I have been unable to locate any definitive background information regarding the purpose of this provision. L/T has expressed the view, however, that this provision should be read in the context of the position traditionally taken by the U.S. Senate that its consent to the agreement of the U.S. to arbitrate should be sought with respect to each individual arbitration. The reservation advanced by the Senate with respect to U.S. ratification of the 1929 Treaty was one manifestation of that view. Similar understandings are included in U.S. ratifications of a number of bilateral and multi-lateral arbitration treaties. The legislative history of the ratification of the 1929 Treaty demonstrates a Senatorial concern that the compromise in each case constituted a separate treaty, and therefore, that the Senate could not waive or delegate to the Executive its Constitutional authority with respect to such agreements.

Apparently, no distinction was made under this view between arbitrations in which the U.S. was the real party in interest and those involving the claims of U.S. nationals against foreign governments. An example of contemporary practice is found in "a protocol relative to a claim on the government of Chile in the case of the ship "Good Return" signed December 6, 1873 between the U.S. and Chile. The claim related to an American whaling vessel which had been seized by Chilean authorities in 1832. Although the protocol concluded for the ad hoc arbitration of the issue presented no possibility that the U.S. could be held liable, it was explicitly subject to approval by both Governments, and was submitted to the U.S. Senate for ratification. It is interesting to note that the protocol also explicitly provided that it would come into force "previous to its approval by the national congress of [Chile]."

In more recent years, a distinction has been made in practice between cases involving potential liability of the U.S.G. and those in which no such issue existed. L/C has informed me that the U.S. has been party to only one arbitration since World War II. That case involved the claims of U.S. landowners whose property had been flooded by the construction of Gutt Dam in Canada. Authorizing legislation was sought in that case (a) because appropriations were required to pay both the U.S. agent and our share of the costs of the arbitration and (b) because there was the possibility of a Canadian counter-claim against the U.S.G. A number of arbitrations conducted prior to the war which did not involve potential U.S. liability were undertaken by Executive Agreement, without Congressional authority. Funds necessary to defer the necessary costs were provided for in the Department's appro-

priation without special authorization. Thus, it would appear that whatever the Senatorial view may have been in 1914 with regard to the “constitutional requisites” of concluding a compromise, under the modern view no Senate approval of such agreements is required unless potential liability of the U.S. is involved. A strong argument could therefore be made that the advice and consent of the Senate is not required to conclude a compromise under the 1914 Treaty. It would be difficult to make the same argument with respect to the 1929 Treaty, however, since the U.S. reservation thereto is explicit with respect to the procedure to be followed.

#### *Composition of the Arbitral Panels*

The 1914 Treaty provides for submission of disputes to the Permanent Court of Arbitration at The Hague, the membership of which would be determined in accordance with the agreements establishing that body. The composition of the Permanent International Commission charged with conducting the preliminary investigation of the dispute is provided for by the Treaty itself. Each Government is to appoint two members, only one of whom may be of its own nationality. The fifth member, the President, is chosen by agreement between the two Governments and he may not be of the same nationality as any of the other members. Prior to the beginning of the investigation, each government may replace the members appointed by it and may withdraw its approval of the fifth member. If a successor cannot be agreed upon within 30 days, the President of the Swiss Confederation is to appoint one.

As you know, Chile has designated as members of the Commission Messrs. Edmundo Vargas of Chile and Manfred Lachs of Poland and has agreed with the U.S. upon the appointment of Mme. Suzanne Bastid of France as President. The U.S. in 1965 notified Chile that it would appoint the remaining two members “in due time” but has failed to do so.

The 1929 Treaty provides for the designation of an arbitrator or tribunal by mutual agreement or, in the absence of such agreement, provides for selection of a five member panel. Each party may select one member from the persons it has designated as members of the PCA. Each may designate another member who may be a national of any other “American” state. The fifth member is to be selected by the other four, with preference being given to persons of “American” nationality. Failing agreement, each designates a “non-American” member of the PCA and these two persons select the fifth member, the only restriction being that he not be a national of either party to the dispute. Although this procedure clearly favors an “all-American” panel, it would appear to provide adequate protection against a Latin American majority (e.g.



the U.S. could designate a U.S. and a Canadian national and insist upon a non-American fifth member).

### *Conclusions*

Neither the 1914 bilateral nor the 1929 Inter-American treaty would appear to provide a satisfactory framework for the comprehensive arbitration of the issues outstanding between the U.S. and Chile. The primary obstacle to such arbitration under both procedures is the fact that Chile has previously taken positions respecting the nature of the primary issues which clearly imply that they are not arbitrable within the frames of reference of the existing treaties. Although Chile might find it possible to submit selected issues under these procedures (e.g. the suggestion that the partial repudiation of the Braden debt be resolved through the 1914 procedure), it is doubtful that the U.S. could accept such a limited treatment of the overall problem unless adequate assurances were made that the other issues would be dealt with effectively through other means. In addition, both procedures are fraught with potentialities for delay and provide further opportunities for interference by opposition elements.

Neither treaty would appear to offer a comprehensive model for an ad hoc agreement. It might be acceptable to the U.S. to agree to utilize the investigatory panel already partially designated under the 1914 Treaty or the procedure for selecting a panel provided for in the 1929 Treaty in order to create the impression that both countries were adhering to previous international commitments if this would be politically advantageous to the Chilean Government. In addition, this procedure might prove less disparaging to the efficacy of the Inter-American system than would a total rejection of existing dispute settlement procedures in favor of a completely ad hoc arrangement.

It should be noted that both the 1914 and 1929 Treaties provide Chile with opportunities to seriously delay or prejudice the possibility of submitting the issues to arbitration while appearing to honor its international obligations in this respect. Under either Treaty, Chile could force submission of the issue to a lengthy conciliation process in which the panel would be without benefit of a joint compromise specifically defining the issues. The investigatory processes could be directed towards irrelevant but potentially embarrassing questions such as the ITT affair. Ultimately, Chile could agree to submit the issue to arbitration, subject to legislative consent, and then orchestrate a non-partisan rejection of the process on the grounds that the issues involved are excluded from the frames of reference of these agreements.

Thus, it seems that emphasis should be placed upon formulating an ad hoc arrangement which would permit the prompt submission

and resolution of the issues without prejudicing either party's legal position.

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## 110. Memorandum for the 40 Committee<sup>1</sup>

Washington, April 19, 1972.

### SUBJECT

Request for Permission to Use Available Funds to Support the Radical Party of the Left (PIR)

### I. Summary

The second Status Report on Financial Support to Opposition Parties in Chile, dated 6 April 1972, informed the 40 Committee that a coordinated effort was being made to induce the Radical Party of the Left (PIR) to leave the government Popular Unity (UP) coalition. [*name not declassified*] a lawyer with a large business clientele had told PIR leaders in March 1972 that he could raise [*dollar amount not declassified*] from his business clients which would be made available to the PIR the day they broke with the UP. On 6 April the PIR pulled out of the UP coalition, and on 7 April the promised funds were passed to PIR leaders. The exodus of the PIR from the UP is a serious political setback to Allende since it undermines the broad-based image of popular support which he has been attempting to create, and weakens his chances of putting together a winning coalition in the 1973 Congressional elections.

On 5 November 1971 the 40 Committee authorized [*dollar amount not declassified*] for support to the Democratic Radical Party (PDR), the conservative wing of the Radical Party, which split from its parent party and supported Alessandri rather than Allende in the 1970 presidential election. The 40 Committee also approved [*dollar amount not declassified*] for the PIR, which split from the Radical Party on 3 August 1971, for the purpose of fostering dissension within the UP and eventually inducing the PIR to leave the UP. The funds allocated for the PIR

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<sup>1</sup> Summary: This memorandum requested funding for efforts to support the PIR after it left the UP governing coalition.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page indicates the 40 Committee approved the memorandum by telephone on April 24.

have been spent, but [*dollar amount not declassified*] of the amount approved for the PDR can be reprogramed to the PIR without damaging the PDR's existing political capabilities. It is requested therefore that CIA be authorized to use [*dollar amount not declassified*] originally approved by the 40 Committee for the PDR to assist the PIR in the period through July 1972. In addition, authority is requested to use an additional [*dollar amount not declassified*] which is available within existing Agency funds, to support the PIR through October 1972. In October a new proposal will be submitted to the Committee outlining the needs of all opposition parties during the period preceding the March 1973 Congressional elections. In our view, the total [*dollar amount not declassified*] can be passed securely to the PIR.

## II. Background

The PIR (formerly called the MRII) split from the Radical Party (PR) on 3 August 1971, immediately following the PR's national convention. PIR leaders, who include five senators and seven deputies, issued a lengthy statement criticizing the "rigging" of the convention and the PR's adoption of Marxist ideology, while describing their new party as democratic and non-Marxist—a stance which appeals to a large number of former PR members. Allende made a strong effort to retain the support of the PIR, and in January 1972 the party accepted two cabinet posts (Minister of Justice and Minister of Mines). Despite this close association of the PIR with the UP, it was apparent that a majority of PIR members, including PIR President Luis Bossay, favored leaving the UP at an opportune time provided that they could locate adequate sources of financial support for their future political activity.

[*name not declassified*] established channels of access to the PIR immediately after the PR–PIR split, and by October 1971 had become convinced that the availability of financial support would be a decisive factor in determining the party's future course. After the 40 Committee's approval on 5 November of [*dollar amount not declassified*] for the PIR, [*less than 1 line not declassified*] to act as a funding channel for small monthly contributions which were described as coming from the local business community. [*3 lines not declassified*] As their confidence in him increased, these leaders become increasingly frank in discussing their motives, plans and problems, including their reasons for distrusting promises of support from the business community, which had defaulted on similar commitments in the past. By making a series of increasingly substantial but still relatively small contributions, [*4 lines not declassified*].

By 23 March it appeared fairly certain that the PIR intended to leave the government in the next few months, with the exact timing to be determined by Bossay, who wanted to withdraw on a clearcut issue which the electorate would understand. The strategic moment came on

5 April, based on Allende's vetoes of key provisions of the "three areas" Constitutional amendment. The PIR, working through the PIR Minister of Justice, had been negotiating with the Christian Democratic Party (PDC) to work out a compromise on this crucial bill, but Allende had agreed to the hard line recommended by the Socialist Party in handling these vetoes rather than the more moderate position worked out by the PIR. *[name not declassified]* requested an emergency meeting *[less than 1 line not declassified]* saying that the promised financial support was essential to the party and he wanted to be sure the money was available before passing the point of no return. He was reassured *[less than 1 line not declassified]* regarding this support. On 6 April the two PIR cabinet ministers resigned and the PIR pulled out of the UP. In a major speech on 6 April President Allende sharply denounced the PIR's withdrawal from the government and the UP, threatened a plebiscite to dissolve Congress, and announced that the government had approved a 12 April march by opposition forces but that the UP would reply with its own demonstration on 18 April. The Ambassador has reported that the unusually testy manner in which Allende reacted to the PIR departure from the UP indicates that this PIR action is a serious blow to Allende. This is because Allende's favorite theme has been that the UP coalition includes non-Marxist parties whose major appeal is to the middle class, of which the PIR was clearly representative.

In outlining their financial needs, PIR leaders have reported that their only income *[less than 1 line not declassified]* is approximately 150,000 escudos a month, most of which comes from Chilean businessmen of Lebanese background who have been traditional supporters of various Radical Party factions. At a minimum, the party will need an additional *[number not declassified]* escudos a month for operating expenses, and hopes to obtain about *[number not declassified]* escudos for the electoral campaigns of the two PIR senators and seven deputies whose terms expire in March 1973 as well as for other PIR congressional candidates. The PIR also intends to buy Radio Yungay, in order to have its own media outlet, and plans to use the *[number not declassified]* escudos which they received on 6 April *[less than 1 line not declassified]* for this purpose. Acquisition of this particular station has been a Radical Party objective for a long time. In January 1971 the 40 Committee authorized *[dollar amount not declassified]* to enable the PDR to purchase Radio Yungay, but this authorization was never implemented because PDR leaders decided they could not manage or maintain the station effectively. The Embassy and the Station are both concerned about continuing UP efforts to increase the number of radios under their control, and believe that the PIR's acquisition of this small Santiago station is desirable as one of the principal means by which PIR political momentum can be maintained. Details regarding the radio's purchase price and current terms of sale are not yet available.

The PIR will need an estimated [*dollar amount not declassified*] in financial support to cover monthly operating expenses through October 1972, by which time a new proposal will be submitted to the 40 Committee outlining the financial needs of all opposition parties for the March 1973 Congressional election campaign. One half [*less than 1 line not declassified*] is available from funds previously authorized by the Committee for the PDR and could be used to cover operating expenses for the months of May, June and July 1972. The remaining [*dollar amount not declassified*] for operating expenses for August, September and October 1972 is available within the Agency. The above estimate of monthly PIR operating costs was provided by PIR leaders during discussions [*less than 1 line not declassified*] and no detailed breakdown of these costs is available at this time. We expect to be able to obtain a detailed breakdown of the purposes for which any future funds passed to the PIR are spent, and this information will be included in future status reports.

In addition to the [*dollar amount not declassified*] to cover monthly operating costs of the PIR, the Ambassador and the Station estimate that another [*dollar amount not declassified*] should be made available [*less than 1 line not declassified*] to the PIR for electoral purposes even before the October 1972 opening of the March 1973 election campaign. These funds would serve the purpose of demonstrating the [*less than 1 line not declassified*] ability to raise funds for the PIR's election campaign and allay any fears PIR leaders might have about their means of financing the elections. The total funds to be committed to the PIR up through October 1972 would thus consist of the [*dollar amount not declassified*] transferred from PDR allocations previously approved by the Committee and an additional [*dollar amount not declassified*] which is available within the Agency for this purpose. (See Attachment for details.)

### III. Proposal

It is proposed that [*less than 1 line not declassified*] approved by the 40 Committee on 5 November 1971 for support of the PDR be made available to cover PIR operating expenses through July 1972. In addition it is requested that [*dollar amount not declassified*] which is available within the Agency, be approved for use in supporting the PIR through October 1972. By 1 November 1972 the funds approved by the Committee on 5 November 1971 for support to all opposition parties for a calendar year will have been spent. As a result a new proposal will be submitted to the 40 Committee in October 1972 covering the needs of all opposition parties, including the PIR, during the period preceding the March 1973 Congressional elections.

### IV. Funding and Risks

[2 paragraphs (20 lines) not declassified]

The future political progress of the PIR will be watched closely, particularly by the PR and by the other small parties which still remain within the UP coalition. Without financial resources, the PIR will either wither away or will be forced to sue for readmission to the UP. Either eventuality would effectively discourage any further defections from the UP. On the other hand, an active, reasonably effective PIR could serve to attract additional supporters away from the PR and to inspire further defections by other small UP parties which resent Socialist and Communist Party domination of the UP and the government. Anti-government statements made by PIR leaders who have been members of the government and have participated in the UP since its inception will have unique impact and political credibility, both inside Chile and abroad. Though PIR strength at the polls in the forthcoming Congressional elections may be only 3–5% of the total electorate, the PIR's opposition to UP candidates could have an important psychological impact as well as a bearing on overall election results since the UP and the opposition parties were within 2% of each other in the Municipal Elections of April 1971 which was the most recent test of voter strength on a national basis.

#### V. *Coordination*

This proposal has the concurrence of the Ambassador and the Assistant Secretary for Inter-American Affairs.

#### VI. *Cost*

No new costs are involved. The [*dollar amount not declassified*] was previously authorized by the 40 Committee for support of the PDR and the balance of [*dollar amount not declassified*] is available within the Agency.

#### VII. *Recommendation*

It is recommended that the 40 Committee approve the reprogramming of [*dollar amount not declassified*] from the PDR to the PIR and the use of an additional [*dollar amount not declassified*] which is available within the Agency for the support of the PIR through October 1972.

[1 attachment (1 page) not declassified]

**111. Memorandum for the 40 Committee<sup>1</sup>**

Washington May 11, 1972.

**SUBJECT**

Elections at the University of Chile

1. This special report on the favorable outcome of the 27 April 1972 elections at the University of Chile is being submitted because the contest between Marxist and non-Marxist forces in the university was an event of national importance with the non-Marxist candidate for rector gaining an absolute majority over the personal candidate of President Allende. Political trends in Chile have often been forecast by university elections; and, in this year's highly charged political atmosphere, more significance than usual was attached to the outcome of these university elections by political forces in Chile.

2. The University of Chile is the country's largest and most important institution of higher learning with over 60,000 students. The main campus is located in Santiago but the university also has campuses in eight provincial centers throughout Chile. Student politics have always been an integral part of the University of Chile where campus organizations represent national political parties and serve as a training ground for future political leaders. In recent years, administrative control of the university also has become a sought-after prize of the contending political forces. The university is jointly directed by three "estates:" students, faculty, and staff. Voting is weighted, with the faculty having 65% of the voice in the final results; students, 25%; and non-teaching staff, 10%. This voting spread, plus the distribution of campuses throughout the country, lends somewhat of a national character to these university elections.

3. In the last university elections (June 1971), Marxist and non-Marxist forces were almost evenly matched. Dr. Edgardo Boeninger, supported by non-Marxist students and professors, was reelected rector of the university, but the Marxists gained a majority on the 100

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<sup>1</sup> Summary: This memorandum examined the elections held at the University of Chile in April 1972. The contest was "an event of national importance" as the election showdown between the Marxist and non-Marxist forces indicated a political shift away from Allende.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page indicates that the memorandum was distributed to the principals of the 40 Committee on May 12. A covering memorandum states, "Paper distributed to all principals. Not forwarded to HAK but read by Bill Jorden. All principals notified that paper being filed 5/22/72. Will not be a minute item."

member university advisory council. Efforts by the Marxist-controlled council to obtain political control of the university erupted into violence in October and November 1971. The resulting crisis was not finally resolved until January 1972, when both the rector and the council resigned after agreeing to new elections in April 1972. These elections were to choose the two key administrative officers (Rector and Secretary-General) and a new council as well as to hold a university plebiscite on a number of questions relating to university reorganization and internal administration.

4. There were four candidates for the rectorship. Boeninger, running for reelection, was supported by the University Front, a coalition of forces in opposition to Allende. His chief rival was Felipe Herrera, former president of the Inter-American Development Bank (IADB), who had been in charge of preparations for the United Nations Council on Trade and Development (UNCTAD) which is now meeting in Santiago. Herrera was persuaded by Allende to resign from UNCTAD in order to run for the rectorship. He received strong support from the government and the government's Popular Unity (UP) coalition. Two ultra-leftist candidates were also in the running: Andres Pascal Allende, a nephew of the President, and Luis Vitale. Although these two minor candidates were expected to attract some leftist votes away from Herrera, they also bolstered Herrera's efforts to appear as a candidate of the center and to attract independent and conservative support.

5. [1 paragraph (16½ lines) not declassified]

6. The results of the elections were as follows: Boeninger, 51.86%; Herrera, 43.63%; Pascal, 3.66%; and Vitale, 0.85%. Unofficial returns also indicate that the Boeninger forces have definitely won 53 of the 100 positions on the university council, with the possibility of gaining one or two more. No information on the outcome of the plebiscite has been released, although it has been reported in one newspaper that the viewpoints advocated by the Boeninger forces carried the day.

7. The Attachment hereto shows the voting patterns for the rectorship in both the June 1971 and April 1972 elections. In general, Boeninger obtained a higher percentage of the student vote this time (51.7% as contrasted with 47.7% in June 1971) which more than offset a slight drop in faculty support (to 52.6% from 53.8% in June 1971). There seems to be little doubt that Herrera appealed to some independent and conservative professors. The victory of the democratic University Front in these elections should provide some impetus for the opposition in the upcoming Chilean Student Federation (FECH) elections, which are now scheduled to be held in late May or early June 1972. Boeninger's victory also should assist opposition efforts to oust UP forces from control of the university's TV Channel 9 which is one of the most widely viewed TV stations in Chile.



8. The university elections were widely regarded in Chile as an important weathervane of national political opinion. Had Boeninger been defeated, Allende could have claimed it was the beginning of a new and favorable trend for the government. Allende also would have had a ready-made theme for his May Day speech and for the numerous delegates now attending the UNCTAD conference in Santiago. As things turned out, the university elections represent still another politically embarrassing reverse for Allende while maintaining and increasing the momentum of the political opposition.

### Attachment

#### UNIVERSITY ELECTION RESULTS

*June 1971*

	Opposition Candidate (Boeninger)	UP Candidate (Novoa)	Null and Blank Ballots	Total Vote
<i>Faculty</i>	3,996 (53.8%)	3,408 (45.9%)	25	7,429
<i>Students</i>	17,415 (47.7%)	18,998 (52.0%)	92	36,505
<i>Staff</i>	3,078 (45.6%)	3,677 (54.4%)	—	6,755

*April 1972* (Null and blank ballots not included)

	Opposition Candidate (Boeninger)	UP Candidate (Herrera)	Minor Candidates (Pascal, Vitale)	Total Vote
<i>Faculty</i>	4,391 (52.6%)	3,655 (43.4%)	304 (3.6%)	8,350
<i>Students</i>	22,620 (51.7%)	17,848 (40.8%)	3,243 (7.5%)	43,711
<i>Staff</i>	3,788 (47.4%)	3,973 (49.7%)	231 (2.9%)	7,992

**112. Memorandum From William J. Jorden of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, May 18, 1972.

SUBJECT

Threatened Assassination of Allende; Political Crisis Looms in Chile

You should be aware of the following:

We have a report that outbreaks of violence may occur in Chile beginning tomorrow (May 19) culminating in an attempt to assassinate President Allende on Sunday (May 21). The information—which comes from two sources, [2 lines not declassified]—is too detailed to be ignored. It may, of course, be exaggerated. However, rumors of impending violence—and even civil war—have begun to spread through Santiago.

The plot is attributed to leaders of the Movement of the Revolutionary Left (MIR), a group dedicated to revolutionary violence. They are reportedly disillusioned with Allende because of his failure to move Chile faster and farther toward leftist totalitarian rule. They are opposed by the Communist Party of Chile which supports Allende in his policy of gradualism in building a socialist state. It is the Communists who reportedly have disclosed the MIR plot to Allende.

The MIR plan appears to be: to foment serious civil disturbances in southern Chile. This would draw significant elements of the Army to the south and away from Santiago. Then, on Sunday May 21, when Allende is scheduled to open the new session of the Congress, the MIR would strike in Santiago—with terror and murder and massive violence.

Allende has taken the threat with enough seriousness to triple his own bodyguard. He is also reported to have put Chilean Army units in the south on special alert. We also have a report that he has called a special emergency session of leaders of Popular Unity (UP), the government coalition, to consider how to deal with the problem.

The Communists are said to have threatened to withdraw from the ruling coalition unless Allende takes forceful action to oppose the MIR promptly. The Communists are reportedly demanding an immediate confrontation with MIR. They are also insisting that Allende remove

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<sup>1</sup> Summary: In this memorandum, Jorden informed Kissinger of an assassination threat against Allende and examined the potential political crisis looming on the horizon.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VII. Secret; Sensitive. Sent for information.

some 700 MIR members or sympathizers from government jobs. Our intelligence sources indicate that Allende is not the only intended victim of attack. Apparently there may also be attempts made on the lives of some Communist Party leaders and even some foreign diplomats (especially Communists). The purpose of these actions is said to be to “prove” that rightists are responsible for the violence. Once violence erupts, the MIR would use the resulting confusion as a pretext for revolution and violent take-over of authority.

There is *no* indication in any of the intelligence reports of anything more than coincidence between the alleged plotting of violence in Chile and President Nixon’s departure for Moscow.

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**113. Memorandum From William J. Jorden and Richard T. Kennedy of the National Security Council Staff to the President’s Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, May 18, 1972.

**SUBJECT**

FY 1972 Foreign Military Sales Level for Chile

During the Senior Review Group Meeting of April 11, 1972, on Chile debt renegotiation, the question of FMS levels for Chile came up. The SRG members present agreed that a level up to \$10 million for FY 1972 was appropriate. This would be approximately double the FY 1971 level, but would not be out of line with levels in other Latin American countries of comparable size and would be consistent with our desire to maintain some influence with the Chilean military in the face of massive credit offers from the Soviet Union. The Treasury Department concurred, but recommended that the decision be deferred until after

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<sup>1</sup> Summary: In this memorandum, Jorden and Kennedy discussed the level of foreign military sales for Chile in fiscal year 1972. They noted that the SRG members agreed that \$10 million was an adequate sum for FY 1972.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VII. Secret. Sent for action. Haig signed the memorandum for Kissinger. Tab A, a May 19 memorandum from Kissinger to the Secretaries of Defense and State informing them that President Nixon reviewed the recommendations of the SRG at its April 11 meeting and approved “up to \$10 million” of FMS for Chile, is attached but not published. For the minutes of the SRG meeting, see *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 298.

the Paris Club meeting on Chile's debt renegotiation request. The other SRG members agreed.

The Paris Club meeting was brought to a satisfactory conclusion and Treasury has already informed the Department of Defense that it withdraws any objections it may have had to proceeding with the program at the \$10 million level. With the growing opposition to Allende, the contact with the Chilean military, which this FMS credit will afford, becomes doubly important.

We have prepared a memorandum for the Secretaries of State and Defense (Tab A) indicating approval of an FMS ceiling for Chile of up to \$10 million for FY 1972.

*Recommendation*

That you sign the memo at Tab A.

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**114. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, June 12, 1972, 2243Z.

2902. For OPIC President Mills & Exec. Vice-Pres. Salzman. Subj: ITT & Copper. Ref: State 97250.

1. Summary: On July 10 I met with President Allende as instructed reftel. Allende responded to my presentation by sharply criticizing ITT's action in Chile. He said that only with difficulty had he been able to overcome strong pressures within GOC to confiscate ITT assets. He offered "private" support with President Chilean Senate to convert appraisal mechanism in proposed amendment to appraisal by international commission. He displayed some irritation over MAP to Bolivia and omission of Chile from itineraries of high-level US travellers. He spoke in general terms about solutions to US-Chilean problems that would lead to more positive economic relations, mentioning possibility

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<sup>1</sup>Summary: This telegram reported on a meeting between Davis and Allende. During the discussion Allende presented a sharp critique of ITT's actions in Chile, even hinting that ITT had been lucky to avoid a full-scale confiscation of its property, offered "private" support in the Chilean Senate regarding the proposed constitutional amendment for appraisal of expropriated assets, and displayed concern over the economic situation in Chile.

Source: National Archives, RG 59, Central Files 1970–73, INCO 15–2 CHILE. Secret; Immediate; Exdis. Reference telegram 97250 to Santiago is *ibid*.

of both a Cerro-like arrangement by which Anaconda could receive payment and a global package deal which might resolve debt/compensation issues between us. His remarks reflected his obvious concern over deterioration of Chilean economy. End summary.

2. President Allende received me last Saturday morning in his Tomas Moro residence. Telling President I was speaking under instructions, I made points contained paragraph 3, reftel. When I suggested possibility of equitable appraisal procedures as per paragraph 4, I invited President's reaction. He answered that he would like to hear out everything I had to say before making any comment. Therefore, I completed my own presentation, making statements contained paragraph 5.

3. Allende began his answer by citing ITT's "improper and inadmissible" activities. He said any other country whose dignity had been so assaulted would have confiscated Chiltelco outright. He said that Chilean public opinion has been a continuous limiting factor on his freedom of action during recent weeks and that he found himself under most severe attack in his own Socialist Party. He was accused of being "soft." There was no question, the President said, that ITT had been guilty of direct intervention in Chilean affairs. He, Allende, had stretched the limits of his political room for maneuver in presenting the bill and amendment, which he did. In present situation, Allende must take position that he will not rpt not receive representatives of ITT. President added as an aside that he would not receive Anaconda either, because of their embargo. Returning to ITT, Allende asserted (as he had on May 12), that Chile proposed deducting essentially only those monies which ITT had illegally obtained over the years. Allende said he had stood up to great pressure in holding the line against confiscation.

4. Allende went on to assert that he was doing his best to prevent ITT case from exacerbating our relations. He said he had requested Chilean press to play down ITT matter—within limits of his ability to influence a press which remains free. He had asked press not to attack U.S. Government, nor to pursue personal attack against Ambassador Korry. While he was obviously in no position to silence press altogether, he said he believed his efforts to induce restraint had had significant results.

5. Allende then turned to the question of appraisal. He said he did not think it would now be useful for U.S. experts to talk with Executive Branch of GOC, as ITT matter now is in the hands of Chilean Congress. (He made no reference to OPIC, although I had made clear that USG experts would include an OPIC representative.) Allende said that perhaps Chilean Senate—or President of Senate might receive US experts. After momentary pause, he somewhat reversed himself, saying

better idea might be for him to talk with Senate President privately and explore possibility of changing appraisal mechanism to one that would put responsibility in hands of an international commission. Allende suggested that I also talk to Senate President along these lines. He reiterated that he would not oppose such an idea—and would privately, repeat privately, give it his support.

5. Changing the subject, Allende alluded to Bolivia and the magnitude of U.S. military assistance to that country. I remarked that we seem to be criticized no matter what we do in the military assistance field. There had even been press criticism in Peru of our extremely modest grant program to Chile. Allende remarked that it was nonsense to criticize the few training grants that our program consisted of “and the \$5 (sic) million dollars or so we were providing in credit. . . . The Soviet Union would give us 500 scholarships for military training any time.” Regarding Bolivia, I told Allende I could assure him that there was no U.S. Government desire to encourage any sort of Bolivian adventurism with regard to Chile. U.S. military support, which was not very great in any case, was directly related to Bolivia’s own needs. Allende answered “Yes,” he understood and accepted the fact that this was true.

6. In an indirect reference to Secretary Connally’s trip, President Allende mentioned high-level visits to Latin America. He complained that such visits seem to include up to half a dozen countries in South America and yet skip Chile. He supposed that when Dr. Kissinger takes a turn around the Hemisphere, he will probably skip Chile, too. I remarked that I did not think visit itineraries were the important problem between us. What we needed on both sides was a serious effort to work out our substantive problems, such as debt and compensation. Allende then turned to the theme of U.S. economic policy toward Chile. He said he knew the U.S. Government would not send the Marines to land on Chilean shores, but the economic effects of our policy toward Chile were in some respects even more damaging. Allende said Chile was having to turn to Japan for heavy equipment needed in the copper mines. Chile was being starved for spare parts. I remarked that U.S. suppliers were perfectly willing to sell Chile any spare parts desired. The question is not one of denial, but of credit. Allende agreed that was true. I added that the U.S. Government remains fully ready to look for a mutual acceptable solution for our differences.

7. Allende suggested that I talk to Anaconda, and see if they might propose something similar to the recent deal worked out with the Cerro Corporation. Allende reflected-out-loud about the possibility of some arrangement whereby Chile would agree to sell Anaconda copper over a period of years at a discount price. In any case, he said, there must be some formula which could be worked out. Allende asked

me to explore the possibility of some sort of package—perhaps one which would cover the whole range of our bilateral debt and compensation problems. Then I might come back to him again for further private discussion. I might also talk with “Arrate or Matus—better Arrate.” Allende said he would very much like to find a way to pay Anaconda some millions of dollars over a period of years. He said he also wants the copper tribunal to find the way open to review the excess profits question. He added, that I must remember that Chilean courts are free, and the President cannot tell them what to decide. Returning to the idea of some global formula, he said he would like me to look into that possibility, and added that he hoped it might include renewed credits. He once again reaffirmed that he was fully prepared to consider a package solution. But I should understand he is operating within real limitations. He cannot do anything and everything, but said he was prepared to try to work something out. I told the President I would consult and see what concrete proposals might be possible.

8. Comment: We have been getting a few indications that the economic squeeze is pushing Chilean leaders toward thinking more seriously about U.S.-Chilean economic accommodation. It is interesting that Altamirano reportedly mentioned this possibility in a private meeting with Corvalan in mid May. (HCS-8846) Soviet Ambassador Barsov also returned my call the other day and questioned me rather pointedly about US conditions for some sort of settlement. As a realistic matter, I doubt if Allende or the others are yet thinking of concessions we would regard as satisfactory. Nevertheless, I do believe there is a flicker of more serious Chilean interest in finding a way out of the box they are in. The economic pressures on Chile are increasing, and these pressures may have some added influence in the weeks ahead, perhaps moving Chilean thinking toward a more genuine flexibility than now exists.

9. Regarding President Allende’s offer to talk with Senate President Palma about international appraisal for ITT, I think he was most candid when he said he would “not oppose” such an action by the Senate. I plan to talk to Palma and also encourage Palma to talk to President Allende. In short, Allende would probably be quite willing to see the Christian Democrats take the onus of international appraisal if we can talk them into it.

10. Regarding Anaconda and/or some sort of larger global package, I doubt that Allende has thought the matter through. What he said should be regarded more as a reflection of attitude than as something specific. It does give us an opportunity to put ideas forward in as narrow or broad a context as we may consider useful. Cerro demonstrated both flexibility and ingenuity in its recent negotiation to take Chuquicamata’s smelter intermediates (Santiago 2801). It might be

worthwhile to explore a range of possibilities with Anaconda. I believe the Department also still plans to give me some reactions to the ideas I put forward in Santiago 2522.

Davis

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### 115. Memorandum for the 40 Committee<sup>1</sup>

Washington, June 12, 1972.

#### SUBJECT

Status Report on Financial Support to Opposition Parties in Chile

#### I. Summary

This is the third status report to the 40 Committee specifying the purposes for which funds authorized by the Committee for support of opposition parties in Chile are being expended. This report also assesses the effectiveness of this support during the period March and April 1972.

On 5 November 1971 the 40 Committee approved [*dollar amount not declassified*] to support through October 1972 the three Chilean political parties opposed to the Popular Unity (UP) coalition of President Salvador Allende. These parties are the Christian Democratic Party (PDC), the National Party (PN), and the Democratic Radical Party (PDR). The Committee also approved [*dollar amount not declassified*] to influence the Radical Party of the Left (PIR), which was then a member of the UP coalition. On 24 April 1972 the Committee approved the expenditure of an additional [*dollar amount not declassified*] through October 1972 to support the PIR, which had left the UP and joined the opposition.

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<sup>1</sup> Summary: This third status report to the 40 Committee on U.S. support for the opposition in Chile discussed the electoral victories of each opposition party.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72. Secret; Sensitive; Eyes Only. A notation on the first page indicates the memorandum was noted by the 40 Committee. The first and second status reports are Documents 99 and 107. A covering memorandum summarizes the report as follows: "Highlights are the successful inducement of the Radical Party of the Left (PIR) to defect from the ruling Popular Unity (UP) Government and the success of opposition forces in the University of Chile elections." The summary goes on to note that "opposition parties are reducing inter-party strife and improving their individual internal organization." At the bottom Jorden initialed the note, "Noted: William Jorden."



Two particularly significant developments during the period March and April 1972 have been the subjects of separate reports to the 40 Committee. These reports described [*less than 1 line not declassified*] successful efforts to induce the PIR to leave the government and the UP, and [*less than 1 line not declassified*] at the University of Chile, where the opposition won both the rectorship and a majority of seats on the university council in the 27 April 1972 elections. Funds passed to all opposition parties during March and April totaled [*dollar amount not declassified*], of which [*dollar amount not declassified*] was passed to the PDC, [*dollar amount not declassified*] to the PN, [*dollar amount not declassified*] to the PDR, and [*dollar amount not declassified*] to the PIR. This means that since November 1971 a total of [*dollar amount not declassified*] has been spent on the PDC, PN and PDR and [*dollar amount not declassified*] on the PIR.

All funds have been used effectively by the opposition parties, both to build party organizational and media strength and to achieve an almost uninterrupted series of electoral victories. The opposition is now convinced that it has the support of the majority of Chileans, and intends to adopt increasingly aggressive "confrontation politics" in anticipation of the 1973 congressional elections.

## II. Background

The PIR's withdrawal from the government and the opposition victory in the April 1972 elections at the University of Chile were the most recent in a series of political achievements by forces opposed to the Allende regime. These achievements have had three major effects: first, the opposition is now even more convinced of its ability to oppose the government successfully in the political arena and has therefore adopted a posture of open confrontation which will have the effect of elevating political tensions in the country, at least through the 1973 congressional elections. A second result has been the reduction of inter-party strife, particularly within the PDC, and an increase of coordination and cooperation between the major opposition parties, particularly the PDC and PN. Paradoxically, however, the third result has been a developing sense of opposition frustration. Political tests during the past year have convinced the opposition that it has the support of the majority of Chileans, but despite this support the opposition has been unable to force the UP government to alter its basic policies. The UP continues on its announced path of instituting wide ranging changes such as taking over major Chilean industries, while land seizures carried out by the Agrarian Reform Agency (CORA) and by revolutionary groups have increased dramatically. The opposition is frustrated by its inability to prevent the UP from gaining increasing control of the economy, and it is this frustration which has caused many opposition

political leaders to view a military coup as the only means of preventing the imposition of totalitarian state controls on the body politic.

The UP on the other hand is suffering from economic difficulties. One of the government's major problems is inflation which has risen 20% in the first four months of 1972. This inflation is causing labor pressures for salary adjustments, and is resulting in union strikes and wildcat work stoppages. The opposition is taking advantage of the discontent which is building up, particularly in southern Chile, to promote a series of rural strikes and to stimulate farm workers and farm owners to resist land seizures. In the organized labor field, the opposition is running a slate in the 30–31 May election in the Chilean Labor Confederation (CUT) which has traditionally been controlled by an alliance of the Communist and Socialist parties. Although the opposition has little or no chance of winning this election, a strong showing by opposition candidates could be widely exploited as a propaganda victory.<sup>2</sup> The opposition is also hoping to exacerbate the tensions which have been created within the UP by Socialist Party efforts to wrest control of the CUT from the Communist Party in order to further its own advances in the labor field.

A new by-election will probably be held in mid-August 1972 to fill the seat of a Communist Deputy from Coquimbo Province who died on 5 May. Historically Coquimbo has been a strong UP district, but voting patterns indicate that the results of a by-election there may be determined by voters who belonged to the Radical Party (PR) before the PR–PIR split. An opposition victory in Coquimbo is possible if a large percentage of these Radicals vote for the opposition rather than for the UP candidate, who will probably be a Communist. If a by-election is held, the opposition parties will undoubtedly need to seek funds from us for this difficult campaign.

### III. *Status of Funds Approved To Maintain and Develop Effectiveness of Opposition Parties*

#### A. *Christian Democratic Party (PDC)*

A total of [dollar amount not declassified] was passed to the PDC during March and April 1972. Since [dollar amount not declassified] was made available to the party in November and December 1971, and [dollar amount not declassified] was passed during January and February 1972, the PDC has now received [dollar amount not declassified] of the [dollar amount not declassified] approved for it by the Committee.

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<sup>2</sup> Early returns from the CUT election indicate a surprisingly strong showing by PDC candidates. [Footnote is in the original.]

During March and April much of the political activity of the PDC focused on the 27 April University of Chile elections. A special report was distributed to the Committee on 12 May which described the favorable outcome of these elections. In brief Dr. Edgardo Boeninger, the opposition candidate seeking reelection as rector of the university, gained an absolute majority over Dr. Felipe Herrera, former president of the Inter-American Development Bank (IADB), who was Allende's personal candidate and was strongly backed by the UP. In addition, opposition forces won 53 seats on the 100 member university council, and may gain still another seat when all votes have been counted. As a consequence, Rector Boeninger will have a working majority on this body, which prior to the election was controlled by the UP and was responsible for the university crisis which erupted into violence in October–November 1971.

Now that the university election has been won, PDC leaders are concentrating on the upcoming Chilean Student Federation (FECH) elections at the University of Chile which should be held in late May or early June 1972. The fact that Rector Boeninger obtained a majority of the student vote in the April 1972 election (51.7% as contrasted with 47.7% in June 1971) has provided impetus to the opposition, which is anxious to push ahead with the FECH election. The current FECH President, a Communist, is attempting to stall the elections until August 1972. PDC student leaders are trying to block these UP tactics and are also attempting to reach an electoral agreement with the PN in order to increase their prospects for unseating the UP forces which now control the FECH.

The PDC, supported by the PN, has also nominated a slate of candidates in the CUT elections, and PDC leaders are hopeful that worker discontent with government policies will result in significant voter support for the opposition slate.

On 12 April the PDC and other opposition parties staged the much publicized "freedom march" in which a crowd variously estimated up to 250,000 marched to protest government policies. The main speaker at this rally was Patricio Aylwin, PDC president of the Senate. Prior to the march the leaders of the opposition parties, including former president Eduardo Frei, met together with representatives of the business community to discuss plans for the march as well as to exchange ideas for coordinating the opposition effort. This was the first meeting between Frei and other opposition leaders such as Sergio Onofre Jarpa, president of the PN, and thus represented an important step toward strengthening the unity of the opposition.

The PDC continued to work toward strengthening its internal party organization, particularly at the community level. Since the last progress report the number of members about whom pertinent data are

recorded in the party's IBM system has increased from 30,000 to 60,000. The PDC had adopted a number of new measures to increase the 12–14,000 daily circulation of the party's newspaper *La Prensa*. The paper has a new general manager and a new format, and is encouraging entities like PDC youth groups and PDC-oriented peasant federations and community organizations to submit more materials for publication in the paper.

#### B. National Party (PN)

A total of [dollar amount not declassified] was passed to the PN during March and April 1972. Since [dollar amount not declassified] was made available to the party in November and December 1971, and [dollar amount not declassified] was passed during January and February 1972, the PN has now received [dollar amount not declassified] of the [dollar amount not declassified] approved for it by the Committee.

The PN worked closely with the PDC and other opposition forces in the University of Chile elections, the 12 April freedom march, and other opposition projects. It is supporting the PDC slate in the CUT election, and is being asked to support the PDC in the FECH election also. The PN's willingness to subordinate its partisan political interests to the good of the opposition cause reflects its understanding of the need for coordinated political action.

The PN has taken a special interest in the deteriorating situation in the south of Chile, where a number of issues are pushing farm owners and peasants toward anti-government action. Some 560 farms in the southern provinces have been taken over "legally" by government agencies, but no financial settlements have been made. Hence not only farm owners but also peasants of rural cooperatives, who were promised land which they have never received, are pressing for redress. Cases involving illegal land seizures carried out by revolutionary groups such as the Cuban-supported Movement of the Revolutionary Left (MIR) have been taken to court, but legal judgments in favor of the farm owners are not enforced by the government. Threats and intimidations by the MIR and revolutionary groups, and other grievances have led anti-Marxist forces in the south to seek PN support for strikes and the re-occupation of some farms. These actions are designed to focus public attention on the problems of farmers and peasants. In cooperation with the Small Retailers Association the PN has launched a propaganda campaign against the Communist-controlled "Neighborhood Supply and Price Councils" which are permitted to determine the price and control of the distribution of short-supply consumer items. This campaign is now receiving wide publicity in all Chilean media. The retailers are planning a nationwide protest strike, which will be coordinated with similar actions planned by farmers and peasants organizations.

PN leaders continue their work to improve and stimulate the party's provincial organizations. The social action and women's sectors have been working intensively in the slum areas of Santiago and other cities on a variety of ostensibly non-political social projects which are designed to produce electoral benefits. Party media have maintained a strong and effective campaign against the Allende regime.

### C. Democratic Radical Party (PDR)

A total of [dollar amount not declassified] was passed to the PDR in March and April 1972. Since [dollar amount not declassified] was made available to the party in November and December 1971, and [dollar amount not declassified] was passed in January and February 1972, the PDR has now received [dollar amount not declassified] of the [dollar amount not declassified] approved for it by the Committee.

Approximately [dollar amount not declassified] per month is provided to help maintain the PDR's organizational structure and to support joint opposition party activities such as the 12 April freedom march. Julio Duran, PDR president, made several effective radio broadcasts supporting this demonstration. [less than 1 line not declassified] also continues to fund a PDR propaganda mechanism which has been generating publicity for PDR leaders and activities. [less than 1 line not declassified] a PDR member has been working to induce the PDR Executive Committee to initiate discussions with the PIR regarding a possible PDR-PIR merger, and a meeting is now scheduled to be held between Duran and Luis Bossay, PIR president, as soon as Bossay returns from Europe. This meeting could lead to serious discussions regarding reunification. A formal merger may not be desirable until after the March 1973 elections, since the two parties running separately may be able to attract more total votes to an opposition coalition than would be gained by a single party slate.

### D. Radical Party of the Left (PIR)

On 15 November 1971, the 40 Committee approved [dollar amount not declassified] for the purpose of influencing the PIR to leave the government. These funds were crucial to the PIR's 6 April 1972 decision to break with the UP. Background on the intensive effort carried out [less than 1 line not declassified] to induce the PIR's defection, as well as on the PIR's present financial needs, is contained in the memorandum which was approved by the Committee on 24 April 1972 authorizing an additional [dollar amount not declassified] to support the PIR through October 1972. Of this [dollar amount not declassified] was transferred from funds previously approved by the Committee for support to the PDR, and [dollar amount not declassified] was available within existing Agency funds. In late April [dollar amount not declassified] of the [dollar amount not declassified] approved by the Committee was passed [1 line not de-

*classified*] to PIR leaders. These funds continue to be represented [*less than 1 line not declassified*] as contributions from concerned Chilean business interests. [*1 line not declassified*] that this financial support was decisive in the PIR's decision to leave the government.

The PIR has been having some success in raising funds from other sources, although the party continues to rely heavily on the continuing financial support pledged [*less than 1 line not declassified*]. The PIR recently obtained contributions of approximately [*1½ lines not declassified*] and from a PIR member with good contacts in the mining sector. The PIR is using these funds, plus contributions received from [*less than 1 line not declassified*] other sources to purchase or rent facilities which the party needs for organizational and media purposes. Party leaders are making these purchases partly because the PIR needs these facilities and partly to demonstrate to PIR financial supporters that contributions will be put to good use and will not line the pockets of party officials, as was frequently the case with funds donated to the old Radical Party (PR) leadership. Specific party expenditures include the purchase of Radio Yungay in Santiago [*2½ lines not declassified*]. In addition two small provincial radio stations have been rented for a one-year period. A print shop in Santiago has been purchased and mimeograph machines have been ordered for each of the provincial capitals. The party has also contracted for the services of newspapers in four large provincial cities and is seeking to make similar arrangements with newspapers and radio stations in other key areas. The party also intends to open party offices in key provincial centers and to recruit competent activists to staff these offices. [*3 lines not declassified*]

The PIR is also actively seeking new recruits from the UP parties. One former Socialist Party Deputy has already joined the PIR, another is expected to join in the near future, and two PR Deputies reportedly are ready to defect if the PIR can promise them adequate funds for their 1973 electoral campaigns. PIR President Bossay is now in Europe, where he is seeking to obtain at least the moral support of the German Socialist Party and other similarly oriented democratic socialist organizations. Conversations between the PIR and a number of PR and Socialist parliamentarians who have indicated an interest in joining the PIR have been suspended pending Bossay's return, but it is anticipated that a substantial percentage of the total PIR revenues will need to be pledged to induce UP parliamentarians to join the PIR. A special priority for [*less than 1 line not declassified*] the PIR is the defection of at least one additional UP senator, since this would at least theoretically provide the opposition with a two-thirds majority in the Senate.

The PIR and the PDC have agreed in principle on the desirability of an electoral pact, but although it seems clear that nationwide pacts between separate parties will be permitted in the 1973 Congressional

election, Congress has not yet passed the necessary electoral law amendment. An impasse still exists between the legislative and executive branches of the government over the controversial “three areas of the economy bill;” this bill and the electoral law amendment should be priority items when the regular session of Congress begins on 18 May.

The increasing confidence of the opposition parties, the growing economic problems of Chile and the rising popular dissatisfaction with the UP government are signs that President Salvador Allende is in political trouble. There is no indication, however, that the stability of the government is yet in question or that there is any less determination on the part of the Communist and Socialist Parties to attempt to carry out the UP program to make Chile into an irreversibly Socialist state.

*[attachment (1 page) not declassified]*

## 116. National Intelligence Estimate<sup>1</sup>

NIE 94-72

Washington, June 29, 1972.

[Omitted here are the Table of Contents and a map of Chile.]

### CHILE: THE ALTERNATIVES FACING THE ALLENDE REGIME

#### CONCLUSIONS

A. During its initial year in office the Allende regime made substantial progress towards its revolutionary goals, especially in the social and economic areas. But over the past six months or so the Popular Unity (UP) government has been beset by growing problems and pressures, which underscore the basic weaknesses of Allende's current position. While Allende still has at his disposal the considerable powers

<sup>1</sup> Summary: This National Intelligence Estimate, titled “Chile: The Alternatives Facing the Allende Regime,” outlined the substantial changes initiated by the Allende government and the implications of those changes. It then discussed the prospects for the Allende regime and concluded that Allende would try to slow the pace of the revolution over the next year.

Source: Central Intelligence Agency, ODDI Registry, Job 79R01012A: Box 446, F.4: (NIE 94-72) Chile: The Alternatives Facing the Allende Regime. Secret. The cover page states that this estimate supersedes SNIE 94-71 (Document 78). The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and Treasury, and NSA participated in the preparation of this estimate. The Director of CIA submitted this estimate with the concurrence of all members of the USIB with the exception of the representative of the FBI who abstained on the grounds it was outside his jurisdiction.

and prestige of his office, he is a minority President ruling through an unwieldy coalition, whose main partners—the Socialists and the Communists—are divided on basic issues. Unrelenting economic problems and sporadic outbursts of political violence have cut into the UP's popular support, provoked discontent among the traditionally apolitical security forces, and strengthened the hand of the political opposition generally.

B. Allende recognizes that his regime is at a point of crisis which requires decisions that could determine its survival and success over the long run. As usual, he is receiving divided counsel: the Socialists advocate measures intended to force the pace of the revolution and cripple the opposition; the Communists support a program intended to "consolidate" the revolution and conciliate moderate forces outside the UP. Allende, in connection with his announcement of a new Cabinet on 17 June, has taken some tentative steps towards conciliation by opening talks on contentious issues with the Christian Democrats, the mainstay of the opposition.

C. If this recent initiative fails, Allende and the other key actors on the Chilean political stage might try to continue to live with the existing unstable political arrangements—a course which could be sustained for some time by ad hoc adjustments whenever necessary to ease a crisis. We see three main alternative courses of development: (1) forcing the pace of revolution through radicalization and repression; (2) Allende's departure from office; (3) slowing the pace of revolution through conciliation and compromise in order to consolidate the gains made so far.

D. Forcing the pace of the revolution would mean destroying the political as well as the economic underpinnings of the political opposition. A likely byproduct would be a further worsening of Chile's relations with the US and an accelerated growth of ties with Communist countries. We believe this to be the least likely alternative development at this juncture. To succeed, it would require either a strong popular mandate for the Allende government, a policy of repression directed against the political opposition (which controls Congress), or both. There is little chance that the UP will be able to score an impressive victory either in the congressional elections scheduled for March 1973 or in any special plebiscite. And neither the security forces nor the population at large would be likely to support a policy of systematic repression. In particular, we believe there is almost no chance that Allende could convert the military and the *Carabineros* (national police) into pliable instruments for repression.

E. Barring an effort by Allende at radicalization and repression, the chances of the second alternative—his removal from office over the next year or so—are relatively small. Despite uneasiness about the re-



cent course of events in Chile, the security forces do not now appear willing to mount a coup. Their strong tradition is not to become engaged directly in the political process; if forced to intervene they would prefer to apply pressure on the President to moderate his policies, rather than to overthrow him. A vital factor in any decision by the military to intervene would be their perception of the popular consensus at the time. Among the contingencies that would increase the likelihood of action by the military would be a blatantly unconstitutional act by Allende, real or threatened breakdown in public order, or threats to the military's institutional integrity.

F. We believe the third alternative is the most likely course over the next year or so—a concerted effort by Allende to conciliate the political center and to slow the pace of the revolution. At least in the short run Allende is likely to attempt relatively modest steps to reduce the political temperature, by curbing the activities of extremist groups and by securing agreements via compromise on outstanding sensitive issues. The pressures on Allende to promote more substantial forms of accommodation would probably increase if the opposition made large gains in the March 1973 election.

G. Allende's objective in pursuing such a course would be to preserve the revolutionary advances already made—not to repudiate them. He would hope to divide the opposition and to move forward with some additional measures that would have the backing of the political center, particularly in the social and economic spheres. The leaders of the political center would be interested in cooperating on selective issues in order to keep the political system sufficiently intact to enable them to compete for an eventual return to office. Any major moves by Allende towards cooperation with the Christian Democrats would probably alienate the extreme left and might cause some defections of hardliners from the UP. Although the atmosphere of confrontation in the country as a whole would tend to dissipate, at least some extremists associated with the Leftist Revolutionary Movement would turn to systematic violence. The security forces would be likely to cope reasonably well with either guerrilla warfare or urban terrorism.

H. Even with moves to slow the pace of the revolution the Allende government would still face prickly domestic and international problems, particularly in the economic field. We doubt that there would be any sharp changes in Chile's cordial relations with Communist countries. Nor would Allende's pursuit of the path of conciliation at home be likely to improve his relations with the US dramatically. Moderate groups would probably reinforce Allende's tendency to avoid a complete rupture with the US, and might also work to avert a showdown on the issues involving compensation for nationalized US companies. But most Chileans would probably expect the US to be

forthcoming on such issues as debt renegotiations as a *quid pro quo* for even minor concessions on their part *re* the copper issue.

I. The implications for Chile over the longer term of slowing the pace of the revolution would depend on many unknowns and unknowables. It is possible that the revolutionary dynamic might still undermine the country's democratic tradition. But the chances for an open and meaningful Presidential election in 1976 would probably be considerably improved. Even if Allende continued to move forward with the economic and social goals of his revolution, the democratic political system could still be sustained by such institutions as an independent military, a free press, a vigorous congress, and a politically sophisticated populace.

## DISCUSSION

### I. *Twenty Months of Allende*

1. Salvador Allende's accession to office as President in November 1970 raised the question of whether his regime would sound the deathknell for Chile's traditionally democratic political system and Western-oriented foreign policy. Allende insisted that Chile's constitutional system would be respected. The declared goal of his Popular Unity (UP) coalition, however, was to build a "revolutionary, nationalistic, and socialist society on Marxist principles", and spokesmen for the regime stressed the need to make the revolution "irreversible".

2. On the basis of the record so far, Chile's future course remains to a large extent an open issue. To be sure, the regime carried out a substantial part of its program during its first year, particularly in the economic area. With little effective opposition—indeed, in many cases with a broad consensus—Allende nationalized key economic sectors, redistributed income in favor of the poorer classes, and accelerated land expropriation. He appeared to be well on the way to crippling his political opposition by destroying its economic base. In foreign relations, expropriation (so far without effective compensation) of US holdings in Chilean copper abruptly uncoupled the former close links with the US, while ties with Communist countries, large and small, proliferated.

3. During the past half year, however, both the problems engendered by the regime's policies and the pressures against these policies by antagonistic political forces have sharpened markedly. One key to the turn-about in Allende's political fortunes has been the worsening economic situation; growing shortages of consumer goods, mounting inflation, and acute stringencies in foreign exchange have presented the political opposition with an effective vehicle for mobilizing anti-government sentiment. Thus far in 1972 the government's claim to represent the popular will has suffered several sharp setbacks: in January,

with the loss of two key congressional by-elections; in April, with the victory of the opposition candidate in the hard-fought election for control of the University of Chile; and in June, with the strong showing of the opposition candidate in the balloting for control of a bastion of UP support—the national labor confederation.

4. To some extent, the stiffening opposition to Allende has been both symptom and cause of an increasing resort to political violence. Antagonistic groups have turned to coercion and force to settle directly the issues between them. Farms have been seized by armed groups representing the extreme left and, in turn, by the displaced farmers, while urban disorders have followed in the wake of partisan demonstrations. The increased use of inflammatory invective by politicians from all camps underscores the growing political polarization. Charges by the UP that the opposition is engaged in “fascist sedition” are countered by allegations that the government is bent on imposing “Marxist totalitarianism” in Chile. Mounting tensions, coupled with unresolved constitutional conflicts about the extent of executive authority, have caused some Chilean politicians to conjure up the spectre of civil war. This in itself has raised the level of apprehension among Chile’s traditionally apolitical armed forces.

5. But even while these strains on the Chilean body politic grow more obvious, the traditional political system continues to demonstrate a remarkable resiliency. Legislative, student, and trade union elections take place in normal fashion, with pro-government forces accepting the results when they are adverse. Opposition news media have resisted government intimidation and persist in denouncing the government, often in vitriolic terms. The government apparently holds no *political* prisoners, and the numbers of casualties from the reported violence are very small. Most important, in keeping with Chilean political practice, government and opposition leaders continue to engage in behind-the-scenes bargaining to accommodate the differences they publicly declare to be irreconcilable. Despite growing concern over the course of events, most military leaders still are committed to the constitutional system and hopeful that the politicians will somehow resolve the political crises short of civil war or other disaster.

6. The foregoing rundown underscores the inherent complexity of the unfolding political scene in Chile and the difficulty of assessing the future course of events, especially over the longer term. This Estimate discusses the nature of Allende’s alternatives over the next year or so, and some of the implications of possible developments for the future of Chile’s political system and its relations with the US and other nations. We think that what happens during the next year, including the congressional elections scheduled for March 1973 and the political maneu-

vering before and after, is likely to have a profound influence on the character of developments over the succeeding years.

## II. Allende and His Allies

7. In his first year in office President Allende moved with impressive skill to implement his program while keeping his opposition off-balance and divided and the interparty conflicts within the UP under control. He demonstrated a deft touch in dealing with the two parties dominating the UP—his own Socialist Party, which is controlled by its extremist wing, and the generally more cautious, less radical Communist Party.<sup>2</sup> On contentious issues Allende appeared at times to alternate between the conflicting positions of the two parties, showing little compunction either about bowing to the strongest pressure or about reversing himself when necessary. On other occasions, however, he would deal with a sensitive issue by presenting the Communists and Socialists with a *fait accompli*. They would vent their frustrations at not being consulted by privately complaining of Allende's "Ceasar Complex", but were left with little choice but to accept the President's action.

8. Over the past six months, however, there has been a marked shift in the situation. As the problems and pressures have grown, the weaknesses of Allende's position as the head of a minority coalition of disparate and often conflicting forces have become more obvious. Allende has shown uncertainty in reacting to the stepped-up pressures of the opposition; rather than skillfully manipulating the components of his motley coalition, he has appeared to be more and more boxed-in by their obstinacy. Thus, in January, when Allende reshuffled his Cabinet after the UP losses in the congressional by-election, he apparently felt constrained to bow to the demands of both key parties that there be no alteration in the size of their ministerial representation. This blocked Allende from instituting the more sweeping cabinet reorganization he seemed to be contemplating at that time. Allende's efforts to readjust his political tactics to cope with the pressures mounting against him have also been frustrated by sharpening conflicts within his coalition.

9. The key elements of the UP have managed to hold together despite increasing strains. The one defection so far has been that of the politically-moderate Leftist Radical Party (PIR). There have been various internal splits and realignments affecting the mini-parties of the coalition, but the major problems have reflected differences between the Communists and the Socialists. These have involved issues of the pace of the revolution and the degree of adherence to legality and

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<sup>2</sup> For a brief description of Chile's political parties see inset on page 7. [Footnote is in the original. The reference is to the table at the end of the estimate.]

peaceful politics, with the Communists uniformly taking the more cautious positions. The differences on strategy and tactics have at times been exacerbated by partisan competitiveness. Nonetheless, both parties have an enormous stake in the survival and success of the Allende government, which so far has moved them to keep interparty tensions and conflicts within bounds.

### III. *The Special Problem of the Leftist Revolutionary Movement*

10. One of the main threats to the cohesion of the UP and perhaps to the regime itself is the Leftist Revolutionary Movement (MIR), a student-based organization with Castroite proclivities. It probably has a hardcore membership of two thousand or so—mostly students—and a larger number of sympathizers, particularly among youths, poor peasants, and slum dwellers. The MIR apparently receives some financial support and some arms from Cuba. In the last years of the Frei administration it engaged in sporadic urban attacks, including bank robberies.

11. Although scornful of the parliamentary path to socialism, the MIR reached an accommodation with Allende in 1970. The MIR remained outside the UP, but provided qualified support for its programs and manpower for Allende's personal security force. Allende, for his part, freed members of the MIR imprisoned under Frei and permitted the MIR to pursue its revolutionary activities without government harassment. More recently, the rhetoric and actions of the MIR have placed this accord in jeopardy. Repeated attacks on both Allende and the Communists for compromising the revolution (e.g., by respecting "bourgeois-democratic institutionalism") have served to sour UP–MIR relations. Illegal seizures of farms, factories, and housing projects by groups associated with the MIR have been a major embarrassment to Allende, as have urban disorders and clashes provoked by the MIR.

12. The MIR's revolutionary rhetoric and actions have already proved costly to the UP. Middle class and women voters are alienated by the MIR's predilection for illegality and violence and tend to identify the Movement with the government. This identification was costly to the UP in the January 1972 by-elections. Most important, Allende and the Communists, and at times even some Socialists, fear that the MIR's illegal activities and the accompanying violence may provoke a military intervention.

13. The MIR long has been anathema to the Chilean Communists. This animosity has stemmed in part from rivalry for the allegiance of leftist Chileans, particularly the youth. Allegations by the MIR that the Communist Party is comprised of aging, stodgy politicians—more interested in retaining a share of power than in waging revolution—strike a

sensitive nerve. Recent gains by the MIR among landless peasants, slum dwellers, and in some labor unions have heightened the apprehensions of the Communists.<sup>3</sup> In contrast, relations between the dominant radical wing of the Socialist Party and the Movement have been close. Both groups share a commitment to accelerating the pace of the revolution and a belief that violence ultimately will be necessary to achieve socialism. Thus, Socialist leaders have until recently avoided criticizing the MIR. In May 1972, when disorders in Concepcion provoked mainly by the MIR threatened to cause major damage to the government, the Secretary General of the Socialist Party did so, but it is not clear how widely he was supported within the Party.

14. Allende frequently has deplored the MIR's violence-provoking activities, but so far has been averse to cracking down on the organization. His circumspection has a number of causes. The close links between members of his own Socialist Party and the MIR—some are believed to have dual membership—evoke concern lest repression of the organization lead to a schism in the Party. Moreover, he prefers to view the Movement as a group of idealistic, but misguided youth. At the same time Allende probably recognizes the contributions of the MIR to the security of his regime; the organization has penetrated conspiratorial right-wing groups, and warned the government of plots to depose Allende. Finally, if an armed showdown with the opposition should develop, Allende may be counting on the MIR for armed support.

15. Despite these considerations, Allende undoubtedly would consider moving against the MIR if he felt that he had no alternative to fend off military intervention or to avoid serious electoral damage. His efforts to persuade the Movement to exercise restraint have been fruitless so far. There is little ground for supposing that Allende's attempts to incorporate the MIR into the government and thereby impose constraints on it will be successful. Indeed, the trend is toward greater hostility between the MIR and the regime.

#### IV. *The Opposition: Dialogue and Confrontation*

16. One cause of growing friction between Allende and the extreme left is the marked success of the opposition in curbing the regime's early momentum. Since late 1971 the two major opposition parties, the moderately leftist Christian Democratic Party (PDC) and the conservative National Party (PN), have used their combined control of both houses of Congress to stall government initiatives and to

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<sup>3</sup> The fact that the MIR candidate in the race for Rector of the University of Chile received only about 6 percent of the student vote indicates that while it may have made gains elsewhere, its traditional base among university students is not expanding. [Footnote is in the original.]

pass legislation designed to curtail Allende's powers. In turn, the collaboration of the two parties owes much to fears generated by actions of the government, including its tolerance of the MIR's illegal activities.

17. Initially, most Christian Democrats were receptive to a policy of selective cooperation with Allende and averse to any association with the Nationals, whom they regard as representing the interests of Chile's privileged classes. In keeping with Chilean political traditions, the PDC calculated that it could moderate the government's program and protect its own interests by engaging in private bargaining with Allende. But a series of government moves late last year irritated and alarmed key Christian Democrats. These included Allende's reneging on specific political bargains he made with the party and efforts by the government to muzzle the opposition press. In the PDC, widespread doubt developed that Allende was willing or able to play by the customary rules of the Chilean political game. There was concern that the President might be going beyond the normal efforts of a Chief Executive to reduce the strength of the political opposition and in fact was out to destroy it.

18. Despite the successes of joint opposition efforts in the Congress, in congressional by-elections, and in mass demonstrations, PDC–PN relations are marked by considerable distrust. Leaders of the PDC make clear that they remain a party of the democratic left with an unequivocal commitment to social change and have little in common with the conservative Nationals other than a shared concern over the future of Chilean democracy. For their part, the Nationals suspect that the Christian Democrats remain receptive to overtures from Allende for cooperation with the UP, despite past PDC disappointments on this score. The Nationals probably resent the PDC's public stress on the broad ideological gulf that separates the two parties. Unlike the PDC, however, the PN presently has no feasible alternative to collaboration. If the *de facto* alliance breaks up, it is likely to occur at the initiative of the PDC. Indeed, the recent defection of the PIR from the government has raised fears among the Nationals of a possible center-left coalition between the PDC and the PIR which would exclude the PN.

19. To a large extent the future shape of the opposition may be dictated by events over which it has only limited control. If political polarization continues so that growing numbers of Chileans come to regard each other as irreconcilable enemies, this would contribute to the maintenance of a united, if heterogeneous opposition. On the other hand, if Allende strives to cool the political atmosphere, overrides the UP extremists and bargains seriously with the PDC, latent centrifugal tendencies both within that party and between opposition parties would probably come to the surface.

20. Allende's repeated attempts to divide and weaken the opposition have generally been supported by the Communists but have been strongly resisted by the Socialists. This resistance probably stems from the belief that the outcome of Allende's trafficking with the PDC would more likely be emasculation of the UP's revolutionary program than of the opposition. In April 1972, for example, the Socialists undermined a negotiated compromise between Allende and the opposition under which the legislature would have the authority to slow the pace of nationalization of private enterprises. Allende was forced to back off and assert that the executive authority to nationalize private firms could not be infringed by Congress. This provoked great bitterness within the PDC and was the immediate cause of the defection of the PIR from the government. Intense disagreements between the UP and the opposition over the issue of executive versus legislative prerogatives led to talk on both sides of "civil war".

#### V. *The Security Forces*

21. The rise in political tensions has focused increased attention on the potential political role of the military and the *Carabineros* (national police).<sup>4</sup> The strong tradition of the security forces is not to be engaged directly in the political process as arbiters of important issues or interveners in crises. They are concerned, nevertheless, about the prospect of a breakdown in public order, a threat to the constitutional system from the government or from extremists outside the government, and the integrity of their own institutions.

22. Allende and his associates are aware that the security forces represent a major potential threat to the survival of the regime. Indeed, since taking office Allende has gone to great lengths to court them: e.g., by demonstrating his personal interest in such matters as increases in pay, perquisites, and equipment; by playing a prominent role at military ceremonies; and by including flattering references to the military and the police in his speeches. More recently, he has been making a conspicuous effort to involve the military in his administration. An Army general served briefly as Minister of Mines and officers serve on the directing boards of expropriated enterprises and as chief administrative officials in some provinces.

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<sup>4</sup> The Chilean security forces number nearly 70,000 men (Army 23,100, Navy 14,000, Air Force 8,900, and *Carabineros* 23,000). The Armed Forces have experienced some erosion of traditional discipline and institutional loyalty because of politicization, especially among the junior and non-commissioned officers. The Army, however, generally maintains its institutional integrity and would assist the *Carabineros* in controlling riots or insurgency. The Navy's Marine Corps, composed of 1,975 marines, could offer support in the maintenance of civil order. In the event of internal disorder, the Air Force would provide tactical air support to the Army and the *Carabineros*. The *Carabineros* are one of the most efficient police forces in Latin America. [Footnote is in the original.]



23. In spite of these efforts the dissatisfaction of the security forces with the regime has grown, and the military recently demonstrated their desire to remain aloof by turning down Allende's offer of several Cabinet posts. To some extent this phenomenon is related to the same factors that have eroded the regime's support among civilians. Like other Chileans, men in uniform are disturbed by shortages of consumer goods and by rising inflation. They are concerned in particular that the policies of the regime are accelerating the polarization of Chilean society and leading to a breakdown of public order.<sup>5</sup> And the verbal brinkmanship by government and opposition politicians emphasizing the threat of civil war adds to the disquiet of the military and the police. The security forces also have reacted to developments of particular concern to them. The regime's toleration of the MIR's antics has played a major part in fuelling discontent, especially among the *Carabineros*, who have generally been enjoined from halting even patently illegal MIR activities. The security forces are also disturbed by reports that the government is abetting the arming of MIR supporters, that it is doing nothing to check the proliferation of illegal armed groups, and that the Communists, Socialists, and the MIR are intent upon infiltrating the armed forces.

24. Despite uneasiness about the recent course of events in Chile, the security forces do not now appear willing to mount a coup. A number of soundings have apparently produced only highly-qualified commitments to action, mostly because the coup-minded officers have not been able to demonstrate that a popular consensus would support a coup or that there are no alternatives to the ouster of Allende. In fact the recent political successes of the opposition have fostered a belief among military leaders that it is possible to keep Allende in check by legal methods. Nor have they concluded (as their counterparts did in Brazil in 1964 and Peru in 1968) that Chilean politicians as a class are hopelessly inept, venal, or subversive and that the military are the only force capable of saving the nation from imminent ruin. Furthermore, many officers believe that the military can, if necessary, successfully exert pressure on the President to moderate his policies. This course would be far more palatable to most Chilean officers than a coup, because it would not entail a dramatic departure from the armed forces' constitutional tradition or threaten their institutional unity.

25. There are, nonetheless, certain contingencies that could produce a fairly rapid growth in sentiment to intervene in some fashion. A real or threatened breakdown in public order could politicize the mili-

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<sup>5</sup> Military and police officers were particularly disturbed by the 1 December "March of the Empty Pots" and by the spectacle of Chilean security forces firing teargas at the protesting housewives. [Footnote is in the original.]

tary almost over night, especially if the military or police were to suffer a number of casualties at the hands of extremist groups. So would a perception of a major threat to the armed forces as an institution. One possible catalyst would be the strengthening of illegal armed groups to the point where the security forces feared that they were in peril of losing their ability to suppress them. Another would be fear that the forces of polarization that affect the society at large were causing deep divisions in the military as well.<sup>6</sup>

26. The conditions that provoke a military intervention would naturally play a prime part in determining its form. The armed forces share the national heritage of respect for legality and constitutional order, and would not want to be held culpable for destroying this legacy. In a crisis, therefore, the security forces would probably first try to exert heavy pressure on Allende to force changes in personnel and policies, to defuse the crisis, and to foster a return to order. Such action would represent a sharp break with recent Chilean political practice, but the constitution would remain technically inviolate.

27. Under certain circumstances the security forces would probably overcome their strong reservations about direct political involvement. A vital factor in any military intervention would be the military's perception of a popular consensus supporting a move on their part. If rapidly escalating violence appeared to open up the prospect of civil war, the military would probably take over to avert a bloodbath. Indeed, in this case Allende might, and public opinion presumably would, invite such action. Similarly, a threat to the constitutional system from the government or from extremists outside the government might move the security forces to act.

#### VI. *Economic Pressures*

28. The decline in Allende's political fortunes has in good part been caused by the worsening economic situation. During his first year in office Allende scored signal successes in reviving a sluggish economy, in raising the personal income and consumption of the poorer classes, and in extending state controls over the private sector. His policies, however, consistently emphasized consumption and the expansion of state controls at the expense of capital investment and, ultimately, production. By late 1971 personal incomes were running far ahead of the supply of consumer goods. The result was accelerated inflation and widespread shortages of consumer goods, especially of meat but also of such important items as clothing and medicines.

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<sup>6</sup> It is difficult to weigh the current importance of this consideration mainly because there is a dearth of information on the attitudes toward the regime of junior officers, non-coms, and enlisted men. [Footnote is in the original.]

29. The political opposition is blaming the Allende regime for these developments, apparently with some success. Especially among housewives, economic difficulties have been transferred into political complaints and have helped swell the mass rallies and vote tallies of the opposition. To be sure, Chileans are accustomed to high rates of inflation and sporadic shortages of goods, and the poorer classes are almost certainly consuming more in 1972 than in 1970. What is new is the frustration caused by shortages coming in the immediate aftermath of a consumer boom fostered and acclaimed by the government.

30. Although stringent economic hardships are not likely to occur, there seems to be little that Allende can do to relieve the pressures on consumer supplies and prices over the next year or so. In fact the rate of price increase is accelerating and the rise for the year is likely to be far greater than the officially reported 22 percent increase in 1971. The decline in agricultural investment and the rise in rural disorders will continue to depress food production (a decline of about 10 percent is likely in 1972). Manufacturing output, which was a key source of growth in 1971, is levelling off; production capacity now is largely utilized and little new investment is forthcoming.

31. A thorny balance of payments problem constrains the Allende regime from covering domestic supply shortages through imports as readily as it did in 1971. Net foreign reserves, which stood at a record \$378 million when Allende was elected in September 1970, plummeted to a negative balance by early 1972. This reflects in part a doubling of food imports, but also a drop of nearly 20 percent during 1971 in earnings from copper exports and continuing outflows of capital. Chile's problem is sharply complicated by a very heavy schedule of debt repayment. Allende relieved the pressure in November 1971 by imposing a moratorium on debt service payments. Then in April 1972, after protracted negotiations, Chile concluded a general rescheduling agreement with the US and other principal creditor nations covering the period from November 1971 through 1972. Chile, as a practical matter, has already received the bulk of the debt relief agreed to because it has continued the moratorium until bilateral agreements are signed.

32. Assistance from Communist countries, including a \$50 million hard currency credit from the USSR, also provides a measure of relief, as do various short-term trade agreements with food-exporting countries such as Argentina and New Zealand. Long-term and short-term credits from several Latin American countries totalling more than \$100 million also appear in the offing. These steps will probably enable Allende to maintain consumer imports at high levels and perhaps increase them temporarily for political purposes (e.g., just before the 1973 election). But because of rising consumer demand and the decline in

domestic production, the regime cannot resolve the growing imbalances between supply and demand at home and between receipts and payments abroad. This would require a sharp reorientation of domestic priorities from consumption to investment and productivity, and a sizable expansion as well either in exports or foreign loans.

33. For political reasons, it is doubtful that major curbs on consumption—e.g., across-the-board rationing or wage controls—will be undertaken before the March 1973 election. Various partial controls have been instituted (e.g., beef may be sold only three days per week), but the regime finds it more palatable to let inflation accelerate than to impose the hard measures needed to check it. Allende has repeatedly admonished workers to exercise self-restraint in their wage demands and to push for greater productivity, but so far the Chilean proletariat has shown little inclination to cooperate. To avoid costly strikes (particularly in the copper mines), the government generally has gone a long way towards meeting worker demands for large increases in wages.

34. Investment in the private sector will almost certainly remain at greatly depressed levels so long as the government continues its assault on private ownership. Government investment may partially compensate for the decline of private investment, but much of the expenditure by the Allende regime will be related to welfare and consumption (e.g., housing) and will affect production only indirectly and over the long term. Any major breakthrough in foreign private investment or governmental aid is likely to be conditioned on evidence that Allende is willing to make the hard decisions on restraining consumption and imports, while boosting productive investments and exports. In fact the major creditor nations have called for some evidence of improved financial management as one condition for any rescheduling of Chilean debt repayments falling due in 1973.

35. A sharp boost in earnings from copper exports would relieve pressures to some degree, but prospects here are uncertain. Production is likely to continue to be hampered by poor management, worker indiscipline, and inadequate maintenance of equipment, although some increase is likely because of the expansion program of recent years. Copper prices are notoriously volatile (the average price dropped about 23 percent in 1971) and attempts at prognostication hazardous. But a rise of 5 percent or so in average prices for 1972 appears to be a reasonable estimate. With an increase of about 5 percent in prices and a small increase in output, Chile's foreign exchange earnings from copper would grow in 1972 by some \$50–\$70 million. A rise in earnings in this range would do relatively little to solve the pressures against Chile's balance of payments. The payments deficit for 1971 was around \$400 million, including \$200 million on current account. Since there no

longer is a cushion of foreign reserves and since the attitude of major creditors is at best cautious, Chile will face increasingly severe import constraints. In so far as Allende continues to emphasize maintaining a high level of consumer imports, production and investment will continue to suffer.

## VII. *Foreign Relations*

36. So far Allende has met with greater success in managing Chile's foreign relations than he has in coping with its domestic problems. For the most part, he has pursued a cautious, independent course, striving to keep his options open. Links with the Communist world have expanded steadily but unspectacularly. Allende has taken care to assure that these new ties do not jeopardize his relations with his South American neighbors or with the industrial states he depends on for trade and credits. And mindful of US influence on international credit sources and of Chile's requirement for specialized US equipment, Allende has sought to avoid irreparable damage to his relations with Washington.

37. For a number of reasons the expansion of relations between Chile and the Communist states has been slower than might have been anticipated. Allende is publicly committed to a policy of non-alignment, and would not like to be excessively dependent on any power bloc. Furthermore, he recognizes Chile's continuing need for non-Communist credits, equipment, technology, and markets for copper. The difficulties inherent in forging new economic links between Chile and Communist nations are manifested in Allende's slowness in utilizing the nearly \$90 million in long-term credits proffered by the USSR over the years. The recent sale of 5,000 Soviet tractors represents the first substantial utilization of long-term Soviet credits.<sup>7</sup>

38. A further obstacle to a substantial increase in ties with Communist states has been the position of the Chilean military regarding a Soviet offer of military credits. So far at least, military officers have successfully resisted the acquisition of any weaponry that would require either the presence of Soviet military advisers in Chile or the dispatch of Chileans to the USSR for training. They apparently are not as resistant to accepting less sophisticated equipment from Moscow that would not require Soviet advisers or extensive training.

39. Although the USSR considers the advent of the Allende regime an important step forward in the erosion of US hegemony over Latin America, the Soviet attitude toward the regime has been characterized

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<sup>7</sup> Long-term economic commitments to Chile by Communist countries now total about \$250 million, including \$65 million from China. [Footnote is in the original.]

by caution and restraint. To be sure, Moscow expresses *pro forma* sympathy and support for Chile's struggle to achieve "independence" and implement "progressive" changes, but references to the UP as a government striving to achieve socialism are scrupulously avoided. This caution reflects a variety of concerns, including doubts about Allende's political staying power and his ability to apply the necessary tough measures needed to straighten out the economy. Moreover, the Soviets probably are reluctant to antagonize the US by pushing too rapidly for influence in Chile, and in any case they presumably want to avoid the open-ended commitments for aid they entered into with Cuba.

40. Political, economic, and cultural relations between Chile and Cuba have expanded considerably, as highlighted by Castro's marathon 25-day visit to Chile late in 1971. But Castro left Chile alarmed by the weakness of the revolutionary process there and concerned by the danger of a military move to oust Allende. Havana has been circumspect about trying to use Chile as a base for promoting revolutionary movements elsewhere in Latin America, partly so as not to add to Allende's problems and partly so as not to jeopardize the advantages offered by the Cuban presence in Santiago. Cuban officials in Chile are involved in assisting Latin American revolutionaries exiled in or transiting through Chile, but on a fairly modest scale.

41. Allende has sought to maintain cordial ties with other Latin American states through a judicious mix of personal diplomacy and rhetoric contrived to calm fears about the appearance of a Marxist-led government on their doorstep. He has gone to great lengths to convince his South American neighbors that he does not share Castro's revolutionary messianism and that Chile will not become a major base for subversive activities against them. Would-be revolutionaries resident in Chile (particularly Bolivians) do receive some arms, funds, and other support in Chile, probably from the MIR and from extremists in the UP. Some of this activity occurs with Allende's knowledge, but probably not at his behest. The target countries are unhappy about even this low level of help to subversives, but generally speaking Allende's good neighbor policy has not suffered serious damage from these activities.

42. Allende has been ambivalent in his dealings with the US. The major problem roiling relations continues to be that of compensation for the nationalization of US companies. Last September, Allende ruled that \$774 million in "excess profits" would be deducted from any compensation due the two major US copper companies. This decision is under review by a special tribunal, but significant compensation to the companies appears unlikely. The pressures from within the UP to continue a hard line on such matters were recently demonstrated by the proposed legislation Allende sent to Congress for expropriation of ITT's Chilean holdings; the terms appear likely to exclude satisfactory

compensation. To demonstrate Chilean reasonableness, however, Allende has indicated that he might agree to submit the copper question to the lengthy process of international arbitration after Chilean legal remedies have been exhausted. Additional options open to him would include (a) a barter-type arrangement for the sale of copper at a discount to the affected companies and (b) directing the special tribunal to reduce the various deductions, thus yielding compensation. He has also taken a more flexible position on paying some debts owed to the copper companies which were contracted by the Frei government, and on the possibility of a compromise settlement on the ITT case. Allende has a definite incentive to be more forthcoming; he wants to gain support from the US and other creditors, both for further relief from debt payments and for new credits.

43. Apart from the hard line he has taken with respect to compensation and debt repayment to US companies, Allende has sought to prevent a drastic deterioration of US-Chilean relations. He is anxious to maintain access to US equipment and spare parts, and to keep US credit channels open. Allende is also concerned about avoiding the onus for a breakoff of relations because he is aware of the importance the Chilean military attaches to maintaining links with the US. Consequently, Allende has taken pains publicly to stress his desire for amicable relations. In conversations with US officials, he often cites such actions as Chile's continued participation in the UNITAS maneuvers with US Navy units and continued hospitality to the US Peace Corps as evidence of good will.

### VIII. *Political Outlook: Alternatives for the Allende Regime*

#### A. *Crisis and Choices*

44. The preceding sections have underscored the basic weaknesses of Allende's position at this juncture. He is a minority President who has not greatly broadened his constituency since taking office and who appears to be losing support in such former UP strongholds as the trade unions and the university community. His coalition is an unwieldy one, and it is divided on key issues. He still has at his disposal the considerable powers and prestige of the presidency, but he cannot undertake major initiatives without fear of repudiation either by his own coalition or by the political opposition, the military, and the population at large.

45. Despite the polarization that has already taken place, efforts at conciliation between the government and the opposition continue. These efforts attest to the remarkable resiliency of the Chilean political system, and to the premium it places on political compromise. Allende and the men who lead the major political parties are successful products of the system, and they have a shared stake in its perpetua-

tion. At one or another time, each has savored the fruits of power, and today's "outs" apparently remain convinced that the system offers them a reasonable prospect of becoming tomorrow's "ins". Most of the leaders also see that some degree of accommodation is needed to avert a civil war or a military coup.

46. The question remains, however, as to how much pressure the Chilean system of accommodative politics can tolerate. Extremists of the left and right hold it in low esteem and appear to be spoiling for a decisive confrontation which they trust will settle the issue of Chile's political future to their satisfaction. Their activities have already led to political violence in the countryside and the cities, which has disturbed the security forces. Furthermore, there is the danger that politicians generally may become captives of their own inflammatory rhetoric, and succumb to fears that their opponents are out to annihilate them politically and destroy Chile's democratic institutions in the process.

47. Allende and most UP leaders are well aware of their mounting problems and of the growth over the past year of pressures against the political system generally. Increasingly, they see their government in a crisis which requires decisions that could determine the survival and success of the regime over the long run. Recently the parties of the UP met to discuss the problems facing the coalition and to lay out a strategy for the future. Originally scheduled for two days, the meetings lasted for over two weeks. The Communists, true to form, advocated a cautious strategy—consolidation of the revolutionary gains already registered, scrupulous avoidance of illegality, condemnation of violence, and cooperation with the political center. The Socialists, in contrast, advocated a radical course of pushing ahead with measures to cripple the opposition through revolutionary changes in the legislative and legal systems, through a speed-up in expropriations of private enterprises and farms, and through new programs to capture the positive support of the poorest classes. The Communist rebuttal may have stressed the risk of a military coup or civil war; the Socialist rejoinder undoubtedly condemned selling out the revolution to its enemies.

48. With the announcement on 17 June of a reorganization of his Cabinet, Allende has taken definite though limited steps in the direction advocated by the Communists: i.e., towards slowing the pace of the revolution and compromise with the political opposition in order to consolidate the gains made so far. Allende stated that formal talks were underway between the UP and the PDC, and indicated that he would outline the specifics of any agreement and would discuss prospective changes in the direction of his economic policy at an early date. At the same time he appeared to mollify the Socialists by giving them an additional Cabinet post and by insisting that the government would continue to move ahead on various parts of the UP program.



49. At this point neither the details nor the full implications of Allende's recent initiatives are clear. Strong pressures on the President from the hard-line Socialists, combined with pressures on the PDC from its more conservative elements and from the National Party, may cause a collapse of any tentative agreements already reached. Or the two parties to the bargain could fail to agree on the fine points. If the movement towards compromise failed for one or another reason, Allende and the other key actors on the Chilean political stage might try to continue to live with the unstable political conditions which produced the present crisis. In this manner, Allende would hope to hold all the present elements of the UP together and to keep the political confrontation and violence within bounds. He would be buying time, in the hope that he could find an issue or an opportunity that would enable him to re-establish the momentum of his first year in office. The other key actors, in and out of the UP, might also agree to live with the present tensions in hopes that the momentum of events would strengthen their position while weakening that of their adversaries. Thus the existing fragile political arrangements could be sustained for some time by various ad hoc adjustments, including behind-the-scenes meetings by leaders of antagonistic forces whenever necessary to ease a crisis.

50. We believe there are three main alternative courses of development: forcing the pace of the revolution through radicalization and repression; slowing it through conciliation and compromise in order to consolidate the gains made so far; the departure of Allende from office. Any of these developments could result from an initiative by Allende; he might weigh the costs and risks and decide to move. The change could also be imposed on the President either by pressures from the military, with or without the support of an aggressive opposition, or by pressures from within the UP. Finally, some dramatic event could force the change—such as an abortive military coup, a bloodbath involving partisan rivals, or a shoot-out between an extremist group and the security forces.

#### *B. Forcing the Pace of the Revolution*

51. Forcing the pace of the revolution would mean, in effect, adopting the proposals of the hard-line Socialists. It would involve such measures as the imposition of a unicameral "people's" legislature, control of the press, and final destruction of the economic bases of the middle-class political opposition. One underlying objective would probably be the perpetuation of UP rule beyond 1976. A likely by-product would be a worsening of Chile's relations with the US and an accelerated growth of ties with Communist countries.

52. We believe this to be the least likely alternative development at this juncture. To succeed, it would require either a strong popular man-

date for the Allende government (via a plebiscite or via the March 1973 congressional elections), a policy of systematic repression against the political opposition, or both. The probable need for repression is almost certainly one factor which makes Allende reluctant to attempt a more radical course. He realizes that neither the security forces nor the population at large would be likely to support systematic repression. At the least, he would have to neutralize the security forces before undertaking such a course; we believe he would have almost no chance of converting the military and the *Carabineros*, as presently constituted, into pliable instruments for repression.

53. Nevertheless, there are a number of contingencies under which Allende might move to quicken the pace of his revolution. Some leaders of the UP, particularly the hard-line Socialists, advocate a plebiscite prior to the 1973 elections as a means of demonstrating popular support.<sup>8</sup> If Allende were to take this tack and win a popular majority, his victory would probably encourage him to push the radical proposals of the extremists within the UP. But we think the chances that the UP could win a plebiscite on a significant issue are small, partly because the opposition-controlled Congress could influence the way in which the issues were posed to the electorate, and partly because the tide of public opinion appears to be against the government. For these reasons we think that Allende is not likely to call one. Even if the government won a referendum, an attempt to use the results to cancel the congressional election or impose other radical departures from constitutional form would carry a high risk of a violent reaction by the opposition and of a military coup.

54. A decisive triumph by the UP in the March 1973 congressional election (i.e., the capture of a majority of both houses) would be regarded by Allende as a popular mandate for radicalizing the revolution. In this case, the opposition would be deprived of legal means to check the initiatives of the government. The UP would probably perceive little risk of military intervention because of its demonstrated popular support and its ability to implement radical changes without violating the letter of Chile's remarkably elastic constitution. In such circumstances, the chief constraint on Allende would be the prospect that radical measures would touch off last-ditch violent resistance by some groups, which might indirectly generate military intervention.

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<sup>8</sup> A plebiscite can be called only on Presidential initiative. It can be undertaken when Congress rejects totally a constitutional reform the President has submitted or if Congress rejects, totally or in part, Presidential modifications of a constitutional reform. Some of the modalities of a plebiscite are unclear, including the question of whether one can be held without the legislature first passing enabling legislation. [Footnote is in the original.]

55. The lineups and precise issues for the 1973 election are not yet set, and may not be until the end of the year. But even at this early juncture the chances that the UP, as presently constituted, will capture control of Congress seem slim. This would probably require a sharp improvement in the economic situation and a reversal of the trend toward political violence, and perhaps also a successful manipulation of the issue of nationalism against the US or some other foreign enemy. In fact we see the elections—which will cover the entire Chamber of Deputies and one-half of the Senate—more as a threat to Allende's political holdings than as an opportunity for gains. There is a possibility that the UP will pick up some additional seats, but it is more likely that the opposition will either hold its own or make moderate advances.

56. Of course, if Allende were to force the pace of the revolution without a popular mandate, the need for repression would be greater and so would the risk of major civil conflict and of a military coup. Yet, under certain conditions, Allende might be persuaded by his more radical supporters that the level of risk was acceptable. For example, if there were an abortive *Putsch*—particularly one in which prominent opposition politicians or representatives of the US Government could be implicated—Allende might conclude that he could justify repression and radical measures on the grounds that they were necessary for the survival of constitutional government. By tarring his opponents as seditionists and foreign agents bent on destroying Chile's cherished constitutional system, he might be in a strong position to intimidate the opposition and neutralize the military. Finally, Allende might move forward in desperation, to fend off what he perceived as an imminent threat to his tenure from the military or the opposition. But again, unless the security forces were split or seriously compromised (e.g., by evidence of foreign intrigue), Allende would have almost no chance of succeeding.

### *C. Allende's Departure from Office*

57. Barring an effort by Allende at radicalization and repression, we judge the chances of his removal from office over the next year or two to be relatively small. For one thing, most Chileans—civilians and military, leaders and followers—would strongly prefer to see constitutional continuity. We have already mentioned some contingencies under which the military might oust Allende—the threat of civil war, an unconstitutional seizure of dictatorial power by Allende, or the undermining of the military as an institution. Aside from a move by the military, a major defeat for Allende in the March 1973 election could pave the way for his successful impeachment. This would require a two-thirds vote in the Senate, and although the opposition might gain the several seats needed for such a margin, not all opposition senators would be anxious or willing to force Allende from office.

58. An overwhelming repudiation by the electorate in the 1973 election or in a plebiscite could conceivably cause Allende to renounce his office. He might also give up the presidency if repudiated by the UP in a major initiative, or if civil war threatened. But there is little indication that Allende has lost either his zest for politics or his strong attachment to office.

59. The consequences of so drastic a political event as Allende's removal from office would obviously depend heavily upon the circumstances. Allende might see the handwriting on the wall and ask all political forces to pull together under his successor. He might, on the other hand, call for resistance and try to spark a major insurgency. Certain leftist extremists would probably turn to insurgency in either case.

#### *D. Slowing the Pace of the Revolution*

60. We think the most likely course over the next year or so will be moves by Allende towards slowing the pace of the revolution in order to accommodate the opposition and to preserve the gains already registered. As indicated in paragraph 48, Allende has recently taken some tentative steps in this direction. We believe that if he does not succeed at this juncture, he will undertake subsequent initiatives toward the same end. These might take a number of forms. At one end of the spectrum, they would involve mainly tactical moves to ease the confrontation similar to those adverted to by Allende after the UP conclave. In particular Allende would pledge to seek agreements with the political center on some issues; he would also reaffirm his commitment to preserve the constitutional system and to respect the rights of the opposition, and take some measures to restrain the extreme left. At the other end of the spectrum this course might involve such measures as a systematic crackdown on the MIR and other perpetrators of violence and the establishment of a regular means by which the PDC and other moderate political forces not now in the UP would be consulted in advance on potentially contentious policy decisions. There would be in any case a deliberate effort to reduce the political temperature by curbing illegal and violent activities and by seeking agreement with the opposition on such sensitive issues as the pace and character of expropriation of private enterprises and farms.

61. From present evidence, relatively modest steps seem more likely—at least in the short run—than does a substantial change in the character of the UP government. The pressures on Allende to pursue more substantial forms of accommodation would probably rise if the opposition made notable gains in the March 1973 election.

62. Whatever the form or timing of a move towards compromise by Allende, his objective would be to preserve the revolutionary advances achieved so far by his regime—not to repudiate them. Since

most leaders of the political center and of the military are in general agreement with the need for far-reaching social and economic reforms, and support many of Allende's specific measures (e.g., copper nationalization), they too would be disposed to cooperate with Allende, perhaps with only marginal alterations in the measures already taken. Both Allende and the opposition would find it advantageous to cooperate selectively on issues of mutual interest. The objective of the opposition would be to keep the political system healthy enough so they can compete for an eventual return to power. Allende would hope to strengthen his popular appeal and his control of the situation and to move forward with some additional measures which would have the backing of the political center, particularly in the economic and social spheres.

63. Regardless of how the arrangement came about, or of the precise form of accommodation, groups on both the extreme left and the far right would feel threatened by it. Extreme leftists in and out of the government would be persuaded that Allende had betrayed the revolution. Especially if major steps toward cooperation with the PDC were taken, there would probably be a schism within the UP; at least some Socialist extremists and members of the like-minded mini-groups would bolt and perhaps establish an alliance with the MIR. On the conservative side of the political spectrum, some of the Nationals would probably conclude that their interests were in danger and work hard to subvert the cooperation between the UP and the center forces. Although the atmosphere of confrontation in the country as a whole would tend to dissipate, at least some extremists would turn to the use of systematic violence, including both guerrilla warfare in the countryside and urban terrorism.

64. Moves by Allende towards slowing the pace of the revolution would probably reduce discontent within the military and the *Caraabineros*. Though some right-wing officers might continue to plot, they would have little support for a coup from their colleagues. The security forces would probably cope reasonably well with the challenge from extremists. The insurgents would not be likely to gain broad popular support (as they might if Allende were forced from office). Indeed, even the MIR would be likely to split between diehards and compromisers, and the groups that it has organized—e.g., the Mapuche Indians—would be likely to fight only if their immediate interests were threatened. A certain proportion of the extremist wing of Allende's Socialist Party and some members of the mini-parties of the far left (e.g., the MAPU) might join in the insurgency or promote disorders through strikes and mass demonstrations. Again, we judge that the security forces would be able to maintain control, and there would be little likelihood that the violence would reach the level of civil war (i.e., with thousands of armed combatants and hundreds of casualties).

65. Because of the mercurial character of Chilean politics in general and the extent of polarization so far under Allende in particular, it is difficult to judge the likely longevity of moves by Allende towards co-operation with the political center. To some extent, once the pressures that produced this political departure receded—fear of civil war or military coup—the resurgence of politics as usual would work to weaken interest in conciliation and compromise. The politicians would have to weigh their interest in seeing that the political system survives and orderly elections are held with their interest in seeking extreme partisan advantage on contentious issues between elections.

#### *IX. Some Implications*

66. The implications for Chile over the longer term of slowing the pace of the revolution would depend on many unknowns and unknowables. It is possible that the revolutionary dynamic might still undermine the country's democratic tradition. But the chances for an open and meaningful Presidential election in 1976 would probably be considerably improved. Even if Allende continued to move forward with the economic and social goals of his revolution, the democratic political system could still be sustained by such institutions as an independent military, a free press, a vigorous congress, and a politically sophisticated populace.

67. The Allende government would still have to contend with prickly domestic and international problems, particularly in the economic field. Painful political decisions on the basic economic imbalances inherited by Allende or engendered by his policies would still have to be faced: a curb on wages and consumption; a major boosting of farm and copper output; the rescheduling of payments on the foreign debt; and the attraction of large-scale foreign private investment or governmental aid.

68. We doubt that there would be a dramatic change in Chile's relations with the USSR or China. Allende would still seek their economic aid, and this would probably continue to increase gradually. Relations with Cuba might come under strain, especially if the government and the Castroite MIR were engaged in prolonged armed struggle. But we judge that Castro would not give major support to the MIR. Castro has a stake in maintaining amicable state-to-state relations with Chile, as a base for some revolutionary activity, as an indication that US efforts to isolate him in Latin America have failed, and as a sign to other interested Latin American countries (e.g., Peru) that they can do business with Cuba.

69. Allende's pursuit of the path of conciliation within Chile would not be likely to improve dramatically his relations with the US. Key problems of compensation for the nationalized assets of US companies

would remain. Since neither military leaders nor centrist politicians appear to oppose Allende's treatment of the US copper companies, there is little reason to believe that they would press for generous compensation. These elements, however, would encourage Allende to avert a showdown on the issue, perhaps by leaving open the possibility of compensation through international arbitration, and they would reinforce Allende's tendency to avoid a complete rupture of relations with the US. The Chileans would probably expect the US to be forthcoming on such issues as debt renegotiations as a *quid pro quo* for even minor concessions on their part *re* the copper issue. Indeed, Allende and the political forces cooperating with him would fear that any sign of bowing to US pressures would greatly increase their vulnerability to attack from the extreme left as "counter-revolutionaries".

### CHILEAN POLITICAL PARTIES

#### I. *Composition of Chilean Congress*

	CHAMBER OF DEPUTIES	SENATE
GOVERNMENT (POPULAR UNITY)		
COMMUNIST PARTY.....	19	6
(A pro-Soviet party, generally a force for moderation in the UP)		
SOCIALIST PARTY .....	14	5
(Allende's party, now dominated by an extremist wing; chief UP force pressing for radicalization)		
RADICAL PARTY .....	12	3
(Chile's oldest party, traditionally represented Chile's middle class; after several schisms, became a "revolutionary" party. Recently merged with the Social Democrats, a mini-party of similar bent)		
CHRISTIAN LEFT .....	9	2
(Former members of the Christian Democratic Party; revolutionaries, both Marxist and non-Marxist)		
INDEPENDENT POPULAR ACTION .....	—	1
(Non-Marxist leftist mini-party)		
Government Totals .....	<hr/> 54	<hr/> 17
PRO-GOVERNMENT		
POPULAR SOCIALIST UNION .....	—	1
(Socialist Party splinter group)		

## OPPOSITION

CHRISTIAN DEMOCRATIC PARTY.....	47	20
(Moderate leftist, Chile's largest party; committed to fundamental social and economic changes through democratic means)		
NATIONAL PARTY .....	32	5
(Conservative, representing interests of well-to-do and some middle-class Chileans)		
LEFTIST RADICAL PARTY .....	9	5
(Moderate leftist group of former Radical Party members; defected from UP in April 1972)		
DEMOCRATIC RADICAL PARTY .....	4	2
(Conservative splinter of the Radical Party)		
INDEPENDENT .....	<u>1</u>	<u>—</u>
Opposition Totals.....	<u>93</u>	<u>32</u>
TOTAL MEMBERSHIP .....	147*	50

II. *Other Political Groups*

Among the political organizations unrepresented in congress the most important are:

(1) The United Popular Action Movement (MAPU), a radical Christian Democratic Party splinter which is part of the UP. Most of MAPU's more prominent members deserted to the Christian Left Party after it was formed last year;

(2) The Leftist Revolutionary Movement—a Castroite group employing direct action to accelerate the revolution (e.g., land seizures, housing occupations). Though not a part of the UP, it maintains an uneasy coexistence with it;

(3) The Fatherland and Freedom Nationalist Front, a rightist group attempting to depose Allende by promoting military intervention.

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\*The Chamber has a normal membership of 150, but a Communist Party Deputy died on 5 May 1972. His seat will be filled in a by-election in July. Two other Communist deputies resigned their seats in June to join the Cabinet. It is unclear whether these seats will remain vacant until the March 1973 election. [Footnote is in the original.]



117. Memorandum for the 40 Committee<sup>1</sup>

Washington, August 15, 1972.

## SUBJECT

Status Report on Financial Support to Opposition Parties in Chile

## I. Summary

This is the fourth status report to the 40 Committee describing the use and results of support authorized by the Committee for opposition parties in Chile. In accordance with the Committee's request, this report is less detailed than previous [*less than 1 line not declassified*] status reports and covers the three-month period from May through July 1972.

On 5 November 1971 the 40 Committee approved [*dollar amount not declassified*] for support through October 1972 to the three Chilean political parties opposed to the Popular Unity (UP) coalition of President Salvador Allende. These parties are the Christian Democratic Party (PDC), the National Party (PN) and the Democratic Radical Party (PDR). The Committee also approved [*less than 1 line not declassified*] the Radical Party of the Left (PIR), which was then a member of the UP coalition. On 24 April 1972 the Committee approved the expenditure through October 1972 for the PIR of an additional [*dollar amount not declassified*], of which [*dollar amount not declassified*] represents new funds and [*dollar amount not declassified*] are funds previously approved for the PDR.

Three particularly significant elections took place during the period from May through July 1972. The nationwide election held in the powerful Chilean labor confederation (Central Unica de Trabajadores (CUT) from 30 May to 6 June was important because the results indicated growing dissatisfaction with the Allende government in the labor sector which the government specifically claims to represent. The other two elections, those held on 6 July in the Student Federation at the University of Chile (FECH) and on 16 July to fill a deputy's seat in Coquimbo Province, were won by the UP even though electoral results indicated a further slow but steady erosion of popular support for the government. These two elections also pointed up the vital and some-

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<sup>1</sup> Summary: This fourth status report to the 40 Committee on U.S. financial aid to opposition parties in Chile discussed the money given to Chilean parties and how they spent it.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile, July–December 1972. Secret; Sensitive; Eyes Only. The first three status reports are Documents 99, 107, and 115.

times irreconcilable differences between the PDC and the PN, the two strongest opposition parties, which at that time were exacerbated by the PDC's negotiations in June with the UP government on the "Three Areas" bill. The most encouraging development was the decision of the four opposition parties to form a united opposition confederation for the March 1973 congressional election. It should be noted, however, that the confederation was opposed by a number of important leaders of the PDC's left wing, including PDC President Renan Fuentealba, and that considerable difficulties can be anticipated in maintaining confederation unity through the March 1973 elections.

Funds passed to all opposition parties [1 line not declassified] totalled [dollar amount not declassified], of which [dollar amount not declassified] was passed to the PDC, [dollar amount not declassified] to the PN, [dollar amount not declassified] to the PDR and [dollar amount not declassified] to the PIR. This means that since 5 November 1971 a total of [dollar amount not declassified] has been passed to the four opposition parties.

## II. Background

During the past three months the government has continued to increase its control over the Chilean economy, expropriating lands and taking over major industries. Despite the steady erosion of the private sector, which represents a major source of support for the opposition political parties, the UP still must reckon with a hostile Congress and a steady decline in popular support which deters the government from calling a plebiscite to push through its revolutionary plans. Pedro Vuskovic, former Minister of Economy who now heads the State Development Corporation and the President's Economic Council, described the present economic situation in Chile by saying, "The problem of power is still unresolved and this is the key problem in any revolution." The inconclusive nature of the continuing power struggle between the UP and the democratic opposition was well illustrated by the principal political developments of the past three months.

### A. CUT Election

A larger number of ballots (over 650,000) were cast in this election than in any electoral contest since the April 1971 municipal elections. The Central Union de Trabajadores (CUT), a powerful national labor organization, has been controlled by the Communist and Socialist Parties for some years. UP efforts to give the CUT legal status as the government's labor arm were partially blocked by Congress; a bill finally passed in January 1972 did give the CUT at least semi-official status but also provided for secret, direct balloting in future CUT elections.

As the 30–31 May date for the first CUT election with secret balloting drew near, the PDC leadership reacted with uncertainty. The

PDC's peasant confederations insisted that they did not wish to belong to the CUT and refused to pay the back dues which would have enabled them to vote in the CUT election. The PDC's union sector finally voted to participate, but the PDC campaign on behalf of its CUT presidential candidate, Ernesto Vogel, started slowly. In the last days of the campaign, however, the PDC made a massive and effective effort which was fully supported by the PN, PDR, and the independent Gremialist labor movement. The result far surpassed the PDC's most optimistic expectations.

The PDC claimed victory from the outset, basing its claims on the tabulations made at local voting spots (either work sites or union headquarters) which were supervised by local union officers. The official tally (delayed for over a month) remained in the hands of the Communist-controlled CUT electoral commission, which was charged with fraud by the Socialist and Radical Parties as well as the PDC. The "official" results announced on 13 July gave first place in the nine slate contest to the Communists, second to the Socialists and third to the PDC, with less than 1,000 votes separating the PS and the PDC.

The PDC, which still claims its slate won first place, is considering presenting a bill to Congress calling for new CUT elections within six months under the supervision of the national electoral board. Even if this PDC effort is unsuccessful, the CUT election demonstrated that the opposition has significant support within a highly important labor sector which has long been dominated by the leftist parties.

#### B. FECH Election

In May 1972, opposition parties united under the leadership of Rector Edgardo Boeninger to defeat a UP attempt to gain political control of the University of Chile. Following the successful Boeninger campaign, the opposition hoped to be able to defeat the incumbent Communist president of the Student Federation (FECH) in the 6 July FECH elections. However, despite vigorous efforts by Rector Boeninger as well as Station assets in the various opposition parties, PDC and PN youth leaders were unable to agree on a common slate. PDC intransigence was responsible for the opposition's failure to achieve unity early in the campaign, but the PN, which conducted propaganda and advertising campaigns which were offensive to the PDC, rejected subsequent compromise offers and must bear some responsibility for the opposition failure.

The existence of three opposition slates (PDC, PN and Gremialist) predictably insured the victory of the UP candidate, even though the results demonstrated that the head of a combined opposition slate would have won the presidency and would have had the decisive vote on the Student Executive Council. The new student government will be

in power only until the next regularly scheduled election in October/November 1972, and Station assets have already begun working to bring about an accord between PDC and PN youth. There is, however, so large a legacy of mutual recrimination and bitterness that these student factions may refuse to cooperate despite the obvious desirability of a unified slate.

### *C. Coquimbo By-Election*

A separate report has been submitted to the 40 Committee on the results of this by-election, which was won by the UP candidate.

The opposition effort was hindered by distrust and bickering between the PDC and the PN and by the lack of an overall campaign manager. The PDC and the PN both blame each other for the opposition's failure to win a larger percentage of the Coquimbo vote. The PN claims that PDC negotiations with the government on the "Three Areas" bill created widespread disillusionment among the Coquimbo electorate while the PDC charges PN youth brigades with sparking the only violence in the Coquimbo campaign and alleges that the PN tried to use Coquimbo for its partisan advantage. The gap between the government and the opposition narrowed from 23,351 votes in the 1971 municipal elections to 8,173 votes in this by-election, but there is no doubt that lack of coordination among opposition parties reduced the effectiveness of the opposition effort.

### *D. "Three Areas" Bill*

On the night of 12 June PDC President Renan Fuentealba startled the political opposition by responding to a telephone call from President Allende and visiting Allende's residence to discuss a possible compromise concerning the PDC-sponsored bill defining the three areas of the economy. Allende's vetoes of key provisions of this bill (which seeks to limit government control of the economy) had prompted the PIR withdrawal from the government in April 1972 and created an impasse between the legislative and executive branches of the government. While Fuentealba's motive in responding to Allende's overture was allegedly to resolve this impasse, the clandestine and unconventional manner in which the conversations were held created widespread suspicion among the other opposition parties as well as among the rank and file of PDC supporters. PDC leaders generally admit that Fuentealba was wrong in responding to the government without consulting other opposition party leaders or even obtaining the approval of the PDC National Council.

When no agreement had been reached after 15 days of negotiation, the PDC National Council voted unanimously that negotiations should be terminated. The PDC subsequently closed ranks with the rest of the

opposition on the "Three Areas" bill and the simultaneous impeachment of the Minister of Interior by Congress.

#### *E. Confederation for the March 1973 Congressional Elections*

On 7 July, only minutes before the deadline imposed by the Electoral Tribunal, the four opposition political parties filed their intent to form a united opposition confederation for the March 1973 congressional elections. Earlier that day the government coalition had registered its own federation.

Part of the opposition's difficulty was created by negotiation over the selection of candidates for a single slate, since the four parties together can present no more candidates than there are seats to be filled. The opposition parties finally reached tentative agreement on all candidates except those who will run for the Senate from Santiago Province. (This represents a considerable accomplishment, since the government parties have not yet begun this agonizing process.) Confederation was opposed, however, by a number of left-wing PDC leaders, including party President Fuentealba. The latter made it clear that his acceptance of the agreement was only the result of strong pressures from his PDC colleagues [*less than 1 line not declassified*]. Many other PDC leaders also remain unconvinced of the political desirability of cooperating with the "fascist" PN, and the confederation may yet experience severe difficulties over the apportionment of senatorial candidates from Santiago or on some other issue cleverly exploited by the UP.

### *III. Status of Funds Approved To Maintain and Develop Effectiveness of Opposition Parties*

#### *A. Christian Democratic Party*

A total of [*dollar amount not declassified*] was passed to the PDC during May, June and July 1972. [*6 lines not declassified*]

As the largest political party in Chile, the PDC continues to play a dominant role in determining the overall posture of the opposition toward the Allende government. When the PDC, reacting to pressures from the Frei wing of the party has taken a decisive position against the UP, the opposition has effectively blocked the UP regime. However, the Frei wing does not control the party, many of whose leaders remain extremely sensitive to government charges of an "alliance with the right." Although the PDC rank and file are more strongly anti-government than the party leadership, the party as a whole remains fully committed to the constitutional process, supports many of the socio-economic reforms of the Allende government, and is reluctant to encourage political polarization and confrontation.

The above combination of factors, combined with the unpredictability of PDC President Fuentealba, explains the PDC's erratic opposi-

tion role. During the past three months, the PDC has sometimes adopted a very hard anti-government stance (as in the impeachment of Minister of Interior Hernan del Canto) while, at other times, it has favored a policy of conciliation, astonishing its own members and parliamentarians (as in Fuentealba's negotiations with the government on the "Three Areas" bill).

The role and influence of Frei as opposed to Fuentealba in determining the PDC's future policies and actions is uncertain. During the past three months Frei has remained outside Chile. He is scheduled to return home in early August, at which time he must decide whether he will run for the Senate from Santiago Province in the March elections and decisively involve himself in party politics. Fuentealba, who lost some support as a result of his negotiations with Allende, may seek confirmation of his role as party leader at a national plenum scheduled to be held prior to the March 1973 elections. He may at that time make some proposal to dissolve the opposition confederation. Whatever the case, the Station's [*less than 1 line not declassified*] agents are committed to support the confederation and make every effort to bring about continuing cooperation among the opposition parties.

[*1 line not declassified*] funds were passed to the party to support PDC media and to assist the PDC's national reorganization effort (which the party expects to complete prior to the March 1973 elections). [*4 lines not declassified*] Party reorganization has received considerable emphasis and is focused particularly on strengthening the party's grass roots structure. The basic unit under this new system is a "neighborhood" organization having an estimated 8,000 members, replacing the old, unwieldy "comuna", which in some urban areas in Santiago had 40,000 members. This reorganization, combined with the party's new IBM system for recording membership data, should be of considerable assistance to the party in preparing for the March 1973 elections.

#### B. National Party (PN)

A total of [*dollar amount not declassified*] was passed to the PN during May, June and July 1972. Since [*dollar amount not declassified*] was passed to the PN during the six-month period from November 1971 through April 1972, the PN has now received [*dollar amount not declassified*] of the [*dollar amount not declassified*] approved for it by the Committee.

The PN continues its strong opposition to the Allende government, using its media to attack and protest government policies. PN leaders have continued their work to improve and stimulate the party's provincial organizations, and the results of recent local elections (including the FECH contest) indicate that the PN has been increasing its popular support. This situation has arisen largely because the PN's

clearly defined anti-government position has had an appeal to an increased segment of the electorate.

Under these circumstances, the PN has not been above exploiting alleged PDC weaknesses to its own partisan advantage. PN militant action and youth groups are disposed to resort to violent countermeasures in opposing land seizures and other activities of far-leftist revolutionary groups. The PDC interprets such activities as PN efforts to promote a confrontation between opposition and government forces. In short, the PN's more militant anti-government posture alarms the PDC. In addition, some of the PN's propaganda and advertising campaigns, particularly during the FECH and Coquimbo elections, antagonized the PDC and have had some negative impact on the prospects for opposition unity for the future.

The PN is well aware of the need for unity and is willing to make some sacrifices to achieve this objective. At the same time, it also senses the appeal of its anti-government stance in a more polarized political climate and will have difficulty in controlling its supporters on issues where the PDC position appears weak or compromising. The Station will continue to work [less than 1 line not declassified] to reduce PN/PDC friction and to promote an effective opposition confederation in the congressional elections.

#### C. Democratic Radical Party (PDR)

A total of [dollar amount not declassified] was passed to the PDR during May, June and July 1972. Since [dollar amount not declassified] was passed to the PDR during the six-month period from November 1971 through April 1972, the party has now received [dollar amount not declassified] of the [dollar amount not declassified] approved for it by the Committee.

The Station continues to provide approximately [less than 1 line not declassified] to help maintain the PDR's organizational structure [3 lines not declassified]. The two parties joined forces effectively during the Coquimbo by-election, and now plan to merge soon after the March 1973 congressional elections.

#### D. Radical Party of the Left (PIR)

A total of [dollar amount not declassified] was passed to the PIR during May, June and July 1972. Since [dollar amount not declassified] was previously passed to the PIR, the party has now received [dollar amount not declassified] of the [dollar amount not declassified] approved for it by the Committee.

[1 paragraph (16 lines) not declassified]

The Station also provided financial support to maintain the day-to-day operation of the PIR. [5½ lines not declassified]

**118. Memorandum for the 40 Committee<sup>1</sup>**

Washington, August 24, 1972.

## SUBJECT

Financial Support to the Chilean Private Sector

*I. Summary*

The financial support previously authorized by the 40 Committee has helped strengthen the political parties opposed to the Popular Unity (UP) government of President Salvador Allende. Assistance provided to *El Mercurio* has enabled that independent newspaper to survive as an effective spokesman for Chilean democracy and against the UP Government. But while the parties and democratic mass media have developed into formidable political opponents of the UP, winning the support of an increasing percentage of the Chilean electorate, the government has fulfilled a major part of its revolutionary program by increasing its control over the Chilean economy. Systematic expropriation of land and government takeovers of almost all banks and major industries have laid the groundwork for a totally state-controlled economy. Since the private sector forms an integral part of the opposition forces in Chile and is its natural source of political funds, the takeover of the economy by the UP government would seriously weaken the entire opposition.

The Chilean private sector has only recently begun to appreciate the full magnitude of the dangers posed by the government's economic program. The complex array of organizations representing private enterprise among large and small businessmen, industrialists, farmers, workers and peasants have begun to consolidate and to organize in opposition to the government. Economic survival is of course their primary concern, and this can be achieved only by preventing or limiting further nationalization. This fact has tended to politicize the private sector and to increase its willingness to work closely with the opposition parties and to assist them wherever possible. In turn, the support of the opposition parties and the democratic media is essential to enable the private sector to mobilize the support it needs from Congress

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<sup>1</sup> Summary: This memorandum outlined a proposal for funding private-sector organizations, which would allow for countering Allende government policies.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile, July–December 1972. Secret; Sensitive; Eyes Only. In a September 21 memorandum for the record, Ratliff stated that the 40 Committee approved the transfer of funds by telephone. (National Security Council, Nixon Intelligence Files, Subject Files, Chile, 40 Committee Minutes, 1972)



and the Chilean public. Therefore, support and encouragement of the politically-oriented activities of the private sector would represent an operational adjunct to the main effort of direct support to the opposition political parties.

[3 paragraphs (41 lines) not declassified]

## II. Background

The Allende government has drawn up a list of all Chilean corporations whose capital reserves exceed \$500,000; by the government's own estimate, these 189 corporations account for 82% of the capital holdings of the 1,987 companies incorporated in Chile. Many of these companies are already government-owned, and those still in private hands are earmarked for early nationalization.

As of January 1972, the State had ownership or control of approximately 200 enterprises, of which about half had been taken over by the Allende government. In January 1972 the government published a list of the 91 remaining large firms which were scheduled for imminent nationalization.

In a belated move to moderate Allende's effort to obtain increased control over the economy, the Chilean Congress on 19 February approved a bill sponsored by the Christian Democratic Party (PDC) defining the economic areas subject to government ownership, and making all government takeovers since October 1971 in other areas subject to congressional approval. After weeks of negotiation with the PDC, Allende in early April 1972 vetoed the key portions of the PDC constitutional amendment and added clauses which would significantly ease the government's efforts to increase its control of the economy.

The impasse over the "three areas" bill has yet to be resolved, but the government has continued to expropriate, requisition or intervene Chilean firms. [2 lines not declassified] The manufacturing sector can serve as one example of the gravity of this situation. The government already controls 32.8% of Chilean manufacturing exclusive of the manufacturers included on the "List of 91," which represent an additional 20%. A government takeover of the manufacturing firms on the "List of 91" will thus give the government control of more than 52% of all Chilean manufacturing.

In the agricultural field, the government has stopped giving out figures on land expropriations and takeovers. Under the Agrarian Reform Law, all farms exceeding 80 hectares of irrigated land are subject to legal expropriation, a process which was to be completed by the end of July 1972. In addition, police reports recently published in *El Mercurio* reflect a total of some 1,768 illegal farm takeovers from November 1970 to early March 1972. It is estimated that 55% of all farm land (in-

cluding 45% of all irrigated land) is now in the reformed sector and thus under government control.

The UP government's effort to assume greater control of the private sector is a key part of Allende's drive to make socialism "irreversible" in Chile. The survival of the private sector is crucial to the opposition because this sector represents a sizable segment of Chilean society not yet under government control as well as an important source of funds for opposition political parties. Thus, any significant increase in the UP's control of the economy will inevitably strengthen Allende's position against the opposition political forces.

*[5 paragraphs (106½ lines) not declassified]*

### III. *Proposal*

*[1 paragraph (23½ lines) not declassified]*

### IV. *Funding and Risks*

*[2 paragraphs (29 lines) not declassified]*

### V. *Coordination*

This proposal has the concurrence of the Ambassador and the Assistant Secretary of State for Inter-American Affairs.

### VI. *Cost*

*[1 paragraph (1½ lines) not declassified]*

### VII. *Recommendations*

*[1 paragraph (4 lines) not declassified]*

*[2 attachments (10 pages) not declassified]*

119. Memorandum of Conversation<sup>1</sup>

Washington, October 4, 1972.

## SUBJECT

Copper Negotiations

## PARTICIPANTS

*Kennecott Copper Corporation:*

Frank Milliken, Chairman of the Board

C.D. Michaelson, President, Metals Mining Div.

Pierce McCreary, General Counsel

*Department of State:*

Charles A. Meyer, Assistant Secretary, ARA

John E. Karkashian, Deputy Director, ARA/BC

Mark Feldman, L/ARA

*Treasury Department:*

Scott Van Batenburg

Mr. Karkashian reviewed USG's efforts at the Paris Club and since to use the leverage available to us for achieving some sort of progress toward an acceptable solution of the copper dispute in conjunction with our bilateral discussions with Chile on debt rescheduling. He described the specific steps in a scenario which calls first for government-to-company negotiations, subsequently would advance the idea of government-to-government negotiations, and finally could progress to some form of international arbitration. It was pointed out that we had no illusions about the GOC's willingness to enter into direct talks with the companies but we believed it possible that Chile might entertain government-to-government discussions, or failing that the Chileans themselves might offer to enter into some form of international adjudication, probably via the 1914 arbitration treaty. Note was also made of the importance of establishing for the record, to be used at the next Paris Club round, the USG's good faith performance on the Paris Club agreement as contrasted with the GOC's performance. The Kennecott representatives were also brought up to date on the bilateral debt rescheduling talks which were resumed on October 2.

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<sup>1</sup> Summary: Officers of the Departments of State and Treasury, and the Kennecott Copper Corporation discussed how to obtain compensation for expropriated investments. Government officials noted that the different U.S. agencies were coordinating efforts to press for indemnification and that communication between the companies and the U.S. Government was critical to succeeding in this endeavor.

Source: National Archives, RG 59, Central Files 1970-73, INCO-COPPER CHILE. Confidential. Drafted by Karkashian. A copy was sent to Meyer, Feldman, Winder (E/IFD/ODF), Hunt (OPIC), Van Batenburg (Treasury), and Santiago.

Mr. Milliken said the company has no desire to enter into direct discussions with the GOC, believing rather that its interests are better served by various legal actions it has undertaken and is contemplating. He doubted that the GOC itself would be interested in talking to the company, but subsequently acknowledged that the company would not be averse to such discussions if the Chileans have some specific proposal to offer.

On government-to-government negotiations, Mr. Milliken made clear that while he had no objection to USG efforts to this end, the company would not stay any of its current or contemplated legal actions to obtain such discussions nor could it indicate beforehand to the USG what measures it might consider as constituting progress toward a possible settlement. He would not wish such discussions to prejudice the company's efforts. Any substantive issues which might be involved in such discussions would have to be submitted, Mr. Milliken asserted, to his Board of Directors for approval. Mr. Milliken acknowledged that the company had requested the Secretary of State by letter in the early stages of the copper expropriation to take the company's problems up with the GOC at the diplomatic level.

Mr. Feldman noted the tactical problem that we would face at Paris if the Chileans should agree to negotiate. Our leverage with the other creditors depends on the US being able to document that Chile is not meeting its commitments. It would weaken our position if Chile could claim the US has not complied with the Paris agreement.

Mr. Milliken emphasized that the company's views of its problems in Chile had a wider focus and went beyond the bounds of what might be recovered in payment for its debt and equity interests. He said there were other and more important factors involved of a business nature and the company would bear these in mind as contrasted with a narrower objective of securing some minimal payment from the GOC for its expropriated properties. He also made clear that the company's determination to pursue legal and other remedies contemplated the possibility that the GOC might stop payment on the Braden debt. Mr. Milliken noted that the Chileans only decided to make the payments on the debt after the company took legal action.

Mr. McCreary made clear that Kennecott no longer has any legal action pending in Chile. He stated the company formally withdrew from the Copper Tribunal's proceedings. He acknowledged that the GOC might continue to press its own claims against the company before the Tribunal, possibly in an effort to increase the amount of negative compensation or conceivably to build a record of its own adherence to "judicial" proceedings.

Messrs. Milliken and McCreary stated they had not thought too much about the possibilities of international arbitration or adjudication

and could not offer a company position on the subject. Mr. Millikin expressed doubt the GOC would in any case be willing to submit to any form of arbitration. Mr. Feldman reviewed the provisions of the 1914 Treaty which in its initial stage constitutes a conciliation procedure, and suggested that the GOC might possibly choose to pursue this course as part of its own image-building on the international scene and specifically before the Paris Club creditors. However, to do so Chile would have to risk review of its actions by a body not subject to its control.

Mr. Meyer summed up the discussions and pointed out that the coordinated efforts of the Departments of State, Treasury and other interested agencies were designed to explore all possible avenues of obtaining relief for the US companies involved and that while the USG acknowledges the right of all nations to expropriate, we continue to insist that they pay adequate compensation. He also observed that the possibility of some form of arbitration in this dispute, which went well beyond the interests of any one company, could have major impact on Latin America's traditional adherence to the Calvo doctrine whereby they have refused to acknowledge the right of other States to represent the economic interests of their nationals abroad. Mr. Meyer emphasized the importance of keeping in close contact with the companies in order to insure that in our efforts on their behalf we in no way prejudice other courses of action which the companies themselves are pursuing. Mr. Milliken acknowledged the usefulness of maintaining such contacts and promised to keep in touch.

**120. Memorandum From the Executive Secretary of the  
Department of State (Eliot) to the President's Assistant for  
National Security Affairs (Kissinger)<sup>1</sup>**

Washington, October 12, 1972.

SUBJECT

Kennecott Suit in Paris Against Chilean Copper Shipment

Following the September 11 ruling of the Chilean Special Copper Tribunal that it had no jurisdiction over the excess profits findings against the U.S. companies, Kennecott announced that it was withdrawing from further legal proceedings in Chile and would “pursue in other nations its remedies for the confiscated assets”. The Chilean Government reacted angrily and threatened to reconsider its previous recognition of its (OPIC-insured) debt to Kennecott.

Subsequently, a Paris court issued an attachment relating to a shipment of Chilean copper at Kennecott's request. The shipment, valued at over \$1 million, is destined for a consortium which handles French copper imports. The court order (dated September 30) specifies that the consortium may take delivery of the copper but that payment may not be made to the Chilean exporter (CODELCO, the Chilean Government copper agency) until the proceeding initiated by Kennecott has been completed.

If Kennecott is able to press its case in other countries as well, Chilean foreign exchange earnings, 75–80% of which come from copper exports, could be appreciably damaged. The GOC's sharp reaction reveals its fears in this respect.

Virtually all Chilean sectors have joined in condemning the Kennecott action. Additionally, the bitter language used by GOC supporters tends to link the U.S. Government with Kennecott's move. We are pointing out at suitable opportunities that the action is a private suit by a private company. Kennecott in fact did not advise us of this action, nor is it likely to do so in the future. The Allende government will probably obtain considerable acceptance for its thesis that the suit is “further proof” of an “international embargo” being orchestrated against Chile by the U.S. in collusion with multinational corporations.

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<sup>1</sup> Summary: Eliot discussed the fallout from the Kennecott Copper Company's decision to withdraw from using the Chilean legal system to obtain redress for expropriated property. Instead, Kennecott officials were attempting to gain redress by using other nations' legal systems.

Source: National Archives, RG 59, Central Files 1970–73, INCO–COPPER CHILE. Secret; Exdis. Drafted by Girdler; cleared by Feldman, Weintraub, Fisher, and Crimmins. Miller signed for Eliot above Eliot's typed signature.

In sum, for the short term at least, the Kennecott action appears to have touched Allende on a tender spot but at the same time provided him some part of what we have carefully sought to deny him: a useful pretext for shifting blame for Chile's economic problems, and a basis for rallying sympathy and support.

Theodore L. Eliot, Jr.  
*Executive Secretary*

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**121. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Meyer) to the Under Secretary of State for Political Affairs (Johnson)<sup>1</sup>**

Washington, October 13, 1972.

SUBJECT

Covert Support for Chilean Opposition Looking to March 1973 Congressional Elections

In the attached memorandum CIA proposes assistance to the Chilean political parties and private sector groups opposed to the Popular Unity (UP) coalition in preparation for the congressional elections scheduled for March 1973. The Agency suggests for this purpose a sum of [1 line not declassified] would go to the Christian Democratic Party (PDC); [dollar amount not declassified] to the Nationalist Party (PN), [dollar amount not declassified] to the Radical Party of the Left (PIR) and [dollar amount not declassified] to the Democratic Radical Party (PDR). [less than 1 line not declassified] would be reserved for contingencies and to preserve flexibility for the program.

The remaining [dollar amount not declassified] would be for [number not declassified] private sector organizations. It will be recalled that the

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<sup>1</sup> Summary: This memorandum requested Johnson's approval of the proposal in the attached memorandum for the 40 Committee that recommended that the U.S. Government continue its funding of opposition parties and private-sector groups through the March 1973 elections.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile, July–December 1972. Secret; Sensitive. The memorandum was sent through the Acting Director of INR, James R. Gardner. Johnson initialed his approval on October 18, and a handwritten note indicates the White House was notified that day. Attached to another copy of the memorandum is an October 25 memorandum from Ratliff to Kissinger on which Haig approved for Kissinger the financial support on October 26. (National Security Council, Nixon Intelligence Files, Subject Files, Chile, 1971–72)

Committee already has approved aid to [*number not declassified*] of these organizations, [*less than 1 line not declassified*], and that aid for the other [*number not declassified*] might be provided if there were specific concurrence by CIA, the Department of State and the NSC. (The requirement for NSC concurrence was noted in a 21 September memorandum from the 40 Committee Secretariat; we understand that Dr. Kissinger's concurrence is meant.)

The Agency memorandum notes that although the opposition parties have the requisite organization and will to organize a strong campaign, their economic strength has been so undermined by government policy that financial assistance of the scope requested is essential if they are to campaign effectively. The Agency, stating that a substantial popular vote for the opposition would demonstrate degradation of the UP government's mandate, estimates that anything in excess of a 55/45 percent split in favor of the opposition would represent an opposition victory. It is difficult to predict with accuracy the results in the Chamber or in the Senate of any particular distribution of the popular vote; a 60/40 split in favor of the opposition perhaps could maintain the present opposition majority, which stands at 93 to 55 in the Chamber (there are two vacancies) and 32 to 18 in the Senate. A vote that would give the opposition a two-thirds majority in both houses is extremely unlikely. All Chamber seats and one-half of the Senate seats are to be contested. The opposition, as is the UP, is campaigning as a confederation; that is, the component parties are arranging to field an agreed list of candidates so that their aggregate strength will be reflected in the election results to the maximum measure.

The risks appear to be acceptable as far as disbursement to the parties is concerned. [*5½ lines not declassified*]

ARA and INR believe that you should support this proposal in Committee. It is consistent with the history of our assistance to the Chilean opposition, which, in part because of our past help, maintains what appears to be a preponderant measure of support among the Chilean electorate. The March elections are manifestly critical and we concur in the Agency estimate that our support is essential to the fortunes of the opposition.

Ambassador Davis is familiar both with the general proposal and with the details of the financial assistance that are contemplated. He concurs in the proposal.

#### *Recommendation*

That you support in Committee the proposal for financial support to the Chilean opposition.



**Attachment****Memorandum for the 40 Committee<sup>2</sup>**

Washington, October 13, 1972.

## SUBJECT

Chile—Financial Support of Opposition Parties and Private Sector in 4 March  
1973 Congressional Elections

I. *Summary*

This memorandum proposes that [*dollar amount not declassified*] be approved for the support of political parties and private sector organizations opposed to the Popular Unity (UP) coalition of President Salvador Allende during the period from 1 November 1972 to 4 March 1973, when the Chilean congressional elections will take place. Funds previously approved by the Committee for the four opposition parties and for emergency assistance to [*less than 1 line not declassified*] covered a period ending on 31 October 1972.

Budgets requested for the four opposition parties, which will confront the UP as a single political confederation, are as follows: [*dollar amount not declassified*] for the Christian Democratic Party (PDC); [*dollar amount not declassified*] for the National Party (PN); [*dollar amount not declassified*] for the Radical Party of the Left (PIR); and, [*dollar amount not declassified*] for the Democratic Radical Party (PDR). These budgets are primarily for the campaign period (1 November 1972 to 4 March 1973), but also provide for subsidy payments to each party [*2 lines not declassified*]. The budget requested for the entire private sector is [*2 lines not declassified*]. Funds provided [*less than 1 line not declassified*] will be used for specific activities in support of the overall campaign effort. A contingency fund of [*dollar amount not declassified*] is also included for unforeseen emergencies.

The requested financial support is considered to be realistic in terms of the critical importance of the elections and of opposition needs and capabilities. Although the opposition parties have the organization and the will to mount a strong election campaign, the Allende government has been so successful in undermining the economic strength of individuals and groups which support the opposition that financial assistance of the scope requested is essential if an effective campaign is to be carried out. The attention of the Chilean nation will be focused al-

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<sup>2</sup> Secret; Sensitive; Eyes Only. A handwritten note at the bottom of the pages reads, "Telephonically approved by the 40 Committee on 26 October 1972."

most exclusively on the elections in the coming months, since the vote will determine whether or not the government has a popular mandate to continue the implementation of its revolutionary program, or whether opposition action to force a change in government policies would have massive popular support.

[1 paragraph (6 lines) not declassified]

This proposal has the concurrence of the Ambassador and the Assistant Secretary of State for Inter-American Affairs.

## II. *Political Background*

Conditions in Chile continue to deteriorate. Rampant inflation, economic shortages and outbursts of violence recently raised political tensions so dramatically that rumors of an imminent military coup were widely credited. President Allende publicly denounced the existence of a "September Plan" to overthrow his government, blaming foreign imperialism and the CIA, and skillfully exploiting the Kennecott copper issue to mobilize popular support for his government. The military, however, have apparently accepted the forced retirement of General Alfredo Canales, who was generally acknowledged to be the leader of the military coup plotters. If no new crisis occurs before mid-October the attention of the nation will thereafter be focused increasingly on the elections, which will provide a concrete reading of public sentiment for or against the government at its mid-term point. The extent of popular support received by the government will determine whether the UP continues to try to implement its revolutionary program legally. A substantial popular vote in favor of the opposition would demonstrate that the government has lost the popular mandate it received in the 1971 municipal election, when the UP received 49.74% of the total vote. If the government can in fact be proved to represent a definite minority of the Chilean people, this would tend to strengthen opposition determination to force a change in government policies.

## III. *Electoral Background*

On 4 March 1973 Chileans will elect all 150 members of the Chamber of Deputies and 25 of the 50 members of the Senate. During the most recent Congressional elections, held in 1969 during the Frei administration, the opposition political parties obtained a majority in both houses of Congress. Since Allende's inauguration on 3 November 1970, Congress has been the major obstacle to the UP's efforts to impose an irreversible Marxist regime in Chile, with the opposition parties making effective use of their legislative control to harass the government and to block the revolutionary reforms proposed by the UP.

During the municipal elections, held in April 1971 during the "honeymoon period" which followed Allende's inauguration, the UP parties received almost 50% of the total popular vote. The opposition

will use the municipal election results as a base from which to draw conclusions about the March 1973 results, since it is generally assumed that UP popular support has deteriorated since 1971. In short, the opposition will claim that anything in excess of a 55/45% split of the popular vote in their favor represents an opposition victory. The political and psychological impact of the election will increase in direct proportion to the magnitude of an opposition victory. A strong electoral effort will be needed if the opposition is to attain the roughly 60% of the vote which it will need to maintain its present substantial Congressional majority. A few seats may be lost, but if the opposition succeeds in approximating its present Congressional strength, it will have proved that the UP represents a distinct minority of the population.

The optimum opposition goal, which unfortunately appears to be out of reach, would be for the opposition to obtain a two-thirds majority in both houses of Congress (100 deputies and 34 senators). Such a majority would enable the opposition parties to override presidential vetoes of legislative bills and would theoretically provide the necessary votes for a presidential impeachment. The opposition parties would, however, have to obtain at least 65% of the popular vote to acquire this two-thirds majority. They are unlikely to achieve this goal, however, unless economic conditions deteriorate even more dramatically. Since the Allende government will spare no effort to insure that its working class electorate receives good wages and adequate food supplies during the pre-election period, even if government resources are exhausted in the process, it will probably be able to maintain some semblance of economic stability during the normally prosperous summer months ahead.

#### IV. *Electoral Data*

##### A. *Chamber of Deputies*

Following the 1969 election there has been considerable party-switching. In the opposition, the PDC lost nine deputies to the Unitary Popular Action Movement (MAPU) and to the Organization of the Christian Left (OIC), groups which are now part of the UP coalition. In the UP, the Radical Party lost eleven deputies to the PDR and to the PIR which are now opposition parties. The current alignment is 93 opposition deputies to 57 UP deputies. All deputy seats will be contested in the March 1973 elections.

##### B. *Senate*

The Senate is now divided 32 to 18 in favor of the opposition parties. Of the 25 Senatorial seats up for election, 16 are held by the opposition and 9 by the UP.

### *C. Party Confederations*

A recent ruling by the Chilean Electoral Tribunal enables political parties to form electoral confederations for the March 1973 elections. Both the UP and the opposition have registered for confederation status, and thus are eligible to present unified lists of candidates. The number of candidates on each confederation list cannot exceed the number of seats to be filled in each electoral district. Extensive meetings have been held to select candidates for the confederation slates, but neither the opposition nor the UP has completed this process. This is understandable for the selection process is delicate both because of the competing interests of the various parties and the personal ambitions of incumbent and aspiring candidates. Although it is believed that the opposition parties will be able to resolve their immediate problems and to agree on a unified slate, individual party campaigns for candidates will be conducted separately. The mechanics of the Chilean electoral system tend to magnify inter-party differences, even within the same confederation where parties still compete with each other as well as with the rival confederation. This situation will plague the UP confederation campaign as well as the opposition. UP control of the government will probably enable the UP to orchestrate its campaign more effectively than the opposition. Similarly, the financial and material resources available to the government will probably enable the UP to overwhelm the opposition if the latter does not obtain external support as proposed in this paper.

### *D. Mechanics of the Election*

Chile uses the D'Hondt proportional representation electoral system. Each voter is permitted to vote for only one Deputy and one Senator. According to the electoral regulations permitting political confederations, the number of deputy and senate seats won by each confederation will be based on the total number of votes each confederation receives. Within each confederation, seats will then be awarded to those candidates who receive the largest number of votes in each district. Thus, while every vote for every candidate counts for a confederation's overall slate, each party will obviously be maneuvering to insure maximum electoral benefits for each of its own candidates. This electoral system creates rivalries even within individual parties which have more than one candidate on the confederation slate in a particular district, because they will also be competing with each other. For this reason, Chilean politicians tend to campaign individually, and as a result the parties generally lack the organization and discipline which are essential to an optimum campaign effort. The combination of the confederation and D'Hondt system used in Chile also means that the larger political parties will tend to gain at the expense of the smaller ones.

### E. *The Campaign*

The opposition parties will differ in their campaign styles. The PN can be expected to adopt the strongest anti-government line, emphasizing its anti-Communism and doctrinaire differences with the UP program, while the PDC will concentrate its attack on the government's method of governing, inefficiency, and failure to carry out its promises. Both opposition Radical parties will focus on issues designed to induce further defections from the original Radical Party's clientele. In spite of the divisive factors which will hinder opposition efforts to organize a unified campaign, the opposition parties are making an attempt to coordinate their activities. The opposition confederation has established a joint electoral commission which has almost completed the selection of candidates and which will meet regularly to coordinate propaganda and to try to insure that none of the parties sponsors legislation or makes public statements which are objectionable to other members of the confederation.

### F. *The Role of the Private Sector*

Private sector organizations have helped to create or to dramatize issues which have damaged the prestige and popular support of the Allende government. They can help to mobilize popular support for the opposition confederation and to insure a maximum voter turnout for the opposition. Financial support to these organizations will also assist them in defending what remains of private enterprise in Chile for as long as possible. [5½ lines not declassified]

### G. *Contingency Fund*

Because of the extreme importance of these elections, a contingency fund of [dollar amount not declassified] is deemed desirable to handle emergencies. Expenditure of this contingency fund would be subject to the approval of the Ambassador.

### V. *Proposal*

It is proposed that [dollar amount not declassified] be approved for passage to four opposition political parties and [number not declassified] private sector organizations for the 4 March 1973 Congressional election campaign. In addition to the campaign budgets, funds are also requested to permit financial subsidies to the political parties in the immediate post-electoral period [less than 1 line not declassified] to keep them viable while electoral results are being assessed and a future course of action is being determined. The dollar costs shown in the budgets, which are attached as annexes, are calculated on the basis of the current black market rate of approximately 300 escudos to the dollar.

The funds requested are considered sufficient to provide each of the four opposition parties with a sound basis for conducting an effective campaign. These funds will be supplemented by money obtained by these parties and the individual candidates through their own fund-raising drives. A large portion of the funds expended in political campaigns in Chile has traditionally been raised by the individual candidates.

The four political parties differ in their approaches to providing direct campaign assistance to individual candidates. The PDC is concentrating its campaign appeal on broad target sectors such as neighborhood, labor and campesino groups, and is allocating relatively few funds to specific candidates. The PN has taken the approach that candidates will receive materials and services from the party rather than being provided with direct financial aid. The PIR and PDR, which lack nationwide organizational structures, allocate larger amounts of funds to their individual candidates.

[4 lines not declassified] will be provided for specific activities designed to undermine the popularity and prestige of the government and to mobilize electoral support for the opposition political confederation.

A contingency fund, which will not be expended without the Ambassador's concurrence, is included for unforeseen emergencies.

The following is a summary of the financial requirements of the political parties and private sector organizations. [1 line not declassified]

*Political Parties*

[dollar amount not declassified]

PDC [dollar amount not declassified]

PN [dollar amount not declassified]

PIR [dollar amount not declassified]

PDR [dollar amount not declassified]

*Private Sector*

[dollar amount not declassified]

[less than 1 line not declassified] [dollar amount not declassified]

[less than 1 line not declassified] [dollar amount not declassified]

[less than 1 line not declassified] [dollar amount not declassified]

*Contingency Fund**[dollar amount not  
declassified]*

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*[dollar amount not  
declassified]**VI. Funding and Security*

*[3 paragraphs (47 lines) not declassified]* All the political parties and private sector organizations are conducting fund-raising campaigns, and will intensify their fund-raising efforts as election time draws near.

*VII. Coordination*

This proposal has the concurrence of the Ambassador and the Assistant Secretary of State for Inter-American Affairs.

*VIII. Costs*

The cost of this proposal is *[dollar amount not declassified]*. These funds are not available within the Agency budget and would have to come from the *[less than 1 line not declassified]*.

*IX. Recommendation*

It is recommended that the 40 Committee approve the proposal as set forth in Section V above, authorizing a total of *[dollar amount not declassified]* which consists of *[dollar amount not declassified]* for the support of the PDC, PN, PIR and PDR; *[dollar amount not declassified]*, *[less than 1 line not declassified]* and *[dollar amount not declassified]* as a contingency fund.

*[5 annexes (13 pages) not declassified]*

**122. Intelligence Note Prepared in the Bureau of Intelligence and Research<sup>1</sup>**

RAAN–45

Washington, October 18, 1972.

**CHILE: MAJOR CHALLENGE TO PRESIDENT ALLENDE**

The current middle class strike wave is the most serious challenge to Allende to date, but is not likely to topple his government. Motivated primarily by basic political and economic grievances, the breadth of support for the protest has surprised even opposition political leaders. No one political group is in effective control of events, and no common goals have emerged. The military is exerting behind-the-scenes pressure for accommodation and hopes to avoid more direct intervention in the situation. While Allende is expected to weather the crisis, economic and political tensions and grievances will almost certainly result in additional challenges as the scheduled March 1973 congressional elections approach.

*Protest politically motivated.* The underlying cause of the current confrontation in Chile is an accumulation of general grievances and fears triggered by the specific bread-and-butter complaints of individual transport owners. Continuing threats to political freedoms and to what remains of the private sector have stimulated support from other groups. The manner in which the situation has evolved suggests that there was some pre-planning and an orchestration of support by elements not immediately concerned with the transport industry, primarily business and professional groups. There has not been agreement on goals, however.

*Moves toward confrontation.* Opposition political parties have been carried along by force of circumstances and appear to have been surprised by the intensity and breadth of support for the strikers. They have taken advantage of the situation to air a broad range of complaints, and have spurned overtures by Allende to discuss the situation. Opposition political leaders are not in effective control of events, however. Awareness that chance developments could further weaken their control argues strongly in favor of early accommodation. Should the situation deteriorate further, demands that Allende make significant political and economic concessions can be expected to escalate.

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<sup>1</sup>Summary: This INR Intelligence Note reported that the surge in strikes in mid-1972 was politically and economically motivated. It concluded that the unrest would not lead to the unseating of Allende.

Source: National Archives, RG 59, Central Files 1970–73, POL 15–1 CHILE. Confidential. Drafted by Jorgenson, Arenales, and Misback; approved by Summ; and released by Mark.



The danger exists that when and if Allende offered such concessions, political leaders on both sides of the spectrum would not be able to convince the more militant of their followers of the need for compromise. So far there has been relatively little violence, but acts of sabotage or worsening street confrontations would harden attitudes on both sides.

*Armed Forces: reluctant arbiters.* The Armed Forces have been drawn reluctantly into the situation by having had thrust upon them the unwelcome task of maintaining public order by enforcing government edicts. Military leaders remain hopeful that Chile's political leadership will resolve the current situation, and are working behind the scenes to encourage this development. They are attempting to play the role of neutral arbiter—for example, by monitoring radio broadcasts to assure balanced news reporting. It is highly unlikely that the military would initiate a move to assume direct control of events or of the government until it were convinced that other remedies had been exhausted. The military is neither confident of its own capacity to govern nor does it have a program whereby to do so. Should the positions of both the opposition and the government harden, the military would apply ever-increasing pressure to both sides in an effort to force an accommodation. The military would physically intervene only after continuing, increasing, and uncontrolled disorders, or a clearly perceived threat to Chile's constitution and institutions had provided what it considered sufficient justification to act.

*Prognosis: fair.* Allende's chances of weathering the present crisis are better than even. To do so, however, he will have to devise some formula whereby to satisfy the opposition that he has made meaningful concessions while appearing to his supporters to have arrived at the best solution possible under the circumstances. The disarray of his Popular Unity coalition probably affords Allende somewhat more room to maneuver with the opposition than would be the case in a more tranquil situation.

*More troubles ahead.* The present confrontation is the latest in a series of crises, each of which has had the effect of lowering the level of political tolerance and increasing the tensions of subsequent developments. Assuming the resolution of the present situation, the momentum generated by such tensions and by continuing economic deterioration will almost certainly cause additional confrontations in the not-too-distant future. These will further constrain the ability of each of the principal actors—Allende, the Opposition, and the Armed Forces—to operate within the democratic framework as the March 1973 elections approach.

**123. Paper Prepared for the Ad Hoc Interagency Working Group on Chile<sup>1</sup>**

Washington, October 30, 1972.

[Omitted here is the Table of Contents.]

**CONTINGENCY PAPER FOR CHILE AD HOC WORKING GROUP****Possible Military Intervention***Introduction:*

The current widespread strike in Chile is the latest and by far the most serious in a series of escalating crises faced by the Allende Government since it took office in November 1970. Given the constitutionalist persuasions of the Chilean military, the chances are better than even that Allende will survive his present difficulties. However, Allende will probably make some concessions to placate the demands of the private sector and political opposition just to restore order. At a minimum, the latest popular reaction against the deteriorating economic situation and in opposition to the UP program against the private sector only enhances the prospects for further and increasingly serious confrontations between the government and its opponents.

This paper is limited to a review of only those more likely contingency situations involving a change in government or a major change in the present government's policies and which could require an overall review of U.S. policy toward Chile. The Ad Hoc Working Group recognizes that such a chain of events may be set into motion by deteriorating conditions or the actions of other power groups rather than by the military itself. However, no such change could be effected without active military support.

Possible military intervention could: (A) force Allende and the UP to moderate their policies; (B) oust Allende for constitutional "violations" and hold new elections; (C) carry out an outright coup without any reference to elections; or (D) attempt to oust the Allende Government but founder on divisions within its own ranks. These contingencies are separately reviewed below.

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<sup>1</sup> Summary: This contingency paper, titled "Possible Military Intervention," examined the effects of the mid-1972 strikes in Chile and those "contingency situations" that the United States would confront if the Chilean military intervened in Chilean politics.

Source: National Archives, RG 59, Central Files 1970–73, POL CHILE–US. Secret. Drafted by J.E. Karkashian, D. Erbe, and L. Girdler. An October 30 covering memorandum from Meyer to the Senior Review Group states the paper was for the Group's information.

*Contingencies:**A. Force Allende and the UP to Moderate Their Policies*

Acting in unison, the Chilean military, including the Carabineros (National Police), could seek a compromise solution to the escalating confrontations between government and opposition forces by forcing Allende to moderate his policies specifically with respect to the economic survival of opposition media outlets and further government encroachments on the private sector. The explicit or implied threat of more drastic military action might induce Allende to accede (possible leftist reaction is discussed below). An adjustment of economic policies to reduce consumer frustrations might also be contemplated.

This option for the Chilean military would have the attraction of staying within constitutional bounds. It could incorporate several variations including a possible demand by the military that Allende invite opposition parties to participate in a government of national "reconciliation". Conceivably, the military might even participate in the cabinet. The former seems unlikely as the opposition would hesitate to share the government's burden of resolving the country's critical economic problems. In the latter case, while the military earlier decided not to participate in the cabinet for the same reason, they could have a change of mind in the future.

This contingency would leave Allende in office and would not significantly change the nature of our bilateral problems. It could, however, enhance the opposition political parties' prospects for electoral gains in the March 1973 parliamentary elections on the grounds that Allende had become a "lame duck" president.

*B. Oust Allende for Constitutional "Violations" and Hold New Elections*

If the temper of popular discontent becomes sufficiently intense, coupled with some unconstitutional excess by Allende, a united military could force his withdrawal from the presidency and invoke the legal provisions for holding new elections. Although Allende can be expected to exercise great care in this regard, the military could cite some constitutional "violation" to purport to justify its actions, or could find subtler means to carry out its intent. While Allende is unlikely to volunteer his withdrawal and would strongly resist any public charges of unconstitutional action, it is conceivable that he might prefer a gracious exit on the pretext of ailing health to an unceremonious ouster.

While contingencies B and C both involve military interventions, the key element in contingency B is the military's declared intention promptly to restore constitutional government. It would serve to demonstrate that the military did not act in its own self-interest to usurp power. Possible elements of this contingency might be the designation

of a military officer as Interior Minister who would then succeed Allende as Acting President during the interval (a total of 70 days) before elections are held. Cabinet changes to install non-controversial or technically qualified persons in key positions in the interim also might be incorporated. This contingency assumes the Chilean military have no desire to emulate their Peruvian counterparts.

#### *C. Outright Coup Without Reference to Elections*

There is no indication of any widespread sense of “mission” among the Chilean military to take over and run the country. However, in a chaotic situation, it is conceivable that the influence of some military men might cause an intervention in the form of an outright coup for an indefinite period with little pretense of holding elections or returning to constitutional norms within a predictable time frame.

Depending on the circumstances, some private sector and political groups probably would welcome military rule, for a time at least, while the most difficult problems of economic adjustment and possible extreme leftist terrorism are being faced rather than assume that responsibility directly. However, as the period of military rule were extended, the normal reaction of the political parties, and particularly the PDC, to return the country to constitutional government would be manifested.

The almost total lack of preparedness of the Chilean military to run a government, particularly one enmeshed in critical economic difficulties, would also argue against the likelihood of this contingency. Furthermore, the Chilean military are all too well aware of the political pitfalls which they would face.

#### *D. Divided Military*

The divisions within and between Chilean military services, the absence to date of a charismatic military figure who could unite all the Armed Forces and the possible effective infiltration of the military by the UP could lead to a situation where some elements of the military seek to carry out one of the above contingencies and encounter significant resistance from within the Armed Forces. This contingency would tend to escalate rather than lessen the level of public disorder and violence. This would be particularly true if the UP parties engaged in the same type of demonstrations and strike action now being employed by the government’s opponents. The resulting indeterminate situation with rival military factions supported by civilian elements could degenerate into a civil war.

We consider this contingency as unlikely. Despite the lack of apparent cohesiveness between the different services, most observers doubt that Chilean military units would fire on each other regardless of their possible differing views on how to resolve the nation’s political or

economic crises. It is more likely that those units which are disinclined to act would stand aside without taking any action against their more determined colleagues. Should the situation degenerate into widespread shooting, the military would tend to close ranks, particularly against any threat from armed civilian elements regardless of their political leanings.

*Sub-contingency Applicable to all Above Contingencies in Varying Degrees:*

Immediate leftist reaction to any indication of the impending likelihood of one of the above contingencies could take the form of a non-violent show of strength through strike action, the occupation of factories, and street demonstrations. These tactics, which would be favored by the Communists, Radicals and some Socialists, could be used to overawe the military and the country in general with leftist support among the working class. Such passive resistance or peaceful show of strength probably would not deter or reverse the actions of a determined and unified military bent on carrying out the above contingencies. Failing its objective, the UP parties or elements thereof could turn to armed resistance.

In general, the possibility of armed leftist resistance would tend to increase progressively from contingency A to D. The likelihood of a violent reaction from the smaller, more extremist MIR group and others including the VOP and hard-line Socialist Party youth elements exists under any of the contingency situations described above. The MIR has received assistance from Cuba and has close ties to the Uruguayan Tupamaros and other terrorist organizations. Its long threatened resort to armed struggle as the "only true road to revolution" probably would be carried out whenever it became clear that Allende's "peaceful path to Socialism" had failed. We believe, however, that a united military could control violent resistance or terrorist acts carried out by the relatively small extreme left.

The problem of maintaining public order would be exacerbated if the military were disunited and the larger U.P. political parties opted for armed opposition. This possibility would be more likely under contingency D than under contingencies A through C. The Communists and Radicals in particular probably would be inclined to avoid violence if possible and await another constitutional opportunity to gain power. The Communists, for example, could take comfort in the revolutionary gains already made by the Allende regime, much of which is not likely to be undone by a successor government.

In addition to the extreme left, both the Socialist and Communist Party shock brigades and security units possess arms and have some capability to protect party headquarters and key installations. These

units, however, do not encompass large numbers of party militants. UP sources including Allende have frequently asserted that any coup attempt would be countered by thousands of armed workers who would seize factories and other vital installations to defend the Allende Government by force of arms. While much of this can be regarded as tactical rhetoric, the Chilean military are not disposed to dismiss lightly the possibility of having an armed showdown in the streets with thousands of UP militants. Decisive and united military action could forestall such a situation, while any evidence of military indecision or disunity would tend to increase its chances of occurring. In general, a milder form of military intervention, particularly one which incorporated Allende's continuance in office or the military's adherence at least to a semblance of constitutional norms would tend to mitigate an armed leftist reaction except for those who are already violence prone.

*General Factors Affecting US Decisions:*

We expect that any new government resulting from a military intervention would quickly present us with urgent requests for substantial military and economic assistance, based on a badly deteriorated economy and a need to control disorders (of whatever magnitude). We also assume that, to the extent any new government will represent a turn toward moderation, we would wish to respond affirmatively to its needs. Our basic problem would be how to respond positively given our policy and legal constraints and given the magnitude of Chile's economic problems and financial limitations. We assume, given the nature and magnitude of our bilateral compensation and debt differences, that these constraints would continue for a time at least.

Our approach could be to separate out the emergency minimum essential military and economic assistance which could be provided without reference to our bilateral problems. Examples would be riot equipment and relatively small food shipments, such as milk, etc. The more substantial elements of economic assistance such as PL 480 Title I and AID lending would depend on the kind of policy the new government would adopt with respect to the outstanding issues of compensation for expropriated American properties and debt rescheduling. Such a move on our part would also tend to strengthen our position of non-involvement with respect to the change in government.

Within the variations included in the range of contingencies, a key factor to any US decision would be whether any new government was essentially a caretaker pending new elections, or whether it intended to remain in power indefinitely. Only in the latter case could the new government be expected to take significant decisions and actions on pending US Chilean issues. In the case of a caretaker government, such issues would probably have to remain pending until the legally consti-

tuted successor government took office. The following factors would have to be weighed:

*A. Outlook for the new Government's Ability to Govern*

In any of the contingencies listed above, it could be difficult to reach a firm conclusion on this factor, at least at the outset of any new government. Elements to consider would include the new government's effective control of the national territory (taking into account the nature and extent of any subversive threat) and popular reaction to its initiatives.

*B. Likely Nature of its Domestic Political and Economic Programs*

This factor is related to the preceding one and could signal what positions the new government might take regarding relations with the US. Additionally, the new government's declarations on policy would have a direct bearing on its general image and thus could significantly affect reaction to it outside of Chile, including in the US Congress.

*C. Its General Foreign Policy*

Elements of particular importance in assessing this factor would be the new government's attitudes toward the socialist countries, Cuba and the OAS, and its willingness to honor Chile's international obligations.

*D. Likely Attitudes on Bilateral Issues with the US*

The most important pending bilateral issues are Chile's failure to pay adequate compensation for expropriated US investments, particularly that of the copper companies and ITT; the GOC's unilateral moratorium on payment of contracted debt; and the debt rescheduling begun in the Paris Club.

The Ad Hoc Group believes that regardless of its desires, any successor government to Allende would find it extremely difficult to reverse or openly back away from the public positions already taken by the Allende Government on these issues. For obvious reasons, any new government can be expected to stress its nationalism and firm adherence to Chile's sovereign right to dispose of its natural resources in accordance with its own laws. Thus, it would have to scrupulously avoid any appearance of "selling out"—or already having sold out—to "imperialist pressure". It is conceivable, however, that it would cooperate in seeking mutually acceptable solutions to our bilateral problems.

*E. Likely Effect of US Posture on Chilean Attitudes*

Similarly, the Ad Hoc Group believes that any indication by the US Government that it welcomed the change of government would se-

verely reduce the ability of a new government to reach an accommodation with us.

Inevitably, there will be charges that the US master-minded Allende's downfall and moved with unseemly haste to support another military regime in Latin America. These charges would be mitigated to the degree that the Chilean military intervention adhered to constitutional norms and by the care with which we determined the timing and nature of our assistance.

### *Categories of Decisions to Make*

#### *A. Recognition*

The Ad Hoc Group believes that in the event of a new government, once that government has been firmly established the US should confirm the maintenance of relations seeking to be among neither the first nor the last countries to extend recognition. The question of recognition does not arise, of course, if there is no formal change of government. We probably would want to consult with key Latin American governments about the developing situation.

#### *B. Setting the Tone of Relations*

Aside from the essentially mechanical question of recognition and the more intractable bilateral issues, the US will be under great pressure to specify its stance with regard to the new government in Chile. The Ad Hoc Group recommends that our posture be a restrained and dispassionate one in which we emphasize the strictly internal nature of, and entirely Chilean responsibility for, developments in that country. We would note that our future policies will depend on how our interests are affected. We would scrupulously avoid any comment on how the change in government might affect those interests.

#### *C. Bilateral Assistance*

##### *1. Military/Police*

It is likely that any form of military intervention would result in a request to the US for bilateral military assistance, particularly for riot control equipment, tear gas supplies and possibly medical support and Mobile Training Teams. Such short-term aid could be furnished through USSOUTHCOM. The Chilean Government might possibly request assistance which would be highly visible in Chile and involve a public identification between the US and the new government. An example would be for internal helicopter or aircraft transportation service. In response to such a request we could first seek to enlist the support of other Latin American countries considered capable of performing these services, particularly Brazil and Argentina, before deciding on whether US involvement were warranted.



Longer term military grant and FMS assistance requests can also be expected, particularly for such items as spare parts, transport and communications equipment, and possibly for COIN aircraft. Requests for equipment and training also can be expected from the Carabineros; these could be met through AID Public Safety programs or US military channels.

Chile is not currently receiving grant military matériel. Chile has, however, been listed as an eligible recipient in the DOD's Congressional Presentation Document for FY 1973. Thus we could possibly respond quickly to a request for small amounts of emergency grant equipment (e.g., under \$200,000). Requests for larger amounts would require a reallocation of the \$10 million regional ceiling. Eleven countries in Latin America have been proposed for grant matériel in the FY 1973 CPD of which four are currently receiving funds. Bolivia is programmed to receive 40 percent of the regional ceiling. As an alternative or complement to a grant matériel program we could provide excess defense articles under the MIMEX/SIMEX program. In addition, the established, functioning foreign military sales and grant military training programs with Chile could be augmented to meet the need. Sections 620(e) (the Hickenlooper Amendment) and 620(q) of the Foreign Assistance Act, which are discussed below under bilateral economic assistance, would also have to be taken into account with respect to certain categories of military assistance.

## *2. Economic*

Any new government would be faced with the need for massive balance of payments relief, and can be expected to request major US assistance for this purpose. The total requirement for new assistance, outside of existing credits and debt rescheduling might be in the order of \$200 million or more to relieve food shortages and maintain domestic production (this is a rough estimate which could vary widely depending on the course of developments). Obviously the US alone would not be able to fill this need even if we were prepared to provide significant assistance, and the total response by all external lenders probably would be inadequate at least over the short run. Thus a severe foreign exchange shortage would probably be a fact of life for any new government in its first months.

AID program lending is designed to provide balance of payments relief, and the local currency which is generated can provide budgetary support. If program lending were requested by a new government, we would first have to review whether and how much AID funding were available for reallocation to Chile. We would also have to take into account the Hickenlooper Amendment, which requires the suspension of existing and new assistance, both military and economic, if "appro-

priate steps" are not taken to provide compensation for expropriated US investments. (The Hickenlooper Amendment currently has not been applied to Chile). Additionally, as required by Section 620(q) of the Foreign Assistance Act, all AID loan repayments more than six months overdue would have to be paid or officially rescheduled before any new AID or grant military assistance is provided, unless there were a waiver to cover such assistance. A waiver covering the AID and grant military assistance programs is expected shortly.

Besides new assistance, the Chileans could request extensions of currently-expired terminal disbursement dates (TDD's). About \$15 million of the approximately \$17 million AID loan pipeline is tied up because of TDD's. The balance of payments and budgetary effects of TDD extensions would be relatively small, however, since the loans are generally tied to specific projects or sectoral programs. Also, technical problems would have to be resolved in some cases before the TDD's could be extended.

General balance of payments support could be requested through lines of credit opened by the Export-Import Bank although it has a policy against this type of lending. The GOC's creditworthiness would affect the Bank's response to a request for such assistance. Important factors would be the Bank's already high exposure and whether the GOC were fully up-to-date in its repayments to the Bank (except, of course, for those included in a bilateral rescheduling agreement). Compensation would also be a factor in the Bank's review of the GOC's creditworthiness.

Food imports will be an area of particular concern for any Chilean Government in the coming months. Because of cut-backs in beef and dairy purchases, total food imports in 1973 will probably be down from the projected 1972 level of \$350 million. At the same time, imports of such staples as wheat and corn are expected to increase. The major problem will be wheat. Current projections are for one million tons of wheat imports in 1973, which could amount to \$100 million with ocean freight. Chile's principal suppliers might not be able to supply more than one-half of this amount. Thus a new Chilean government could request the US to provide a major portion of its wheat needs, as well as significant amounts of other commodities. Such a request would entail a decision not only on financing (discussed below) but also on distribution of the limited US wheat supply. In order to respond affirmatively we would have to reduce our wheat shipments to other high priority countries.

A potential source of long-term financing for food shipments would be Title I of PL 480. Probable terms for sales to Chile would be up to 20 years. The amount of financing available would be affected, however, by regional expenditure limitations and commodity restric-

tions. Only 280,000 tons of wheat are available under Title I for Latin America during FY 1973 and this has already been committed to other countries. The Hickenlooper amendment would be applicable to Title I sales if it were invoked; also Title I assistance may not be provided to governments making sales to Cuba or permitting ships or aircraft of their registry to carry cargo to or from Cuba.

Under Title II of PL 480 surplus foods are provided on a grant basis. The current program amounts to approximately \$5 million. However, it is unlikely that the program could be expanded significantly, given worldwide expenditure limitations and the needs of other countries. Also the Hickenlooper Amendment would apply to certain types of Title II programs if it were invoked. Another possible source of financing would be through the Commodity Credit Corporation. While the financial terms are not nearly as attractive as for Title I sales (from one to three years with near-commercial interest rates), there appear to be no statutory restrictions or strict expenditure limitations which would affect sales to Chile.

#### *D. Multilateral Assistance*

Over \$100 million of loan requests from Chile are pending with the IBRD and the IDB. None of these requests has yet been submitted to the respective Executive Boards. Some of these proposals might possibly be moved forward fairly rapidly. However, technical problems remain outstanding in several cases, especially for the larger loans, and the IBRD may continue to find it difficult to justify renewed lending under existing economic conditions in Chile. All of the loans would be tied to specific projects and would provide relatively little balance of payments relief. The US would be required to vote against all of the loans under the terms of the Gonzalez Amendment unless there were good faith negotiations or arbitration on compensation. Application of the Gonzalez amendment would have the effect of vetoing one pending IDB Fund for Special Operations (FSO) loan of \$13 million and have an important, but not decisive, effect on the others. Also, if the Hickenlooper Amendment were invoked, the US would be required to veto the IDB FSO loan. However, the chances are that neither the IDB or the IBRD would want to force a negative US vote; thus the loans would probably not be presented to the Executive Boards until the Banks were assured that the provisions of both amendments were satisfied.

The Gonzalez and Hickenlooper amendments do not apply to the IMF. A second and final \$43 million compensatory drawing from the IMF is almost assured for Chile in December because of low copper earnings. In addition, if Chile agreed to maintain balance of payments equilibrium over the next twelve months and to contain inflation, the IMF very likely would authorize a \$43 million first credit tranche

drawing. To fulfill such a commitment, the GOC would probably have to cut back sharply on current imports, or obtain additional financing from other sources. A second credit tranche (Standby) of \$43 million would also be possible if Chile agreed to further monetary and financial commitments. These IMF drawings would provide balance of payments relief but they would have no direct budgetary effect.

#### *E. Debt Rescheduling*

As provided for in the multilateral debt rescheduling agreement of April 1972 (Paris Club), we are currently discussing a bilateral debt rescheduling with the Chileans; we are considering the possibility of rescheduling 70% of the repayments falling due within the November 1971–December 1972 period at a consolidation interest rate of 6.6%. While the signature of such an agreement would mean an immediate balance of payments drain since Chile would have to resume payment on part of its debt to the US, it might help Chile obtain additional assistance through the successful completion of another debt rescheduling exercise or through new credits.

Multilateral talks on rescheduling Chile's 1973 debt payments currently are scheduled for December 1972. These talks might be postponed if any new government took office. This would probably have the effect of giving Chile nearly 100% relief on its debt repayments to the major creditor countries, since during 1972 it has generally withheld repayments until bilateral rescheduling agreements are signed. If the talks were held in December or at some later date, our position would in great part be determined by the commitments on compensation that Chile would be prepared to make.

## 124. Intelligence Note Prepared in the Bureau of Intelligence and Research<sup>1</sup>

RAAN-49

Washington, November 6, 1972.

### CHILE: CABINET CHANGES SHOULD END CONFRONTATION

The appointment of three military officers to President Allende's new cabinet has eased tensions and paved the way for an early settlement of the almost four-week-old strike. Settlement of the strike and the military's new role in the government should bring about moderation of the polarized political atmosphere, with political attention turning increasingly to congressional elections in March 1973. However, with debt renegotiations scheduled for December, Allende will step up his efforts to divert blame for increasingly serious economic problems by focusing attention on "foreign economic aggressors."

*The Armed Forces.* The reluctant entry of Army Commander in Chief Carlos Prats into the government as Minister of Interior—and next in line to succeed the President—will reassure opposition elements that their views on key issues will be taken into account in government decisions between now and the March elections. Opposition leaders, including former President Frei, have been quick to approve of the military's decision to enter the government. At the same time, the appointment is a setback for Allende's Socialist Party, which has repeatedly opposed bringing the military into the government or any attempts to moderate the Popular Unity program. Prats announced that his acceptance of military participation in the cabinet does not reflect a political commitment by the military but is rather "a patriotic contribution toward social peace." He considers military participation as an interim measure designed to assure that the electoral process will provide a way out of the current impasse. He and most other Chileans now clearly see the scheduled March 1973 congressional elections as a plebiscite which will determine Chile's future course.

*The Future of Allende's Coalition.* Allende has had to pay a price for military entry into the cabinet. Prats apparently obtained guarantees from Allende on freedom of expression for the opposition and its free access to the media during the election campaign. He also apparently

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<sup>1</sup> Summary: This report, titled "Chile: Cabinet Changes Should End Confrontation," examined the appointment of three military officers to Allende's Cabinet and argued that the military's new role in the government should moderate the polarized political situation.

Source: National Archives, RG 59, Central Files 1970-73, POL 15-1 CHILE. Confidential. Drafted by Jorgenson; approved by Summ; and released by Mark.

insisted on assurances against further illegal takeovers of businesses now in the private sector.

Throughout the confrontation of the past weeks, Allende made little use of the unwieldy decision-making mechanism of his coalition. The Socialist Party seemed particularly unprepared and disorganized, and Allende relied largely on the more moderate Communists and the trade unions for support. Moreover, the Socialists consistently opposed Allende's efforts to compromise with the strikers. Allende's concession to the opposition with regard both to specific issues raised by the strikers and to government policies between now and the March elections will likely intensify strains between moderates and hardliners in his coalition. Furthermore, Prats' stated promise to "repress excesses of extremists from the left or right" may well contribute to intensifying these strains, especially if the military actively apply recently passed legislation restricting and controlling private ownership of weapons.

*The Strike: No Winners.* In appointing nine new members to his fifteen-man cabinet, Allende removed several Ministers who were especially objectionable to the opposition, but retained others who are ideological supporters of continued expansion of the government's control over the economy. Moreover, it remains to be seen whether the various elements of the coalition can be made to live up to the terms of the agreement apparently reached by Prats and Allende. Allende's yielding to some strike demands does not preclude that some of the firms requisitioned by the government will be retained under state control. Economic pressures against other important firms, such as the nation's paper producing company, may continue. Thus, the outcome will probably not be entirely satisfactory to either side. However, there is a clear awareness that continued confrontation will be seriously damaging to the interests of all concerned.

*A Search for a Scapegoat.* Post-strike political attention will almost certainly be directed toward the electoral campaign, in which the chief issues will be those posed by the government's continuing threats to political liberties and the private sector, as well as by the deteriorating economic situation. Allende will undoubtedly seek to defuse the economic issue by stepping up his efforts to shift blame for economic hardships to "foreign economic aggressors," emphasizing continued international credit stringencies and trade grievances. The secret round of debt renegotiations scheduled for December will tempt him to take a stridently "anti-imperialist" posture and, possibly, to use the UN General Assembly as his forum.

## 125. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>

Santiago, November 23, 1972, 0101Z.

5291. Subject: Allende Trip. Ref: Santiago 5273.

1. Summary: Ambassador Letelier made strong appeal to me for an Allende invitation to Washington or a call on him in New York by the Secretary or Dr. Kissinger. Letelier described Allende trip as a crossroads—a critical opportunity which USG should take to preserve its rels with Chile from serious damage. End summary.

2. Ambassador Letelier spent almost three hours at lunch today making appeal that “historic opportunity” of Allende trip not be lost. He said he talked with FonMin Almeyda, but had not yet had opportunity to consult Pres Allende (who has been in Valparaíso during past day or two). He alleged he was acting on his own, trying to fulfill his responsibility as Amb to our country and preserve our relations from serious damage.

3. Letelier began by saying Allende’s trip had both internal and external significance. Internally it would show once and for all that this regime has institutional stability—including military support and that the Chilean people must face up to the reality of four more years of their present govt. Pres Allende will leave the country and return and nothing will have happened. This fact alone will have immense political importance.

4. Turning to external side, Letelier painted picture of great Allende success in Mexico, UN speech which will be interpreted in David and Goliath terms vis-à-vis USG, open USG snub, warmly successful visit to USSR accompanied by significant announcement of credits, visit to Cuba and Fidel Castro, and then home. Impression given will be a turning to the East, and a moving away from Chile’s present effort to maintain a balanced policy.

5. Letelier went on to describe Allende trip as a crossroads—“the moment of truth”. After it, things will not be the same. Either it will be an opportunity to improve our relationship, or it will make things much worse. We should be under no illusion that we are not at a

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<sup>1</sup> Summary: This telegram reported on a meeting in which Letelier urged Davis to arrange a high-level meeting between U.S. officials and Allende during Allende’s scheduled visit to New York in December. Describing Allende’s trip as a “crossroads,” Letelier noted that a meeting between the Chilean President and top U.S. policymakers was imperative.

Source: National Archives, RG 59, Central Files 1970–73, POL 7 CHILE. Secret; Immediate; Exdis.

turning point, Letelier said. He stopped short of describing the negative consequences in truly apocalyptic terms, and reiterated several times during our conversation that he did not mean that the Chilean Govt would deliberately turn to a policy of sharpening its longest knives. Rather, he said, the dynamic of things and the balance of forces within the Chilean Govt would inevitably make things “much harder.” In our conversation Letelier reverted again and again to the “historic moment” theme and the crucial importance of the Allende trip and our response to it.

6. During the foregoing (considerably condensed) remarks, I said very little. I did observe at one point that it looked as if the essential character of President Allende’s trip was pretty well established by now. Letelier took issue with me with considerable heat, saying that both the trip’s political impact and the President’s speech in New York would be debated within the GOC in the days ahead. At another point I expressed some mystification that the Chilean Govt had handled matters the way it had if its intention was to seek a dialogue with us. Letelier picked me up sharply, and asked exactly what I had in mind. I said I did not know Washington’s views, but I personally questioned whether the language of Chile’s recent note to us or the spate of press stories seeming to pressure US publicly were the ideal way to approach a dialogue. I mentioned my conversation with Almeyda (Santiago 5046) and said my impression was that the Chilean Govt meant what it said when it announced President Allende’s trip to the United Nations as a visit focussed on that world forum. Letelier said we should have taken the initiative. He claimed that there were practically no precedents for a chief of government or chief of state of a country with which we maintain normal relations visiting New York without an invitation to Washington or a meeting with U.S. representatives at an extremely high level. I said that was not my impression, recalling one or two examples. Letelier retorted by saying he did not think I could name more than about two. (Action request: I would appreciate additional background by telegram on precedents for use with Letelier and others within the GOC.)

7. Letelier then talked in somewhat fuzzy terms about an Allende meeting with USG representatives. While an invitation to Washington to meet with President Nixon was obviously what he would like to see, he did say that a visit to New York by Secretary Rogers or a “White House representative” (i.e. Dr. Kissinger) would, he thought, be regarded positively. He went on: “I believe that any possible idea of having Assistant Secretary Meyer call on our President would not be so regarded, and it would be preferable not to propose it.” He added that he had the highest regard for Mr. Meyer, and the concern was frankly one of level. I made no comment to any of this.



8. Letelier said that the impression the United States was making in quite a few Chilean Govt circles was one of indifference, perhaps deliberate delay, and perhaps even a desire not to work out our differences. I asked him where we had dragged our feet. He said the technical negotiations on debt renegotiation with the EXIM Bank and others had given something of that impression. I said that, speaking of impressions, I had the feeling that the Chilean Govt sometimes gave an impression of concentrating more on formulas of contact than on substantive positions which the Chilean Govt would have to change if we were to come to a mutual accommodation. Letelier acknowledged my point, and said he thought the Chilean Govt was prepared to make substantive proposals if the opportunity of the Allende trip were not missed. He hinted that military entry into the GOC could affect Chilean positions for the better. I asked if Letelier could give me any indication of what he had in mind in terms of substance, observing that the GOC seemed to be boxing itself in. Letelier mentioned the 1914 arbitration treaty, and asked what we thought of it. I said our lawyers in Washington saw a number of problems—including the rather lengthy mediation procedure, the reservation of questions affecting sovereignty and the lack of a clear prompt mechanism for reaching a decisive conclusion. Letelier answered that there were a lot of ways to skin a cat, and with our orderly Anglo-Saxon minds we should be able to find a way to work forward systematically to agreement. The important thing, he said, was that the 1914 treaty provided an “out” for the Chilean Govt in terms of being a treaty in force. We had to realize, he said, that a direct assault on the Chilean constitution would not get either of us anywhere. Letelier added that he was not speaking for FonMin Almeyda or the Chilean Govt in connection with the 1914 treaty.

9. I told Letelier I had requested an appointment with FonMin Almeyda and would deliver our answer to Chile’s note of October 18, 1972. I said it would respond favorably to the Chilean desire for a bilateral discussion. Letelier asked whether it would address the Allende visit. I said that Chile’s October 18 proposal was quite explicit in terms of the level of delegation Chile desired. Letelier said that Chile’s note was prepared before the Allende trip was settled on (which I do not believe was the case). He did not indicate any opposition to talks, but made it very clear that he in no way wished to be deflected from the overriding importance he placed on the Allende trip and our response to it.

10. Letelier said that he had given Assistant Secretary Meyer some indication of his hope that our response to the Allende trip would be positive. He still hopes that I may be able to give him some encouraging word before he leaves Chile for Washington at the end of this week.

11. *Comment:* The present Chilean effort has overtones of stage-setting for a repetition of the myth of Castro’s 1959 visit to Washington.

We are already aware of the themes Letelier put forward to me today—including the concept of “the last chance” before Chile turns East. There is some truth in Letelier’s allegation that the trip will be seen as a shift to the socialist camp. He also is probably right when he says it will make things harder. It is sad that the Chilean Govt has structured it that way if not with care at least with weeks of tinkling cymbals—and is now turning to us with heat and pressure to change the impression it so deliberately created.

12. While I do not expect short-term substantive results from a call by the Secretary on President Allende in New York, I believe it might be worth considering if the Secretary’s schedule allows. What it might do is avoid atmospherics which Letelier forecasts with some accuracy without implications of a Presidential meeting.

Davis

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**126. Intelligence Note Prepared in the Bureau of Intelligence and Research<sup>1</sup>**

RAAN–55

Washington, November 30, 1972.

**CHILE: QUEST FOR THE UNREACHABLE**

President Allende’s current 2-week trip to Mexico, the UN, the USSR, and Cuba is designed to bolster his domestic political position by pleading Chile’s cause before the world community as an aggrieved nation struggling for a more just social system. He also hopes to obtain new foreign credits by softening the attitudes of Chile’s Western creditors and/or by winning massive assistance from the USSR. His trip is unlikely, however, to satisfy in any significant way either his political or economic requirements, and he will probably find the harsh realities of his position basically unchanged upon the conclusion of the trip.

*Contradictions in Purpose.* As he has done so often in the past, Allende is attempting to obtain two highly dissimilar results. He wants to

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<sup>1</sup> Summary: This Intelligence Note, titled “Chile: Quest for the Unreachable,” examined Allende’s ongoing two-week trip to Mexico, the UN, the USSR, and Cuba and argued that the purpose was contradictory. On the one hand, Allende wanted to reaffirm his credentials as a revolutionary; on the other, he hoped the Western nations would tolerate, even financially support, his revolution.

Source: National Archives, RG 59, Central Files 1970–73, POL 7 CHILE. Secret; No Foreign Dissem. Drafted by Jorgenson; cleared by Summ; and released by Mark.

reaffirm his credentials as a revolutionary leader in order to rally his supporters at home. By visiting centers of socialism and revolution, including "technical stops" in Peru and Algeria, he hopes to dramatize his position as a leader of the developing world beleaguered and stymied by "foreign economic aggression." On the other hand, he apparently hopes for tolerance and understanding among Western nations, including the United States, at a time when his country desperately needs foreign credits to meet import requirements.

*A Hoped-for Cure to Domestic Troubles.* Allende's trip follows closely on a major domestic confrontation which ended only after the Armed Forces agreed to participate in his Cabinet in a significant way. The strike was costly to Allende because it added to economic dislocations and because the concessions he made to his opposition intensified the strains in his Popular Unity coalition. These strains may increase, depending upon the manner in which Acting President (General) Prats attempts to settle outstanding issues during Allende's absence.

With the military's participation in the Cabinet providing a basis for stability, attention will now be focussed increasingly on the March Congressional elections. Allende is probably realistic about his poor prospects of reducing the Opposition's majority in both houses of congress. Given the likelihood of continuing bleak economic conditions, his only hope is to convert his aggressive stance against multinational corporations to the advantage of his followers. In this respect, Allende's trip is a dramatic means of launching the election campaign.

*Allende at the UN.* In his speech December 4 at the General Assembly, Allende is certain to hit hard at multinational corporations, singling out Kennecott and ITT for special opprobrium. He may be more circumspect in treating the US Government, although standard condemnations of "foreign aggression" in Vietnam and "economic warfare" against Cuba are expected. He will also probably repeat the attack he made at UNCTAD III against present world trade and financial arrangements which, he believes, favor the developed countries at the expense of poorer nations.

*Hopes for Soviet Generosity.* Chile has so far felt frustrated in its relations with the USSR. While the Soviets have been forthcoming in granting long-term credits for capital development, they have been relatively niggardly in extending hard-currency credits. Chile apparently has explored the possibility of an agreement whereby the USSR would grant Chile a \$500 million credit in exchange for copper purchased over a five-year period. Such a deal appears unlikely, both because of strenuous opposition in Chile and because the USSR will hesitate to abandon its present caution in its economic relations with Chile. Allende may get additional assistance of possibly another \$50 million, but he is unlikely to receive enough to meet his massive requirements, es-

pecially if his hope is to improve economic conditions between now and the March elections. To provide Allende with a cosmetic to obscure Soviet failure to make a commitment to Chile, the USSR would more likely prefer to extend additional credits for capital development, or military purchases—which would probably be meaningless for Allende’s immediate purposes.

*The Cuban Leg.* The visit to Havana is an ideological requirement designed to reassure Allende’s Marxist supporters at home and to polish his own image as a revolutionary leader. Little of substance is likely to come from the visit. Similarly, “technical stops” in Algeria and Peru will result in little beyond standard expressions of solidarity.

*Prospects.* Allende personally is reported to be tired and may have some health problems, but there are no indications that his schedule has been curtailed in any way. He is unlikely to solve his international economic difficulties or to win much in the way of added domestic support. The harsh realities of his position are likely to remain basically unchanged. Notwithstanding any prospective arrangements he makes with the USSR, Allende may well hope to keep open the possibility of resolving bilateral issues with the US through wide-ranging discussions now scheduled to begin in December.

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## 127. Paper Prepared in the Department of State<sup>1</sup>

Washington, December 1, 1972.

### Chile Strategy

#### *Chile Policy and Implementation:*

The basic U.S. interests in Chile are to prevent the consolidation of the Allende regime; to minimize the acceptance and emulation elsewhere of the Allende regime; to protect the major principles of our in-

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<sup>1</sup> Summary: This paper, titled “Chile Strategy,” examined the overall policies of Allende and the implementation of those programs to date. It argued that U.S. policy should remain static and emphasize the need for appropriate compensation for expropriated U.S. property in the upcoming bilateral negotiations with Chilean officials. The Department also hoped to rally maximum international criticism of Chile’s economic policies.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 776, Country Files, Latin America, Chile, Vol. VII. Secret. The paper was drafted on December 1, but no drafters are indicated. Eliot sent this paper to Kissinger under cover of a December 2 memorandum.

ternational economic policy—the honoring of debt obligations and the payment of just compensation for expropriated investment; to protect the immediate financial stake in Chile of U.S. agencies (Eximbank, OPIC, AID, etc.) of approximately \$1.1 billion; and to obtain just compensation for expropriated properties in Chile.

In pursuit of these interests, we seek to maximize pressure on the Allende Government while maintaining a correct but cool posture. Thus, pressure is to be tempered by restraint so that measures intended to prevent consolidation of the Allende regime do not in fact contribute to its consolidation of power or its ability to rally support. Our policy on Chile has proven reasonably successful to date and has been so acknowledged by our friends in Chile and elsewhere in the world. The unvarying advice we continue to receive from Allende's opponents and those who wish us well is to continue on the course we have taken.

Against the background of the copper dispute, the immediate issues to be resolved by the USG are whether to conclude and sign a bilateral debt rescheduling agreement with Chile for the November 1971–December 1972 debt and to prepare for an anticipated meeting in January with other creditor nations to discuss the payments due in 1973.

*Background:*

Following a unilateral moratorium on its external debt payments by Chile in November 1971, the twelve major creditor nations agreed in Paris in April 1972 to reschedule approximately \$160 million of debt owed them by Chile from November 1971 through December 1972; the US share amounted to approximately \$69 million, of which Eximbank accounted for \$62 million, AID for \$3 million, and PL-480 \$4 million. (An additional \$3.2 million in DOD credits may be rescheduled separately under somewhat different terms.) It now appears that all other creditor nations except the United States have concluded, or are about to conclude imminently, their bilateral rescheduling agreements with Chile under the overall terms of the Paris agreement.

After strenuous negotiations the US succeeded at Paris in having the agreement include clauses in which the Government of Chile agreed to recognize and pay its debts, "to carry out direct negotiations for the purpose of finding a prompt solution" to problems involving compensation for expropriated properties, and "to grant just compensation in accordance with Chilean legislation and international law".

The refusal of the special Chilean copper tribunal to review the President's findings against Kennecott and Anaconda on alleged excess profits effectively foreclosed any local Chilean resolution of the problem of compensation for the major US copper investments. Following this, the USG in a note of September 15 asked the Government

of Chile to enter into direct negotiations with the companies on copper compensation in accordance with its Paris Club commitment cited above. The Chilean reply of October 18 was polemical in tone and indicated that the GOC considered its domestic legal processes with respect to compensation conformed with international law. Nevertheless, the Government of Chile offered to enter into “wide-ranging discussions in Washington, through its Ambassador, accompanied by a high level political mission, on the questions affecting relations between the two countries.” In our note of November 22 we proposed that such talks begin during the week of December 11. Our note outlined in a firm but unpolemical tone the US position on obligations under international law on compensation for expropriated investment and made it plain that we intend to discuss the copper expropriation in the proposed talks. In reply, Chilean Foreign Minister Almeyda told Ambassador Davis that the GOC is prepared to make a “strong effort to achieve an understanding” at these meetings, which are now tentatively scheduled to begin during the week of December 18.

We began bilateral debt rescheduling talks with the GOC in Washington in June 1972. After an initial exchange of views and data there was a lapse of several months before the talks were resumed on October 2. There are no major differences regarding the USDA and AID debt, and agreement was quickly reached on possible terms for rescheduling the DOD arrearages. After considerable effort, the principal differences on the Eximbank debt have been narrowed and now appear close to resolution. The remaining major issue is the interest rate which can probably be negotiated.

The Paris Club was originally scheduled to meet again in December, if called by the Government of Chile, to examine Chile’s economic situation, fulfillment of commitments under the April agreement, and the need for a further rescheduling. Chile has not yet requested such a meeting. It is likely that with or without a request from Chile, the creditors will meet in January to consider their response to a probable nonpayment by Chile of international obligations falling due from January 1, 1973 on.

*US Position for Coming Months:*

Consistent with basic US policy outlined above, US strategy is designed to avoid actions which could be used by the Allende Government to influence the March 1973 Parliamentary elections in its favor. At the same time, we wish to continue pursuing our objectives of obtaining compensation for expropriated properties and maintaining maximum international economic pressure on Chile.

Since the GOC has agreed to direct negotiations on December 18 and has not sought to exclude discussion of copper, we believe it would

be to the US advantage to proceed to resolve the remaining technical issues and sign a bilateral debt rescheduling agreement with Chile for the November 1971–December 1972 period, if possible before the December 18 talks begin. If we are not able to sign before December 18 we would hope to sign before the next Paris Club round, assuming that the high level talks proceed satisfactorily. An agreement prior to December 18 would put us in a more favorable tactical position for those talks. Agreement on rescheduling for 1972 would commit the GOC to resume payments on debts owed to USG agencies for the cited period (Chile now is enjoying total relief from these obligations) and thereby would increase the existing economic pressures on the GOC; it would demonstrate US compliance with the Paris Club agreement; it would avoid possible isolation of the US from the other creditor nations; and it would deny Allende a basis for charging economic aggression.

The US would then emphasize at Paris our hope that the government-to-government talks will yield satisfactory progress on the compensation issue. We would also seek to obtain useful statements from the other creditors on the USG-Chilean talks. We can expect that at Paris other creditor countries—particularly Britain and Germany—will be highly critical of Chile's economic performance and policies. A factor particularly disturbing to other creditors because of its international implications is Chile's continued repudiation of certain debts to US copper companies.

We would hope to have maximum international criticism of Chile's economic policies aired at the Paris meetings. At this moment, it appears that it would be desirable to have the meetings extend through the March elections before reaching a decision on a rescheduling for 1973. The precise timing and terms of a 1973 rescheduling and conditions to be applied to Chile will be worked out in negotiations with other creditors and with Chile in the coming months. We would factor into our position on any 1973 rescheduling the progress, or lack of progress, in the forthcoming high-level talks with Chile. There are too many uncertainties in the situation for us to define our position within the foregoing framework in more detail at this time.

# "That Chilean Guy May Have Some Problems": The Downfall of Salvador Allende, January–September 1973

## 128. Memorandum From the Central Intelligence Agency to the Ambassador to Chile (Davis)<sup>1</sup>

Washington, undated.

### SUBJECT

4 March 1973 Congressional Elections

1. This memorandum on the electoral campaign contains our current estimates on the outcome of the various races, the status of our funding and expenditures, and a proposal for funding private sector elements to have them play a role in the campaign.

#### *A. Status/Estimate of Races*

##### *Senate*

We foresee a 14–11 split (16–9 at present). The critical senatorial races are the fourth, sixth and eighth districts where it is conceivable that CODE could pick up the fourth senatorial seat. 67 or 68 percent of the total vote is needed. The weakest candidates are: Mercado (second district), Labbe (fourth district), Velasco (seventh district), Philips (eighth district), and Morales (tenth district).

##### *Chamber of Deputies*

We foresee a 88–62 split (93–57 at present). The opposition could pick up as many as 6 above the base of 88. After that it gets extremely difficult.

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<sup>1</sup> Summary: This memorandum discussed the political climate in Chile leading up to the March 1973 congressional elections. It predicted a split in the senatorial race that could pose problems for U.S. interests in the future. It then concluded with a proposal to financially support opposition parties in Chile.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile 1973–. Secret; Sensitive; Eyes Only. A notation in an unknown hand on the top of the first page reads: "Handed Amb. Davis at CAS hq on 1/10/73." Davis, who was in Washington for consultations, met with Shackley and other CIA officers at CIA Headquarters on January 10. An attached note summarizing the memorandum states that the "above proposal has the concurrence of Ambassador Davis and his Deputy Chief of Mission, Harry Shlaudeman, who commented that the proposal appears to have adequate security safeguards and could be helpful in reaching voters who are normally inaccessible to political parties."



Among the deputy races there are no races that are considered “critical” in the provinces returning five deputies because the opposition does not believe it has enough electoral strength (68 percent) to win the fourth seat. The same principle applies to the deputy races in which the provinces return two or three deputies (with the possible exception of Maule (3).) The critical deputy races are for the third seat in the provinces returning four deputies (Colchagua, Linares, Bio-Bio), the fourth seat of six deputies (O’Higgins, Malleco), the fourth seat of seven (Antofagasta, Coquimbo), the sixth seat of nine (Concepcion), the seventh seat of ten (Cautin), the seventh seat of twelve (Valparaiso), and the eleventh seat of 18 (Santiago). In these races a CODE strength of 62/63 percent would probably win the contested seat.

#### B. Financial Status

*[dollar amount not declassified]*

*[chart not declassified]*

*[3 paragraphs (30 lines) not declassified]*

It is proposed that these funds be used during the months of January and February to help the *[less than 1 line not declassified]* organize a get-out-the-vote campaign. During meetings held by *[less than 1 line not declassified]* they have decided that this kind of activity by them is feasible and desirable. Funds would be used to pay for propaganda, transportation and other costs incidental to this effort. It is proposed that these funds be provided for this purpose without revealing United States Government sponsorship. *[20 lines not declassified]*

2. The following comments were provided by the DCM on 5 January:

Chargé concurs in the proposed use of the contingency fund, but believes consideration of additional funding for the PDC may prove necessary if *[less than 1 line not declassified]* support is not forthcoming. Chargé also concurs in *[less than 1 line not declassified]* project as outlined. Project appears to have adequate security safeguards and could be helpful in reaching voters who are normally inaccessible to political parties; it is his understanding that funds for this purpose will not be diverted from financing of political parties.

**129. Memorandum From the Central Intelligence Agency to the Ambassador to Chile (Davis)<sup>1</sup>**

Washington, January 11, 1973.

**SUBJECT**

Replies to Questions Regarding Funding Proposals

1. The following are the Santiago Station's replies to the questions you raised on 10 January 1973 in connection with the Station's proposals for funding [1 line not declassified].

2. [4½ lines not declassified]. Many Chileans, especially those members of [less than 1 line not declassified] whose party loyalties are weak, are saying that the March 1973 elections will not really solve anything. A special effort is required to counter this possible voter apathy and to try to maximize this sector's electoral participation. Funds provided [name not declassified] would be used as follows:

A. To make a special appeal to individual [less than 1 line not declassified] members pointing out the importance of the elections and of their individual votes. This appeal would be conducted through various media, including radio, press, television and leaflets.

B. To enable [less than 1 line not declassified] leaders to travel and to fund local person-to-person efforts to convince members to participate in the elections and to mobilize them for this purpose.

C. To provide transportation and whatever other assistance is required on election day to assure that members get to the polls.

3. Under no circumstances will any funds be made available to Patria y Libertad, which does not form part of [less than 1 line not declassified]. This has been a standing and inflexible policy of the Santiago Station.

4. With regard to the proposed use of [dollar amount not declassified] of the contingency fund to provide additional campaign assistance to the Democratic Radical Party (PDR), the Station believes that this proposed support is essential to enable the PDR to make the strongest possible campaign effort. These funds are especially important for senatorial races since the PDR is running three candidates (Julio Mercado—2nd District; Julio Duran—8th District; Raul Morales—10th District). In each of these races the PDR candidates seem to be among the weakest

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<sup>1</sup> Summary: This memorandum responded to questions raised by Ambassador Davis concerning the proposal to fund private-sector opposition groups in Chile.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile 1973–. Secret; Sensitive; Eyes Only. Initialed by Shackley. Attachment A is not attached.

opposition links to winning extra senatorial seats. Opposition ability to capture an additional seat in these districts appears to hinge on a strong campaign effort by PDR, and the Station requested additional funds to make sure this effort is made.

5. Unfortunately the PDR badly underestimated its needs. The party failed to allow for significant price rise of recent months, assuming that the black market rate would keep pace with inflation spiral. In addition, the PDR's plans were based on the belief that the PDR would run only two senatorial candidates. The party did not anticipate that CODE would slate Mercado as candidate in the 2nd District. As a consequence an extra [*dollar amount not declassified*] is needed alone [*less than 1 line not declassified*].

6. [*9 lines not declassified*] The Station believes this funding of the PDR to be as secure as possible and doubts that the PDR would be singled out by the government for attack as to its source of funding.

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### 130. Memorandum for the 40 Committee<sup>1</sup>

Washington, February 8, 1973.

#### SUBJECT

Chile—Request for Additional Funds for 4 March 1973 Congressional Elections

#### I. Summary

On 26 October 1972 the 40 Committee approved \$1,427,666 to support political parties and private sector organizations opposed to the Popular Unity (UP) coalition of President Salvador Allende in the 4 March 1973 congressional elections. The funds requested at that time for each opposition party were based on detailed reviews of campaign

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<sup>1</sup> Summary: This memorandum, titled "Chile: Request for Additional Funds for 4 March 1973 Congressional Elections, proposed additional covert financial support to continue funding political opposition in Chile in hopes of gaining crucial senatorial seats.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile 1973—. Secret; Sensitive; Eyes Only. At the top of the first page there is a notation in an unknown hand that reads, "approved orally by Haig minute 2/16/73." At the bottom there is a notation in another unknown hand that reads, "approved by the 40 Committee on 12 February 1973." A memorandum for the record by Ratliff dated February 12 states that the 40 Committee telephonically approved the request for additional funds. (Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile, 40 Committee Action After September 1970)

budgets prepared by each organization and were considered to be realistic in terms of opposition needs.

Since October 1972 there has been a sharp and unforeseeable rise in many costs. Campaign materials, such as paints and printing inks, are so scarce that competing parties must pay “under the table” prices to insure an adequate supply. Prices of radio and press advertising have risen, as well as costs of services and transportation. [2 lines not declassified]. The efforts of the opposition parties and their candidates have been highly effective thus far, but an additional [dollar amount not declassified] is required to permit the two major opposition parties to conduct the campaign at the level required in the final stage of the campaign as well as on election day. Of the additional [dollar amount not declassified] being requested, [dollar amount not declassified] would be allocated to the Christian Democratic Party (PDC); [dollar amount not declassified] to the National Party (PN); and [dollar amount not declassified] to a contingency fund.

This proposal has the concurrence of the U.S. Ambassador to Chile and the Deputy Assistant Secretary of State for Inter-American Affairs. The funds requested are available within the current CIA budget allocation.

## II. Background

On 26 October 1972 \$1,427,666 was authorized for election support on the following basis:

Christian Democratic Party (PDC)	[dollar amount not declassified]
National Party (PN)	[dollar amount not declassified]
Radical Party of the Left (PIR)	[dollar amount not declassified]
Democratic Radical Party (PDR)	[dollar amount not declassified]
Private Sector	[dollar amount not declassified]
Contingency Fund	[dollar amount not declassified]

In early January 1973, increased costs forced the opposition parties to begin reviewing their campaign budgets, and it became evident that the [dollar amount not declassified] contingency fund would need to be committed. In mid-January, with the concurrence of the Ambassador, the [dollar amount not declassified] was distributed as follows: PN—[dollar amount not declassified], PIR—[dollar amount not declassified], PDR—[dollar amount not declassified] [4 lines not declassified]. The [dollar amount not declassified] distributed to the PN were for the purpose of (a) increasing the party’s radio and TV coverage and (b) [5 lines not declassified]. Contingency funds distributed to the PIR and PDR provided additional support to [less than 1 line not declassified]. These funds were particularly important to the PDR since the opposition’s ability to capture an additional seat in three senate districts appears to hinge on the

capability of the three PDR senatorial candidates to wage a strong campaign.

### III. *Election Campaign Progress*

Since November 1971 the Santiago Station has concentrated on trying to improve the organizational structure of the opposition parties. The PDC has made significant progress in this regard. Basic data on some 125,000 PDC members have been recorded in the party's IBM computer program, so that each PDC candidate has been provided with a machine listing of all members in his district, together with information on each member's occupation, car ownership, and other pertinent data. In addition, the PDC has largely replaced its old unwieldy "comuna" organizations with neighborhood "bases", thus acquiring a cellular structure which has made it possible for the PDC to carry out grass roots organizational activities such as door-to-door campaigning.

[less than 1 line not declassified] the PN and PDR have been much less successful in building political machines capable of mobilizing their electorates in a systematic manner. This shortcoming is due primarily to the personalistic management of PN President Sergio Onofre Jarpa and PDR President Julio Duran. The PIR is trying to build a modern, efficient party organization, but it has not been in existence long enough to build a fully effective grass roots organization. Its development has been spotty and its campaign effectiveness varies from district to district.

[1 paragraph (27 lines) not declassified]

Despite some kinks, the opposition parties are campaigning well and are optimistic about their election prospects. They believe they have a good chance to win with a 60/40 split of the popular vote. President Allende estimates the UP will obtain 38% or 39% of the vote, while the Communist Party, which has been quite accurate in previous electoral prognostications, feels that the UP will attain 42%.

On balance, there is good reason for opposition optimism at the moment, since popular discontent is high, and the UP coalition is suffering from internal dissension, while the opposition confederation is relatively free from inter-party friction. The government, however, has just begun to implement its electoral strategy. The government realizes that the basic election issues relate to economic matters—specifically, to inflation and to the shortages of essential consumer goods, particularly foodstuffs. Thus, the UP is in the process of initiating an all-out propaganda campaign blaming consumer shortages and a parallel black market on hoarding by middle and upper class Chileans. This campaign features daily stories about government discoveries of foodstuffs being withheld from the legal market, with banner headlines and photographs illustrating the effectiveness of government action in im-

pounding the vast quantities of such items. UP success in locating and confiscating hoarded material has actually been limited. Nonetheless, it is expected that the government will soon release to the public large quantities of food it has stored in warehouses throughout the country, claiming that this is the result of its anti-hoarding campaign. In this manner, the UP hopes not only to decrease public discontent over shortages but to relate the increased availability of food to government action against black marketeers, who will be portrayed as supporters of the political opposition. While this strategy may be transparent to some Chileans, it is likely that many, especially in the lower income sector, will give some credence to government claims. This type of tactic, plus more active electioneering on the part of President Allende, will probably give the UP a significant boost in the closing weeks of the campaign.

The Station's basic objective will continue to be to insure that each opposition candidate conducts the most effective campaign possible in order to assure the highest possible popular vote for the opposition confederation. The opposition forces have set an optimum goal of attaining a two-thirds majority in the Senate; and while it is unlikely they will realize this, Station electoral strategy is also designed to attempt to achieve this objective.

#### IV. *Proposal*

It is proposed that [*dollar amount not declassified*] be approved to supplement the funds already authorized for the four political parties which are opposing the UP in the 4 March 1973 congressional elections. These funds are needed to insure that the opposition has sufficient resources during the final, critical period of the campaign. The funds requested would be allocated as follows:

PDC	[ <i>dollar amount not declassified</i> ]
PN	[ <i>dollar amount not declassified</i> ]
Contingency Fund	[ <i>dollar amount not declassified</i> ]

##### A. *PDC*

The PDC Economic Commission, which manages the campaign budget, is very much aware that this election must be run on a "pay as you go" basis. Very little credit is available to the PDC; and, in any case, the party is determined to avoid a repetition of the problems created by the 1970 presidential campaign deficits.

For the current elections, the PDC exceeded its local fund-raising goals, collecting approximately \$135,000 from its members and sympathizers but, in so doing, it has apparently exhausted all available domestic sources. [*15 lines not declassified*]

1. Additional payments to [*less than 1 line not declassified*] candidates in key races in the final campaign phase. [*dollar amount not declassified*]
2. Increased campaign activity among small rural landowners and in the farm workers' sector. [*5 lines not declassified*] [*dollar amount not declassified*]
3. Increased organizational effort on election day in order to insure maximum voter turnout and reduce prospects of electoral fraud. The PDC estimates that approximately 27,000 party members will serve as voting table supervisors (an average of 1.5 members at each of Chile's 18,000 voting tables) and, in addition, is seeking the appointment of a PDC "table-watcher" for each table. The party is also planning a major election day effort to provide for voter transportation, a system of voter check-offs, baby-sitting services, and similar activities. [*dollar amount not declassified*]
- TOTAL [*dollar amount not declassified*]

#### B. PN

The PN has made strenuous efforts to collect funds locally and, in addition, has sent fund-raisers to other Latin American countries, where it has had considerable success in obtaining contributions from individual donors and business groups. Like the PDC, the PN has now exhausted its sources for campaign funds.

The PN requires an additional [*dollar amount not declassified*] for use in key Senate races and to cover, for the balance of the campaign, the increased costs of materials, such as paints and printing inks, and of services, such as transportation. For example, recent increases in the cost of new automobiles have not only resulted in an astronomical rise in car rental prices but have also made car owners reluctant to lend their vehicles to the party for campaign purposes. The [*less than 1 line not declassified*] would be allocated as follows:

[*chart not declassified*]

TOTAL [*dollar amount not declassified*]

#### C. Contingency Fund

A contingency fund of [*dollar amount not declassified*] is requested to provide for emergency requirements which may arise in connection with key races where the opposition has a chance of acquiring an addi-

tional seat. These contingency funds would provide additional flexibility during the final phases of the campaign. The expenditure of this contingency fund would be subject to the approval of the Ambassador.

*D. Present and Proposed Funds Distribution*

If this proposal is approved, the present and future allocation of funds among the four opposition parties would be as follows:

	<u>PRESENT</u>	<u>PROPOSED</u>
	(Including Old Contingency Funds)	(Less New [ <i>dollar amount not declassified</i> ] Contingency)
PDC	[ <i>dollar amount not declassified</i> ]	[ <i>dollar amount not declassified</i> ]
PN	[ <i>dollar amount not declassified</i> ]	[ <i>dollar amount not declassified</i> ]
PIR	[ <i>dollar amount not declassified</i> ]	[ <i>dollar amount not declassified</i> ]
PDR	[ <i>dollar amount not declassified</i> ]	[ <i>dollar amount not declassified</i> ]

*V. Funding and Accountability*

[1 paragraph (8 lines) not declassified]

*VI. Coordination*

This proposal has the concurrence of the Ambassador and the Deputy Assistant Secretary of State for Inter-American Affairs.

*VII. Costs*

The cost of this proposal is [*dollar amount not declassified*]. These funds are available within the Agency budget.

*VIII. Recommendation*

It is recommended that the 40 Committee approve the proposal to provide an additional [*dollar amount not declassified*] to the opposition parties for the purposes outlined in Section IV above.



**131. Memorandum From the Director of Operations Policy,  
Bureau of Intelligence and Research (Gardner) to the Deputy  
Director for Coordination, Bureau of Intelligence and  
Research (McAfee)<sup>1</sup>**

Washington, March 19, 1973.

SUBJECT

ARA/CIA Meeting, 16 March 1973 (Chile, ITT)

PARTICIPANTS

ARA: Messrs. Crimmins, Feldman and Fisher; CIA: Messrs. Houston, Shackley;  
INR/DDC—Mr. Gardner

Houston and Shackley came over to describe their interview on 15 March with Senator Church and Messrs. Levinson and Blum of Senator Church's Sub-committee Staff. According to the CIA representatives, the Senator had agreed that the questions to be put to CIA would, at least for the present, focus on the question of ITT/CIA relationships in 1970. The CIA representatives at the meeting with Church were Messrs. Houston, Shackley, Broe [*name not declassified*].

The account of the CIA session with Church and his staff came largely from Shackley, supplemented from time to time by Houston. Both spoke from notes that each had made.

Senator Church started matters off by asking Broe to relate the circumstances of his meeting with Geneen. Broe replied that he had given Geneen an overview of the situation in Chile, and that Geneen had commented on these same subjects. There was a discussion of the three Presidential candidates. Geneen referred to the availability of an election fund that might be available from the US business community, but no figure was set. Geneen asked if CIA could channel such funds to Alessandri. Broe said no, that it was not US policy to support any particular candidate. Geneen asked Broe to keep in touch with Gerrity. The entire Broe–Geneen conversation lasted something less than an hour. Broe said that he had had a later conversation with Geneen over the telephone but that it too was concerned with generalities, with bringing up to date the matters the two earlier had discussed.

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<sup>1</sup> Summary: This account of a discussion between Department of State and Central Intelligence Agency officials focused on recent discussions between CIA officials and Senator Church and staffers of the Senate Subcommittee on Multinational Corporations. Church and the Senate Subcommittee were investigating ITT activities in Chile.

Source: National Archives, RG 59, INR Files, Lot 94D565, James Gardner Chronological File. Secret.

The rest of the interrogation of Broe seems to have been carried on chiefly by Levinson, Church having left after 5 or 10 minutes.

Levinson asked about the circumstances of Broe's getting in touch with Merriam. Broe said that Merriam had taken the initiative, had called him; he also told the Committee Staff that he had had a series of lunch sessions, some five in all, with Merriam during the period under discussion.

Levinson asked if Broe and Merriam had discussed the question of the effect on ITT if Allende were elected. Broe said that this question had been discussed only in general terms.

Going back to the Broe–Geneen talk, Levinson asked if Geneen had raised the question of expropriation. Broe said no. Did Geneen mention a figure in connection with the election fund that he had mentioned? No.

Did Geneen ask what plans CIA had if Allende won? No.

Levinson wanted to know what happened next. Broe said that Merriam had asked him to lunch and that in all their sessions they discussed principally the trends and developments in Chile, the question of economic forces at work there. Broe commented that in these discussions Merriam frequently had recourse to documents from ITT representatives in Chile.

Levinson wanted to know if McCone had ever discussed the Chilean electoral situation with Helms or with Kissinger. Broe replied that he had no knowledge one way or the other about whether there had been any such conversations.

When had the first contact been made with Gerrity? Broe replied that it had taken place on 30 September, when the two had talked about the Chilean situation and about whether there were any pressures that could be exerted that would help the situation. The discussion was an exchange of ideas, a brain-storming session. No agreement of any sort had been reached between the two.

Levinson referred to a Gerrity/Geneen cable of 29 September which had a reference to the effect that CIA had given ITT a list of companies. Broe commented that he might well have given ITT such a list, but he had no recollection about what the purpose of such a list might have been.

Did Broe say, as is stated in one of the ITT memoranda, that ITT was the only company being responsive to the situation in Chile? Broe said that he had noted that ITT was the only company that had come to the US Government and was the only one that had mentioned funds.

In response to a question from Levinson, Broe said that he discussed ITT actions with Merriam, commenting that some moves were

sound; but that none of his comments could be construed as “approval”.

The staff seemed to be particularly interested to learn if Broe had sent somebody to Merriam’s office to pick up an assessment on Chile. Broe replied that he had done so, that such assessments from a non-USG source could be quite useful as a cross-check. The document had been discussed at lunch; Merriam had forgotten to bring it with him.

The Staff hammered on Broe’s claim that the telephone calls between Broe and Merriam all came at Merriam’s initiative. Broe was emphatic in insisting that this was so; each contact had been initiated by Merriam. Levinson noted that he felt this to be a major inconsistency with the claims made by ITT, which appears to have maintained that the initiative consistently lay with Broe.

The Staff had an October 6 internal ITT memorandum prepared by one Ryan, described as a Merriam deputy. According to this memorandum, Ryan had received a phone call from Broe. Broe said that he did not recall talking to Ryan; since he had no memory of doing so the only explanation he could think of was that he had thought he was talking with Merriam when in fact he might have been talking to Ryan. According to Ryan’s memorandum, Broe had said that “we” should be keeping pressure on the Chileans, with the implication that the pressure referred to was economic. This alleged statement seemed to bother the Committee considerably. In this same memo, Ryan also stated that Broe had said that the military “might do something”. Broe commented that he couldn’t have spoken so about the military if for no other reason than that he had always felt that the military would do nothing.

Broe was next asked if he had discussed inspiring a run on Chilean banks with ITT representatives. Broe said that he had not. He did say, however, that he had taken the initiative in bringing up the question of economic pressure as a means of attempting to accelerate the deterioration of the economic situation in Chile.

The Committee wanted to know where the suggestion for economic pressure had come from? Had it come from Korry? To this Broe said that he had no idea who had originated the concept, but it had been widely discussed within Chile and it had been discussed as well within the US Government. The matter had arisen particularly after the Alessandri/Frei ploy had died.

The Committee wanted to know if Broe had developed a plan for action that he had discussed with ITT. No.

The Committee referred to an October 7 memo from Merriam to Gerrity referring to “our man”. Merriam apparently had said that this reference was to Broe; this could be a point of controversy because whoever “our man” was had, according to the memo, spoken about conversations with General Motors, Ford, and a California bank, as-

sumed to be the Bank of America. Broe said that he had made no contact in this period with these concerns, nor had any one else in CIA. This apparently contrasted with Merriam's statement to the Committee that Broe had told him that he, Broe, had made these calls (Shackley commented at this point in the meeting with ARA that CIA had no institutional memory of any such contacts having been made by it.) The Committee pressed hard on this point, presumably under the impression that there could well have been a Government-business conspiracy.

Did Broe ask ITT to lobby other US Government agencies in regard to Chile? Emphatically no.

(Shackley commented that all the contradictions that allegedly marked the statements of CIA as contrasted to those of ITT lay within the framework of the Merriam–Broe talks).

Levinson said that ITT had talked to Vaky and to people in State, and had had some statement made on the floor of the House. He also understood that Merriam had tried to see Kissinger. (The implication was that the try was unsuccessful).

To a question about an October 9 exchange between Merriam and McCone and the possibility of a military uprising, Broe said that this matter had not come up in his talks with ITT. He reminded the Committee that the Agency consistently had held that a military uprising would not occur.

The Committee Staff said that McCone had told the Committee of a comment by Geneen in December 1970 about a "generals' revolt" and economic activity. According to Houston, the Staff said that Geneen told McCone that he had heard of an Agency plan for a military revolt and economic chaos. Broe said there was no talk of this with ITT, and that anyway matter lay without the scope of the inquiry.

In connection with the 9 October Merriam to McCone memorandum, the Committee again came back to the question of whether CIA had talked to ITT about General Motors and Ford. One of the ITT memos noted that according to "our man", GM and Ford had not responded. Broe again said that CIA had not contacted General Motors or Ford and he said that he did not recall talking about these two concerns to ITT representatives. On the other hand, he might well have discussed the question of applying economic pressure. The Committee Staff apparently noted that it had been told by General Motors and Ford that they had no record of any such talks with the ITT. It was therefore curious about this entry in the ITT memorandum.

Did CIA apply any pressures or threats to US companies attempting to influence their activities in or regarding Chile? No.

On the question of what he might have said about President Nixon's attitude, Broe said that he knew the President was very con-

cerned in the problem but that he had no information on Nixon's attitude whatever.

Did Broe know anything to confirm the statement that the President was taking a "hard line" on the Chilean matter? No, Broe had no information on President Nixon's attitude.

The Committee next turned to the ITT memorandum recording a telephoned statement by Hendrix from San Juan. The Committee asked about the statement in this memorandum to the effect that Viaux had received an order from Washington, D.C. to "stand down". Was this matter discussed between CIA and ITT? No. Broe went on to say that the Agency could not comment, within the terms of the inquiry, on whether or not there had in fact been such a message.

Did CIA know what sources Hendrix and Berellex used? This, responded Broe, was a question that more properly should be put to Berellex and Hendrix.

Did Berellex have Hendrix talk to CIA representatives in Santiago? Broe said that Berellex and Hendrix had a wide range of acquaintances and that the Chief of Station in Santiago was one of among many in the Embassy with which these two had had contact. If there was, however, he had no reason to assume that they knew, when they talked to CIA representatives in Santiago, that they were in fact doing so.

Was the "green light" allegedly received by Korry discussed by Broe with ITT? No it was not discussed and, again within the terms of the inquiry, Broe could not comment about the existence of any such message.

The Committee indicated its impression that Berellex and Hendrix had a special relationship with CIA and therefore perhaps could have got word of this "green light" from the CAS element at Santiago. The response to this was that there was no record that any CAS member had spoken to this effect to either Berellex or Hendrix.

The Committee appeared to be taken with the possibility that, even if there were no cable setting forth the "green light", it had been communicated by secure phone to Korry. To this Broe said that a secure phone link had never come into play on this matter.

Blum, Committee Staff, said that, although they lay without the scope of the current interrogation, there were a couple of things that might be embarrassing to the Agency. One had to do with the travel of three Chileans to the United States of whose arrival INS had no record. One of these travellers, Blum said, used Eno Hobbing's office to make a number of telephone calls to solicit funds for Alessandri. Was this not perhaps done on the behalf of CIA? The Committee was asked to send questions on these matters to the Agency.

The other potential embarrassment centered on the report that Chase Manhattan Bank had cancelled a line of credit to Chile, an act

which presumptively was at CIA insistence. Chase Manhattan had indicated to the Committee that it did not want to discuss the reasons for the cancellation, so it was natural to conclude that CIA had been behind it. To this CIA responded that this matter too lay without the scope of the inquiry. The CIA representatives commented, in the ARA meeting, that the Agency had no record of such request.

The Committee also asked about events of 1964. Broe replied only that these possibly could have been mentioned to ITT but only in the most general terms if at all.

Broe informed the Committee staff that the Agency had no information on ITT contacts with Kissinger. Merriam indicated ITT had tried to see him, without success.

Levinson said that there had been no contradiction between Helms' and McCone's statements to the Committee.

The Committee agreed to prepare a list of questions to put to CIA based on those that had been asked during this informal, off-the-record inquiry.

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**132. Memorandum From the President's Military Assistant (Scowcroft) to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, March 28, 1973.

SUBJECT

White House Involvement in Chilean Election

The attached folder contains special channel messages between Ambassador Korry and the White House (or Alex Johnson in 40 Committee role) during the period September 14, 1970 to November 8, 1970. This covers most of the period between Allende's victory in the popular election (September 3) and the Congressional run-off (October 24) and Inauguration (November 3). These messages have been examined for

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<sup>1</sup> Summary: This memorandum provided a chronology of White House involvement in covert efforts to influence the Chilean political situation from September 14 to November 8, 1970.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 778, Country Files, Latin America, Chile, Coup Cables. Top Secret; Eyes Only. The tabs are attached but not published.

evidence of White House involvement in actions which might prove embarrassing. Also included is a summary cable from Ambassador Korry outlining various instructions he received and messages he sent during the period January 19 to September 13, 1970 (Tab A), provided in response to a Presidential request on November 7 for a history of evidence leading up to the “present situation in Chile”. The document focuses primarily on the Ambassador’s conflicts with State which apparently he had earlier discussed directly with the President. The Korry summary (Tab A) is, therefore, slanted to the problem of key concern at the time as to whether enough had been done to prevent the emergence of a freely elected communist regime in Latin America.

This sample of messages indicates the extent of White House involvement during this period, which was primarily in a 40 Committee context.

—On March 27 Ambassador Korry was notified that a limited program directed against Allende had been approved by the 40 Committee. This included funding to foster radical party dissidence (Tab A).

—On July 3, Korry was notified that Phase I of his program for political action had been approved by the 40 Committee. (Tab A)

—Your back channel message of September 12 expressed the President’s appreciation of Korry’s perceptive reporting and efforts. It asked for recommendations as to courses of action. This was at a time when State was trying to hold Korry down (Tab A).

—Korry made a lengthy back-channel report to you on recommended political actions, mostly of a propaganda nature designed to help Allende’s opponents within the constitutional framework and at the same time improve the bargaining position of his opponents if Allende should win (Tab B).

—On September 26, Korry reported to you and Secretary Johnson that the Minister of Defense had informed military leaders in Chile that Korry had authorized him to say that there would be no military assistance or any other military connections with the United States if Allende won (Tab G).

—In a report to you, while you were abroad, Director Helms indicated that the 40 Committee on September 29 accepted some of Korry’s ideas for bringing economic pressure (Tab M).

—A September 30 message from Johnson to Korry reported some limited steps being taken in the economic and financial fields which would indicate concern about Chile’s long-term financial stability. He stated that MAP training was being suspended with 40 Committee approval (Tabs L, M).

—An October 1 message from Johnson gave Korry authorization to inform military leaders that we would suspend MAP matériel deliv-

eries. Export license requests by the Chilean military were also held up at that point.

—In a message to you and Johnson on October 1, Korry reported he had informed the Defense Minister that if Allende wins, the U.S. will not be in a position to provide any financial support of the PDC for any activities. Korry spread several unsettling stories about the consequences of a communist regime (Tab P).

—On October 7 the Defense Minister was informed privately by Korry that training and FMS and MAP deliveries would be held in abeyance until the policies of the new government were established (Tab W).

—On October 8, the Defense Minister was informed in writing that the training program was being held in abeyance (Tab W).

—In an October 9 message (Tab X), Korry referred to a message of October 7 (not in files) which apparently discussed points he should make to the Chilean military and also discussed the possibility of offering more MAP as an incentive to block Allende. The message to Korry apparently asked his evaluation of a proposal for a coup received from a group with whom Korry had not been involved. Korry was very negative about any coup attempts at that point and stated there was no longer a basis for hope of the success of any action program.

—On November 6, Korry requested the use of a small amount of funds to influence decisions within the PDC in favor of particular PDC candidates for President (Tab AA).

In practically all of the above cases the messages were transmitted through 40 Committee channels and the appropriate representatives of the bureaucracy apparently participated in the decisions. It would appear that the action program amounted to rather restrained and limited political interference. Korry took some authorized actions to try to influence the vote and had a number of direct and indirect consultations with Allende's opposition and the military leadership. The Ambassador also had many contacts with company representatives but appears to have been cautious and discreet in his dealings with them. There are no references to ITT. There is, however, evidence of a certain free-wheeling quality to his style of operation during this period and he obviously was frustrated by State's reluctance to take vigorous action, particularly in the early stages before the popular election in early September.

There are no indications that the U.S. fostered a coup attempt to circumvent Allende's coming to power. In a cable of September 25 (Tab E), Korry reported he had instructed his military and CAS people in very strong terms not to give encouragement of any kind to potential coup plotters. He reported on September 28 a questionable offer of a coup by a military group in return for certain financial assurances (Tab



I) This obviously was not accepted. The only indication of some Washington interest in evaluating a coup is in the message referred to above (Tab X).

The picture drawn from these cables cannot be considered complete since it is only a limited sample. It would appear that a number of Korry's messages were not immediately answered but this could also reflect some missing exchanges. A full report on White House involvement would require examination of minutes of 40 Committee meetings, MemCons of appointments by Korry with you and the President, front channel cables between State and Chile, TelCons, memoranda received from the agencies and sent to the President, activities with other foreign governments, etc. This examines only a narrow time frame; a full understanding of the problem would require examination of both the period before and after the one encompassed by these cables. In the post-Inauguration period, for example, there are a number of direct back channels with Korry and numerous SRG/NSC meeting records which might provide insights on activities prior to November.

If you wish a fuller examination, we could proceed in one or all of the following ways:

- Obtain the book compiled by Nachminoff which should have a complete file of cables, as well as providing many other sources.

- Review the minutes of 40 Committee deliberations and records of decisions.

- Make a complete study of all source data available on the entire period.

You may wish to wait to see the results of the study you requested from Jim Schlesinger before directing further White House research by your office or Jorden.

**133. Memorandum for the 40 Committee<sup>1</sup>**

Washington, April 6, 1973.

## SUBJECT

Outcome of 4 March 1973 Chilean Congressional Elections

1. *Summary*

The Popular Unity (UP) government of President Salvador Allende and CODE, the confederation of parties opposed to the UP, both have legitimate grounds for claiming victory in the 4 March 1973 congressional elections. The percentage split of the total popular vote was 54.7% for CODE as compared to 43.39% for the UP. This can be considered a solid victory in a democratic electoral system and indicates that popular support for the Allende government has decreased 6% since the last national election. (The government won 49.74% of the popular vote in the 4 April 1971 municipal elections.) Many observers, however, had expected CODE to win a higher percentage, and for this reason the election provided a psychological boost to Allende and the UP which won two new seats in the Senate and six new seats in the Chamber of Deputies. While CODE and the UP continue to publish rival “victory” claims, initial opposition disappointment has given way to more practical efforts to profit from this electoral experience.

The four opposition parties and the private sector are believed to have made effective use of the funds approved for them by the 40 Committee. The opposition maintains a solid majority in a congress which the UP can no longer accuse of representing pre-Allende popular sentiment. In retrospect, the opposition’s failure to obtain a larger electoral majority was not the result of any lack of energy or organization. Rather, the electoral results indicate how important the “class struggle” has become to Chilean low income groups which have identified with the Allende government. Economic problems are a burning issue for the opposition’s electorate, but less so for the Chilean lower classes, including newly enfranchised illiterates who are apparently convinced that Allende will eventually improve their lot.

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<sup>1</sup> Summary: This memorandum, titled “Outcome of 4 March 1973 Chilean Congressional Elections,” outlined the U.S. Government’s covert funding of the political parties involved and the results of the election.

Source: National Security Council, Nixon Intelligence Files, Subject Files, Chile 1973. Secret; Sensitive; Eyes Only. A memorandum for the record by Ratliff of May 3 states that the 40 Committee noted the memorandum. (Ibid.)

## 2. *Résumé of Electoral Results*

### a. *Chamber of Deputies*

The results of the electoral contests to fill all 150 seats in the Chamber of Deputies are as follows: CODE 54.7% (2,003,047 votes); the UP 43.39% (1,589,025 votes); the Popular Socialist Union (USP—a small Socialist splinter which supports the government but is not part of the UP) 0.28% (10,287 votes); blank ballots 0.59% (21,151 votes); and null ballots 1.04% (37,788 votes). Eliminating blank and null ballots, the percentages are CODE 55.6%, UP 44.1% and USP 0.3%.

CODE won 87 seats (a net loss of 6 seats), while the UP won 63 seats. The new chamber, to be installed on 21 May 1973, will be composed as follows:

<u>CODE</u>		<u>UP</u>	
Christian Democratic Party (PDC)	50 (up 3)	Socialist Party (PS)	28 (up 14)
National Party (PN)	34 (up 1)	Communist Party (PCCh)	25 (up 3)
Democratic Radical Party (PDR)	2 (down 2)	Radical Party (PR)	5 (down 7)
Radical Party of the Left (PIR)	1 (down 8)	Unified Popular Action Movement (MAPU)	2 (up 2)
TOTAL	<u>87</u>	Christian Left (IC)	1 (down 8)
		Independent Popular Action (API)	2 (up 2)
		TOTAL	<u>63</u>

### b. *Senate*

The results of electoral contests in five districts for 25 of the Senate's 50 seats are as follows: CODE 56.23% (1,238,692 votes); UP 42.05% (926,302 votes); blank ballots 0.54% (12,092 votes); and null ballots 1.18% (25,636 votes). Although Chileans voted for senators in only five of ten districts, the heavy population of the Santiago district meant that over 60% of voters countrywide cast ballots in these senate races. Former President Frei easily topped all lists with 28.6% of the vote in Santiago.

CODE won 14 seats against 11 for the UP, a gain of two seats for the government. The new senate will be composed as follows:

OPPOSITION

	<u>New Seats</u>	<u>Holdovers</u>	<u>Total</u>
PDC	10 (down 1)	9	19
PN	4 (up 3)	4	8
PIR	0 (down 2)	3	3
PDR	0 (down 2)	0	0
			<hr/> 30

PRO-GOVERNMENT

	<u>New Seats</u>	<u>Holdovers</u>	<u>Total</u>
PCCh	5 (up 3)	4	9
PS	5 (up 2)	2	7
PR	1 (down 1)	1	2
IC	0 (down 1, uncontested)	1	1
USP	0	1	1
(pro-government)			<hr/> 20

*c. CODE Allegations of Fraud*

There was an unprecedented delay of 24 hours between the government's penultimate electoral bulletin and the final announcement of results, and CODE spokesmen continue to accuse the government of playing with the electoral tally to the detriment of CODE candidates. A recount is now in process, and the Electoral Tribunal, which has the final word, is not a government rubber stamp; its members, recently drawn by lot, are two Supreme Court justices, one Appellate Court judge, a PDC senator and a former Conservative Party deputy. The Santiago Embassy reports that some internal discrepancies in the official tally are evident, but it is doubtful whether a recount could make a substantive difference of more than one or two percentage points in the electoral results, with no assurance that CODE would benefit from all readjustments.

*3. Analysis of Election Results*

Opposition leaders were uniformly optimistic about the probable outcome of the congressional elections. This over-confidence was based mainly on the opposition's inability to detect the strongly pro-UP current among the 880,949 newly enfranchised illiterates and 18 to 21 year olds. This new electorate was 17% larger than in the municipal contests in April 1971. The UP made its most impressive gains in those provinces where new registration was largest, with the most striking correlations obtaining in those provinces with high illiteracy. Another

factor which made the election outcome hard to predict was faulty public opinion polls which gave the opposition well over 60% of the popular vote. Chilean pollsters had a poor record for accuracy prior to 1973, but political tension and polarization during the pre-election period compounded previous shortcomings.

Despite the lack of reliable statistical data from polls and the question mark presented by an enlarged electorate, opposition leaders felt that the CODE parties had campaigned well. They were satisfied that opposition propaganda was sufficiently intensive to get CODE's message to the people and believed that basic economic problems would cause a massive rejection of UP policies. Because of these excessively high expectations, the opposition's actual margin of victory (11% of the popular vote) was disappointing, so that the elections are regarded by most Chileans as a government victory.

In retrospect, most Chilean observers feel that the economic issues, which were the main opposition theme, proved to be of secondary importance to lower income groups who apparently voted along class lines. UP propaganda was directed almost entirely toward the lower classes and highlighted the class struggle, a tactic which produced the results desired by the UP.

Of the opposition parties, the two small radical groups were the most dismayed by the election results; Luis Bossay, president of the PIR, had some difficulty in persuading his party not to disband and pull out of CODE in the immediate aftermath of the elections. It now appears that the PDR and PIR will regroup and will remain in the opposition. The private sector is still in a state of shock over the unexpectedly high vote obtained by the UP, which they feel may presage a fatal threat to the private enterprise system in Chile.

The PDC and PN feel that they did reasonably well, but both parties think that the CODE alliance cost them votes at the polls even though it was strategically necessary to take advantage of the bonus which Chile's electoral law gives to a large coalition. (If the CODE parties had run separately and received the same number of votes, the UP would have won the senate races 13–12 and would have picked up six more deputy seats.) In effect, the political balance of power has not been changed to any appreciable degree by the elections.

#### 4. *Effectiveness of Support to Opposition Parties and Private Sector Organizations*

##### a. *General*

On 26 October 1972 the Committee approved \$1,427,666 to support four political parties and [number not declassified] private sector organizations during the period from 1 November 1972 through the congressional elections. On 12 February 1973 the Committee approved an addi-

tional [*dollar amount not declassified*] to insure that the opposition effort did not falter during the last crucial days of the campaign. Only [*dollar amount not declassified*] of the [*dollar amount not declassified*] contingency fund approved in February was expended, [*dollar amount not declassified*] being channeled to the PIR and [*dollar amount not declassified*] to the PDR during the last days of the campaign. Total cost of the election effort was therefore \$1,602,666, allocated as follows: PDC—[*dollar amount not declassified*], PN—[*dollar amount not declassified*], PIR—[*dollar amount not declassified*], PDR—[*dollar amount not declassified*], Private Sector—[*dollar amount not declassified*].

b. *Christian Democratic Party—PDC*

The funds approved by the Committee enabled the PDC to wage an effective election campaign. The reorganization program which was begun a year ago by the PDC has been extremely successful. The party's computer program has recorded basic data on over 125,000 party members on IBM cards while the party's old unwieldy "comuna" structure has been largely replaced by smaller neighborhood "bases." The PDC now has a cellular structure and was able to conduct extensive grass-roots organizational activity, including door-to-door campaigning and a well-coordinated effort to insure that all election tables were supervised by PDC members and that transportation was available to take voters in all electoral districts to the polls on election day. This reorganization was instrumental in enabling the party to increase the number of PDC deputies from 47 to 50 and should be of continuing importance in making the party more effective.

Station assets [*less than 1 line not declassified*] feel that the PDC conducted an optimum campaign, even though they were disappointed by the lack of support received from the lower classes and particularly the peasants. [*6 lines not declassified*]

c. *National Party—PN*

Since PN president Sergio Onofre Jarpa proved unwilling to relax his personalistic management of the PN sufficiently to allow the party to develop an efficient party organization, [*18 lines not declassified*]. The PN generally is satisfied with election results since the party won three new senate seats and gained one new deputy.

d. *Democratic Radical Party—PDR and Radical Party of the Left—PIR*

The big CODE losers in the election were the two small radical parties. The combination of the confederation and the D'Hondt electoral systems used in this election meant that the larger political parties would tend to gain at the expense of the smaller ones. This fact, noted in the 26 October 1972 request for financial support, was well-known before the election, but the extent of this erosion was not clear.

In terms of percentages the PIR won 1.8% of the national vote and the PDR gained 2.2%, for a total of 4% (as compared to 3.6% for the Radical Party (PR), the parent party which remained in the UP.) In terms of seats, however, both the opposition radical parties fared very badly. All senate candidates of both parties were defeated. In the chamber, the PDR won only two deputy seats (a loss of two from its former strength), while the PIR won only one (down eight). The PR also suffered, losing one senate and seven deputy seats, but this is cold comfort to PDR and PIR leaders.

PIR leader Luis Bossay, who was successful in convincing the PIR leadership not to disband the party and leave CODE in the immediate aftermath of the elections, still plans to merge with the PDR. This merger would prevent a complete dissolution of the opposition radical factions and would help minimize the possibility that part of its electorate might gravitate back to the PR. The election, however, makes it doubtful whether the opposition radical factions (or the UP mini-parties, which also fared badly) can continue to exist as viable political entities. Both opposition radical factions believe that they conducted a strong campaign and that their defeat was the result of a voter swing toward the stronger parties in an increasingly polarized political climate.

#### e. *Private Sector Organizations*

[3 lines not declassified] private trade associations coordinated their election activities [1 line not declassified]. These groups carried out a nationwide propaganda campaign stressing that any popular vote of over 50% for CODE would be a victory for the opposition and that the process of voting is secret and inviolable. (This latter campaign was generated in response to reports of UP threats of reprisals against persons voting for the opposition.) The private sector's propaganda campaign also featured instructions on how to mark the ballot correctly.

Private sector organizations conducted a women's telephone campaign on behalf of CODE, undertook fund-raising activities on behalf of CODE candidates, and worked to eliminate frictions between CODE candidates and to identify weaknesses in their campaigns. Specific services provided by the private sector included furnishing transportation to the polls, messengers and baby-sitters on election day. These efforts were effective in reaching the middle classes, although it must be recognized that the private sector as a whole is mistrusted by the lower income groups which form the basis of the UP's political power.

Private sector leaders were discouraged by the election results and now plan to redouble their efforts, which were interrupted by their

pro-CODE election campaign, to create an effective national organization of trade associations and independent worker and student groups.

5. *Security*

[1 paragraph (6½ lines) not declassified]

6. *Outlook for the Future*

The end of the election period and departure of the military from the Allende government marks the beginning of a new political era. It is still not clear whether Allende and his new cabinet will adopt a policy of moderation and conciliation, as advocated by the Chilean Communist Party and by military leaders like General Prats, or whether Allende will now feel strong enough to push for the acceleration of the revolutionary process which is being demanded by the small far-leftist parties as well as by a substantial segment of Allende's own Socialist Party.

The policies adopted by the government will be an important factor in determining the opposition's future course of action. For example, a moderate UP policy could succeed in inducing the PDC to accept some of the government's socialization programs in order to gain electoral ground among the peasants and the lower classes; an attempted acceleration of the revolution would tend to unite the opposition, increase political tensions, and produce a new confrontation. The private sector, [less than 1 line not declassified] has decided that another general strike would be counter-productive in the near future, and it is unlikely to undertake any large-scale anti-government action unless government pressures are greatly intensified, and unless the full cooperation of CODE and of at least some elements of the Armed Forces has been obtained in advance.

Whatever policy is adopted by the government, it may prove necessary and desirable in the future to provide additional funds to opposition elements to keep them active and to prevent the UP from electing or imposing its presidential candidate in 1976. It is, however, too early to estimate what opposition needs will be for any significant time frame.



**134. Memorandum From the Deputy Chief of the Western Hemisphere Division, Directorate of Plans, Central Intelligence Agency [*name not declassified*] to Acting Assistant Secretary of State for Inter-American Affairs (Crimmins)<sup>1</sup>**

Washington, May 24, 1973.

SUBJECT

Tactical Information on a Plot by Chilean Military Officers to Overthrow the Allende Government

1. [*1 paragraph (5 lines) not declassified*]

SUMMARY: Elements of the Chilean Air Force have prepared the rudiments of a tactical plan to overthrow the present Chilean government. The plan envisions the seizure of the presidential palace by Air Force troops, supported by helicopters and an Army armored battalion. A number of Chilean Army generals, primarily without troop commands or distant from Santiago, purportedly support a plotting cabal. One of the Army generals, the Commander of the Army Troops Command, has gained the support of three key Army commanders in the Santiago area for the plot, but the commanders of three other important regimental-sized units remain at best uncommitted. The Navy in Valparaíso and several Air Force unit commanders also support the effort. The cabal has also prepared a list of military officers who pose potential threats to the implementation of its plans. END SUMMARY.

[Omitted here is the body of the memorandum]

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<sup>1</sup> Summary: In this memorandum the CIA passed on intelligence on a Chilean Air Force plot to oust Allende with the support of some but not necessarily key Army and Navy officers.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, Vol. VIII. Secret; No Foreign Dissem; Controlled Dissem; No Dissem Abroad. The memorandum was also sent to Cline, Jorden, and Vice Admiral Vincent de Poiz, Director of DIA. In a May 24 covering memorandum to Kissinger, Jorden concluded, "This [possible coup attempt] bears watching carefully, and we will be doing that. But in the meantime, I do not think we should get too excited. Above all, there should be no effort to involve the U.S. in these developments in any way."

**135. Memorandum From the Director of the Office of Operations Policy, Bureau of Intelligence and Research (Gardner) to the Deputy Director of the Bureau of Intelligence and Research (McAfee)<sup>1</sup>**

Washington, May 31, 1973.

SUBJECT

ARA/CIA Meeting, 30 May 1973

PARTICIPANTS

ARA—Messrs Kubisch, Crimmins and Fisher; CIA—[*names not declassified*]; INR/DDC—James R. Gardner

The meeting was devoted to Chile.

[*name not declassified*] opened with a brief review of the assistance we had given the Chilean opposition parties since January 1971. In concluding this review he stated his own opinion that, if the opposition were able to survive through this year in reasonably good condition, we probably would see an end to serious talk in Chile about the desirability of a coup. He observed that by that time we would be entering the final phase of Allende's regime and headed toward new general elections. The imminence of these would, he felt, make a coup effort seem a useless risk to those who might otherwise undertake one, especially in the military.

Mr. Crimmins pointed out that general elections would not come until September 1976. Municipal elections were scheduled for April 1975.

Mr. Crimmins reviewed for Mr. Kubisch the rationale that lay behind our support to the opposition. He said that it had been viewed as an effort to keep the opposition alive, to keep the current political set in Chile from becoming irreversible. The basic argument for the financing stemmed from moves against the private sector made by the UP, its growing control of the economic levers of the country, including especially the credit machinery. Through these steps the UP was severely limiting the capabilities of the opposition parties to survive and to act as a genuine opposition. Our support had been maintained to provide

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<sup>1</sup> Summary: This memorandum detailed a meeting among officials of ARA, CIA, and INR at which they discussed the advantages and disadvantages of maintaining the U.S. covert programs in Chile. The advantages revolved around preventing Chile from becoming another Cuba. The disadvantages revolved around the problems that would occur if the U.S. assistance to the opposition in Chile was revealed.

Source: National Archives, RG 59, INR Files, Lot 94D565, James Gardner Chronological Files. Secret.

the sinews that would permit the survival of a viable opposition. This was still the case. The central question, to his mind was: Can we afford not to continue our subsidy to the opposition?

Mr. Crimmins noted that a sub-question was: What about the opposition parties—given the restraints imposed upon them, were they capable of keeping themselves alive through their own resources? These two questions he felt, comprised the heart of the matter.

There were other questions, Mr. Crimmins said. One had to do with the assistance that we had extended to the private sector. Noting that Ambassador Davis (in his own view quite rightly) was nervous over the current proposal to continue assistance to this quarter, Mr. Crimmins said that this was a sensitive issue because private Chilean groups had tended to be active and interested in the possibility of a coup and certain segments had been dealing with military elements along these lines. We had thus been concerned that the help we gave them for the 1973 Congressional elections could have been interpreted by these groups as a signal of our own interest in a coup. We have not had any interest whatever in such a development; nonetheless, USG connection with these groups, were it to become known, would mean that we could plausibly be accused of working to overthrow the Government—whereas our real purpose had been to keep the Chilean constitutional system alive.

All this, however, was a sub-issue; the principal question remained: Do we want to continue to supply the means to keep the opposition alive?

Another important factor was the increased sensitivities in the US and in Chile to covert activities of this kind. This sensitivity could well raise the risk level of the enterprise. There was also involved a philosophical issue: i.e., do we want to continue to involve ourselves in this kind of business, especially in view of the domestic atmosphere in the US and the alertness of the Chilean Government to the possibility that we were engaged in activities of this sort? Thus far we had been fortunate, for the Chilean Government had not discovered any of the activities that we in fact had been engaged in.

[*name not declassified*] interjected that there were few witting people in Chile: [*2½ lines not declassified*].

Mr. Crimmins noted that when he spoke about the atmosphere here and in Chile, he had in mind particularly the Church hearings and the leaks there have been about our massive assistance to the PDC during the 1964 elections.

Mr. Crimmins said that his judgment would be that we should continue our assistance, since the parties making up the political opposition could not survive without it.

Mr. Fisher agreed with Mr. Crimmins' assessment.

Mr. Crimmins said that we must however admit that there were now more vulnerabilities affecting our assistance than there had been, especially in the US and Chile. It was necessary that we be clear about the risk we are taking.

*[1 paragraph (7 lines) not declassified]*

Mr. Kubisch said he wished to make some observations. The first was that this was the first occasion on which he had been called upon to consider from a position of authority a matter such as this. He had been aware peripherally that such activities had existed but never before had he actually been called upon to take a position for or against. He said that his presumption in such circumstances would be that this kind of covert financing should not be undertaken unless genuine, critical interests of the US were involved and were in such serious peril as to be almost in the last extremity. He felt this way for a number of reasons. One was that the risk and potential cost of operations such as this were very great; there needed to be very weighty considerations to balance the dangers involved. Another was that the practical effect of many of the activities that the US undertook as a government abroad were not as influential and effective as we may have assumed they would be in affecting the course of events in a given environment. We tend to exaggerate our weight. A third was that there might well be better ways to accomplish the objectives we sought than through covert action. Mr. Kubisch said that therefore his approach would almost invariably be against proposals or activities such as the one under current review. It would require in any given case a very persuasive set of reasons to cause him to think otherwise.

Mr. Kubisch said that we needed to assess very carefully the potential path that Chile might follow were we not to extend the proposed assistance: what actions it could take and what the impact of these would be upon US interests—if, for example, Chile became another Cuba. Would this kind of program in fact help to avert such an outcome?

His inclination therefore was to let the program come to an end, and not to recommend its continuation. He however recognized that discussion of topic had necessarily been limited up to this point. Mr. Shlaudeman (currently DCM in Santiago) would be in the Department on 11 June to take over his position as Deputy Assistant Secretary in ARA. Mr. Kubisch would be quite happy to confer with him to listen to the reasons Mr. Shlaudeman and Ambassador Davis might have for continuing the program. His mind was open. He wished to repeat, however, that at this moment he was against continuation.

Mr. Crimmins said that the question was whether without our assistance the opposition might not have done much worse in the March elections.

[*name not declassified*] noted that without our assistance the continued domination of the elements in Chile represented by the UP would be irretrievable.

Mr. Fisher noted that Mr. Shlaudeman had reported that the opposition was very discouraged.

Mr. Kubisch said that were it necessary for him to make a decision at that moment it would have to be negative, and he would have to recommend to Ambassador Porter that this be the State position. He would, however, prefer time to think the matter over, and to confer with Mr. Shlaudeman.

It was agreed that those present would meet with Mr. Kubisch and Mr. Shlaudeman at 4 pm on the afternoon of 11 June.

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### 136. National Intelligence Estimate<sup>1</sup>

NIE 94-73

Washington, June 14, 1973.

#### CHILE

#### PRÉCIS

This Estimate assesses the situation in Chile with particular emphasis on the prospects for the consolidation in power of President Allende's Marxist regime. Allende has already made considerable gains in strengthening his minority government through revolutionary economic changes that weaken his opposition and enlarge his own constituency. But this strategy has led to endemic economic and political turbulence which could undercut his popular support, solidify his opposition, and alienate the armed forces.

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<sup>1</sup> Summary: This estimate assessed the current situation in Chile, focusing on Allende's continuing efforts to consolidate power. It made significant predictions for the political climate in Chile over the next two years and argued that Allende would continue to implement his populist course, and that the Chilean military would not intervene unless a serious crisis ensued.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, Vol. VIII. Secret; Sensitive; Controlled Dissem. The CIA and the intelligence organizations of the Departments of State and Defense, the NSA, and the Treasury Department participated in the preparation of this estimate. The USIB concurred with it with the exception of the representative of the FBI who abstained on the grounds the subject was outside his jurisdiction.

Over the next two or three years there will be a series of political crises and confrontations which serve as tests of strength between the Allende regime and its opposition. The final section of the Estimate outlines three possible courses of development: (1) Allende could be held by his opposition to a standoff, with neither side registering substantial gains, and with the political future remaining very much in doubt until the 1976 presidential election. (2) Allende could consolidate his regime to the point where the opposition could neither constrain his actions nor raise a serious electoral challenge. (3) Allende's Marxist regime could be repudiated either by a major reduction of his freedom of action imposed by the military, or, in extreme circumstances, by his removal from office via a coup.

At this juncture, a *political standoff* seems the most likely course of development. The chances for *consolidation* or *repudiation*, while less likely than those for *standoff*, appear roughly equal, one to the other.

The US lacks powerful and reliable levers for influencing the outcome. US encouragement of the forces within Chile that constrain Allende's behavior could have some impact on the course of events, though at best a very limited one. Continuation of the present array of US economic pressures against Chile, within the context of a "cool but correct" diplomatic posture, can help assure that Allende's economic troubles—which are largely of his own making—will persist as a major political liability.

## THE ESTIMATE

### I. Allende's Political Position

1. President Allende took office in November 1970 with only 37 percent of the popular vote, yet with a pledge to carry out an irreversible socialist revolution within a constitutional framework. He has already registered important gains in political strength during the first half of his six-year term, and he wields formidable assets for effecting still further gains. His liabilities are also imposing, however, and he has not yet consolidated the power of his Marxist regime.

#### *Goals and Assets*

2. Allende's strategy is to use his vast executive authority to effect revolutionary economic and social changes—a process which strengthens his hold on power. More specifically, he has forced the pace of the state takeover of the economy and of redistribution of income in order to weaken his opposition in the middle and upper classes and to enlarge the support for his Marxist coalition among the poor.

3. Especially during his first year in office, Allende worked within an environment favorable to far-reaching change. The 1970 election was widely viewed in Chile as a mandate to accelerate the restruc-

turing of the economy begun by the previous administration. His swift action in confiscating US copper interests added the force of nationalism to the political momentum for revolutionary policies.

4. The extent of Allende's success so far was revealed in the March 1973 congressional election, in which his Popular Unity (UP) coalition received 43 percent of the vote. These returns indicated that the bulk of low income Chileans believe that the Allende regime has improved their condition, or at least is working in their interest. Some among the middle income groups, especially youths, also support his revolutionary goals.

5. The growth in support for the UP reflects Allende's skill at political maneuver as well as the popularity of his measures. He has held together most of the elements of his unwieldy coalition, which includes hardline extremists as well as pragmatic politicians. He has been exerting increasingly effective influence on the hierarchy of his own obstreperous Socialist Party, though he still is challenged by an influential faction which agitates for a more aggressive revolutionary pace. The Communist Party, in contrast, serves him well as a disciplined and moderating force within the UP. Reflecting the line of their Soviet mentors, the Communists see little point in risking their hard-won position *within* the government through unnecessary provocation of the opposition and the military.

6. Allende has been particularly effective in dealing with the armed forces, in part because of their apolitical tradition. Though generally sympathetic with the need for social and economic changes, most military officers are wary of Marxism and deeply concerned about the turbulence engendered by Allende's rule. Yet the army chiefs, because they fear that a coup could ignite large-scale popular resistance, have felt they must work to avoid national disaster *through* rather than *against* Allende.

7. Allende has encouraged this constitutionalist bent via regular praise of the military and generous extensions of funds for perquisites and equipment. More important, whenever a crisis brews he is quick to engage the military on *his* side as constitutional president. This was most evident in November 1972, when he asked three top officers to join his Cabinet temporarily, to bring an end to major disorders and pave the way for holding the March election in relative stability.

8. Allende's hand is strengthened by the divergent interests of the opposition parties, as well as by their demoralization over the UP's electoral gains. The Christian Democrats (PDC), Chile's largest party, have their own socialist traditions and initially lent qualified support to Allende's program. Since 1971, they have stiffened their opposition and joined in an uncomfortable alliance with the National Party, the second largest anti-UP group. Since the Nationals represent economically-

privileged Chileans, this association costs the PDC some of its popular support. Finally, allegations of past US intervention in Chilean politics on behalf of anti-Allende forces serve to tarnish the image of key opposition leaders.

### *Liabilities*

9. Allende's most obvious liability is that he remains a *minority* president in a highly politicized society. His opponents control the Congress and are influential in the judiciary. They also hold important assets in the news media, the educational system, organized labor, and certain sectors of the economy. The constitutionality, not to mention the efficacy, of his every move comes under vociferous political attack. Thus, he can advance towards his goal of restructuring the country only in fits and starts and through an unprecedented extension of executive authority.

10. More fundamentally, his strategy for cementing the UP's hold on power creates economic and political tensions which could undercut the gains he has made. The UP's reckless policies and feckless management of the swollen state sector have given rise to endemic economic turbulence. After an initial spurt in 1971, industrial output has gone into a protracted decline, while agricultural output has fallen by more than 25 percent. These shortfalls, combined with the rapid expansion of the purchasing power of the poor and with near runaway inflation, have made a shambles of domestic trade. Shortages of essential goods, queues, black marketeering, and political manipulation of the distribution system have become the order of the day. Allende's current policies will not revive domestic production, and he will continue to be saddled with a deteriorating economy.

11. Allende's immediate economic concern is the anticipated stringency in food and fuel supplies during the winter months ahead (June–September). He is undertaking a major expansion of food imports and of state controls over distribution, to favor the poor. But because of the unprecedented pressure on port and distribution facilities and on the bureaucracy, irregularities in supplies will irritate most Chileans, including many of the poor.

12. Chile is also experiencing an erosion of respect for constituted authority, as political and special interest groups increasingly resort to direct and forceful action to protect and advance their interests. The style was set by Allende's practice of stretching the law to speed the state takeover of the economy. Leftist extremists—largely independent of Allende's influence—go one step further with illegal seizures of farms, factories and stores. Rightwing groups, representing dispossessed and threatened owners, counter with their own disturbances, and at times clash with the militants of the left.



13. The problem now extends beyond the activity of extremists and reflects a polarization of society which is wearing away the Chilean predilection for political compromise and abhorrence of bloodshed. The major political parties have paramilitary auxiliaries and student affiliates geared for militant action. Business and professional associations are ready to use direct action to protect their economic stake (e.g., the “bosses strike” of last October). And so are the copper miners, the government workers, and other privileged labor unions who fear that the regime’s efforts to aid the poor will be increasingly at their expense. So far Allende has been able to contain political violence short of a major blood-letting. But political disturbances have become nearly as commonplace in today’s Chile as economic breakdowns.

## II. *Allende’s Foreign Economic Relations*

14. Chile’s foreign economic relations reflect both the UP’s dismal economic performance and Allende’s skill at political maneuver. The country is saddled with a huge and rising foreign debt and a parlous credit rating. From 1970 to 1972, exports fell by nearly 25 percent, while imports rose by over 35 percent. (Food imports jumped from \$150 million to \$400 million.) The Allende government sustained a \$540 million trade deficit in 1972 by obtaining credits from new sources, including politically motivated aid from the USSR and others; by defaulting on debt repayments to old creditors, mainly the US; and by allowing net foreign reserves to run deeply into the red.<sup>2</sup>

15. A similar pattern is evident so far in 1973. Thanks in large measure to Allende’s cultivation of a favorable international image, the Chilean revolution is regarded with sympathy by many non-Communist as well as Communist governments. Thus, most West European countries have been reluctant to take a hard line on Chilean repayment of old debts and a few have extended new lines of credit. For certain new creditors, it is a case of good business as well as good politics. Argentina, and even Brazil, have extended credits for goods that they could not easily sell elsewhere (buses, tractors, and such).

16. Because of a recent sharp rise in world prices, Chile stands to increase its earnings from copper exports in 1973 by about \$200 million. This should help prevent any serious deterioration in Chile’s import position, but only if old and new creditors do not toughen their terms.

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<sup>2</sup> About \$1 billion in economic assistance was extended to Chile during 1971–1972, mostly for development projects. The latter includes \$400 million in Communist development loans on which little has so far been drawn. Among the key credits which met Allende’s immediate import needs were (a) \$100 million in hard currency from the USSR; (b) food shipments from Argentina, Australia, New Zealand, and the People’s Republic of China; and (c) \$85 million in balance-of-payments support from the International Monetary Fund. [Footnote is in the original.]

On balance, Chile is likely to remain dependent on political favors and subject to day-to-day strains in trying to maintain imports at a politically-acceptable level.

17. Allende has petitioned the USSR for massive economic assistance to strengthen the UP regime for the long haul. The Soviets are interested both in increasing their influence in South America and in the UP's success as a model for a Marxist revolution through election. Yet they do not want another Cuba on their hands in terms of forking out regular, extensive balance-of-payments assistance to a foundering economy. Soviet caution also reflects doubts about Allende's ability to survive in office, as well as concern about antagonizing the US by pushing too vigorously for influence in the Western Hemisphere. Thus, on the one hand, when Chile has pleaded a desperate need, Moscow has extended some emergency help. But, on the other hand, it has advised Allende that he must shore up his economic position through an austerity program and by improving relations with the US in order to increase credits from traditional Western sources.

### III. *The United States and the Allende Regime*

18. Allende derives considerable benefit at home and abroad from an adversary relationship with the US. Yet he sees advantages in pressing for certain kinds of cooperation, if obtainable on his own terms. Thus, he has kept lines open to Washington on possible Chilean compensation for the expropriated US copper companies.<sup>3</sup> For both political and economic reasons, however, he would not agree to pay compensation except as part of a favorable package deal, including lenient terms for rescheduling of the outstanding debts to the US (over \$1 billion) and the opening of generous new lines of credit, mainly through international lending agencies. In short, Allende does not want either to repay his US obligations or to straighten up his international accounts generally, at the cost of domestic retrenchment.

19. Though increasingly dependent on foreign economic aid, Allende's Chile is largely insulated from external controls over its domestic politics. This reflects its geographic remoteness from the world's powers, the political sophistication of its population, the willingness of a large number of countries to proffer assistance, and the very complexity of its internal political scene. Consequently, the US lacks powerful and reliable levers for influencing the political outcome in Chile.

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<sup>3</sup> Chile has recently been touting, as a means for solving the compensation dispute, a 1914 treaty, which provides for addressing bilateral difficulties through a special international commission that would render *non-binding* recommendations. Allende might invoke the treaty in hopes of setting aside the compensation dispute for a prolonged period, during which he might hope that his relations with the US would appear sufficiently improved to enable Chile to garner increased foreign credits. [Footnote is in the original.]

20. US encouragement of the forces within Chile that constrain Allende's behavior could have some impact on the ultimate political outcome, though at best a very limited one. Continued US cooperation with and assistance to the Chilean military, for example, would contribute to their willingness to stand up against certain policy initiatives by Allende (e.g., acceptance of sizable Soviet military assistance).

21. Continuation of the present array of US economic pressures against Chile, within the context of a "cool but correct" diplomatic posture, can help assure that Allende's economic troubles—which are largely of his own making—will persist as a major political liability. But if the US were to institute a policy of open and all-out economic pressure, Allende would gain more political strength from wrapping himself in the flag than he would lose because of the additional economic burden. Besides, Chile would probably attract increased aid on political grounds from Communist countries, from certain European countries (despite US pressures), and from sympathetic neighbors (in particular, Peronist Argentina). The outcome would be the same whether or not the US policy were explained on the basis of the Hickenlooper Amendment and other restrictive US legislation.

#### IV. *Concerning Chile's Future*

##### *New Turbulence Ahead*

22. Encouraged by the March election, Allende is pushing ahead with his strategy of strengthening the position of the UP by measures that appeal to low income groups and by attacks on remaining opposition strongholds, especially in the private economy but also in the news media and the educational and judicial systems.<sup>4</sup> He will be prepared to retreat temporarily under heavy opposition pressure, or when needed to keep the military on his side. But for the most part he will try to ride out the tensions generated by his policies, because he is unwilling to risk undertaking the major reordering of priorities—towards austerity and discipline—needed to spur economic growth and stem political violence.

23. There are no scheduled nation-wide popular elections to test the success of Allende's strategy until the municipal contests of 1975 and the presidential race of 1976. In the meantime there will be a series of political crises and confrontations—some triggered by the regime's initiatives, some by the resistance of the opposition to his right or the provocations of the zealots to his left. The outcome of these tests of strength will depend on the interplay of a series of complex factors: Al-

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<sup>4</sup> The private sector still accounts for between a third and a half of national output, and consists mainly of small enterprises in agriculture, manufacturing, retail trade, motor transportation, and professional services. [Footnote is in the original.]

lende's skill; the opposition's will; the provocations of the extremists; the popular mood; and, increasingly, the reaction of the military.

*What Role for the Military?*

24. The inevitable succession of political crises seems likely to draw the military into a more open and important political role. But what role? There is evidence of growing anti-UP feeling and coup plotting within the armed forces, and also of a growing willingness among opposition politicians to look to the military for support in curbing Allende's strength. Many navy and air force leaders apparently already feel that strong measures against Allende are urgently required. The picture in the army, by far the key service, is less clear. A few generals and a substantial number of middle grade officers also appear anxious to constrain Allende's hand. But in part because of fear of touching off a civil war, the top leadership, especially Commander-in-Chief Prats, continues to weigh in against a coup.

25. A successful coup would probably require extensive high-level support in all three services, and at least tacit approval by the *Carabineros*, the national police. The necessary support might be quickly forthcoming in the event of very widespread disorders or such a complete economic collapse as to imperil the security of the country. Short of these contingencies, broad military support seems unlikely unless there is (a) a major decline in Allende's popular appeal, (b) a broad commitment to a coup by the political opposition, and (c) an intransigent posture by Allende in the face of demands from the military. On balance, there would seem to be only an outside chance of a successful military move to force Allende from office at this juncture.

26. Much more likely would be the return of military leaders to the Cabinet, under terms negotiated with Allende. Such an arrangement would, in effect, strengthen rather than weaken Allende's hold on office, at least initially. But the military would probably attempt to curb certain UP policies which they believe are exacerbating tensions, and to crack down against extremists on both the left and right. The subsequent dynamics could work either for or against Allende and the UP.

*Three Alternative Lines of Development*

27. The following paragraphs outline three possible lines of development in Chile over the next two or three years: a political standoff; consolidation of the UP; repudiation of the UP. At this juncture, a *stand-off*, in which neither Allende nor the opposition registers substantial gains in political strength, seems the most likely course of development. The chances for *consolidation* or *repudiation*, while less likely than those for *standoff*, appear roughly equal, one to the other.

28. *Standoff: Neither Side Registers Substantial Gains.* Allende would experience further gains in some aspects of his political position but

perhaps reverses in other aspects. The net effect would be no major shift in the present balance of political power. Through skillful maneuver he would weaken the opposition somewhat further. Yet the UP's popularity would still be hindered by the economic and political turbulence. Though he might call upon the military to shore up his regime during rough periods, Allende would remain sufficiently independent to continue along his established policy direction. For their part, the military would be able to set some limits on Allende's political initiatives. The opposition too would be able to place constraints on Allende's freedom of action and to criticize his regime vigorously.

29. Under these conditions, the rules of the political game would not be changed basically and the way would still be open to a competitive presidential contest in 1976. Without the charismatic Allende, who would not be eligible to run, the Marxist parties would face difficulties in maintaining the unity of their coalition. The opposition would face similar problems of maintaining unity, since the platform of any Christian Democratic candidate, while emphasizing promised improvements in the quality of government, would probably accept a significant number of the socialist measures already in effect. Thus, the political future of Chile would remain very much in doubt at least until the electoral lineup for 1976 became clear.

30. *The UP Consolidates Power.* In this case, Allende would effect gains so substantial that the UP would emerge from the 1973–1974 period effectively entrenched in power. The opposition would be unable either to constrain Allende's political initiatives or to offer a serious electoral challenge. This development would probably require, in addition to strong initiatives by Allende, a thorough demoralization or discrediting of the opposition through major blunders on its part (e.g., counterproductive violence or a failed coup). The military would lend at least tacit approval to a more authoritarian government. The regime would still face debilitating economic problems, internal political disputes, and various manifestations of popular discontent. But, with the acquiescence of the general public, Allende would have done away with constitutional checks on his authority and with effective criticism from the media.

31. *Repudiation of the UP.* Allende would either suffer a major reduction in his freedom of action because of military dictation in the areas of economic policy and public order, or, in extreme circumstances, be removed from office via a coup. This case would probably require that the public get fed up with mounting inconvenience and disruption and that the opposition be able to pin the blame for Chile's difficulties squarely on Allende's mismanagement. Also, Allende's ability to manage crises (especially his ability to use the military towards his own ends) would have to be reduced—for instance, by ten-

sions within the UP created by the revolutionary zealots. The military might well insist that technicians or representatives of political groups not now associated with the UP be brought into the Cabinet. Concern that the armed forces would be blamed for all of Chile's difficulties would probably motivate military leaders either to go ahead with the scheduled presidential election or to arrange for a special one. The chances that an anti-UP political combination would do well in the elections would be enhanced. But the outcome would depend principally on the relative popular appeal of the candidates and how—in a new situation—the political forces were arrayed.

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**137. Memorandum From William J. Jorden of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, July 9, 1973.

SUBJECT

Paris Club Meeting on Chile's Debt

The Paris Club of creditor governments will meet later this week with Chile to consider the latter's request for debt relief for 1973 and 1974. The last major meeting of the group (in April 1972) afforded Chile short-term relief but also required Chile to recognize all valid debts, including copper debts. Since then, Chile has offered to submit the copper dispute to fact-finding procedures under the 1914 U.S.–Chile Treaty. Our counter-offer was to make these debts subject to binding arbitration. Chile has not yet responded.

At the coming meeting, our position is to delay a decision on Chile's request regarding the 1973–74 debts until later this year. Our argument is that Chile (1) has not fulfilled its commitments under the April 1972 agreement, and (2) does not have an effective stabilization

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<sup>1</sup> Summary: In this memorandum, Jorden discussed U.S. policy for the upcoming Paris Club meeting to address the issue of Chile's request for debt relief for 1973 and 1974. Jorden noted that the U.S. position should be to delay the decision on Chile's request because it had recanted on commitments and was too unstable to be reliable. He then outlined possible options for U.S. policy if other nations did not go along with the position and requested Kissinger's decision on the options.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, Vol. VIII. Secret. Sent for urgent action. Kissinger initialed his approval of Jorden's recommendation.

program to offer creditors in exchange for debt relief. The reason for the delay is the fact that other creditors are inclined to be liberal with Chile and a delay will prevent any action that might be interpreted by Chile's government as international understanding or support at this critical juncture.

If we cannot persuade the other creditors to go along with delay, we have three options:

(1) to agree to sign a rescheduling agreement for 1973–74 without effective economic commitments by Chile;

(2) to refuse to take part in another Paris Club agreement; or

(3) to accept a compromise under which Chile would make a down payment on debts but the Paris Club would not enter into a formal rescheduling agreement. We would meet with Chile later in the year to consider a formal rescheduling agreement in light of economic developments in Chile in the interim.

Option 1 is unacceptable because it would give Allende an unearned political gain, allowing him to announce further debt relief with no effort on Chile's part. Option 2 would put the U.S. in an isolated position and allow Allende to focus blame on us for his economic woes. Option 3 is an acceptable compromise which would give the other creditors what they want (at least a token payment) without giving Chile a full rescheduling agreement.

If you approve, State and Treasury will proceed along this line. We must face the fact, however, that if all the other creditors decide to enter into a rescheduling agreement—and we are working to convince them otherwise—we may still face the prospect of being isolated. But I do not think we can go along with any rescheduling arrangement with Chile at this point, first because of the implications for “soft” rescheduling agreements worldwide, and, also, because of Chile's failure: (1) to fulfill its economic commitments under the 1972 agreement; (2) to fulfill its obligations regarding compensation for nationalized properties; and (3) to make any commitments regarding economic performance as a justification for debt rescheduling of 1973 debts. (Charles Cooper concurs.)

#### *Recommendation*

That you approve the course of action described above for the coming meetings of the Paris Club.

**138. Memorandum for the 40 Committee<sup>1</sup>**

Washington, July 13, 1973.

## SUBJECT

Chile: Request for Funds to Support Opposition Political Parties and Private Sector Organizations through June 1974

I. *Summary*

This memorandum proposes that [*dollar amount not declassified*] be approved for the support of political parties and private sector organizations opposed to the Popular Unity (UP) government of President Salvador Allende during the period from 1 July 1973 through 30 June 1974. Funds previously approved by the Committee to enable the opposition alliance (Democratic Confederation—CODE) to campaign during the period preceding the 4 March 1973 congressional elections provided for subsidy payments to each party for the months of March and April 1973 while the outcome of the election was being assessed. These funds have been adequate to enable the parties to maintain their organizations intact through June 1973.

Support requested for the four opposition parties for the period beginning 1 July 1973 is as follows: [*dollar amount not declassified*] for the Christian Democratic Party (PDC); [*dollar amount not declassified*] for the National Party (PN); and [*dollar amount not declassified*] for the two Radical splinter parties (the Democratic Radical Party—PDR and the Radical Party of the Left—PIR). [*dollar amount not declassified*] is also requested to [*6 lines not declassified*].

The requested financial support is considered to be realistic in terms of opposition needs and capabilities during the coming year. The outcome of the congressional elections provided a psychological boost to Allende and encouraged the UP to push forward with its revolutionary programs. The abortive military coup attempt of 29 June 1973 strengthened Allende still further. Many Chileans believe that the next six months to a year will determine whether or not Marxist domination of the economy can be irreversibly established.

[*1 paragraph (10 lines) not declassified*]

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<sup>1</sup> Summary: This memorandum, titled “Chile: Request for Funds to Support Opposition Political Parties and Private Sector Organizations through June 1974,” presented an overview of the recent political developments in Chile and recommended that additional funds be approved to continue the covert funding of political parties and private sector opposition groups.

Source: Department of State, Bureau of Intelligence and Research, INR/IL Historical Files, Box 1, Chile 1973–1975. Secret; Sensitive; Eyes Only.



This proposal has the concurrence of the Ambassador and has been discussed with the Assistant Secretary for Inter-American Affairs.

## II. *Political Background*

The congressional elections of 4 March 1973 demonstrated that the UP has considerable support among low income groups and among those who voted for the first time under the recently-relaxed voting standards (primarily illiterates). These groups supported the UP despite rampant inflation and acute shortages of consumer items primarily because political polarization has produced an acute class consciousness which has led the Chilean poor to identify with the Allende regime. As a result of this support from the lower classes, the UP has already begun to push forward on various socialization fronts with renewed confidence and at an accelerated pace. The UP can be expected to remain flexible, advancing its program as rapidly as possible but retaining the capability to retreat and compromise when necessary. Allende's ability to manipulate the Armed Forces, control his Communist and Socialist supporters, and to deal with the civilian opposition was recently strengthened by the small abortive military uprising of 29 June 1973.

The UP parties are now beginning to think more and more in terms of the 1976 elections, since they now believe they can generate enough of an advantage with the electorate by then to retain power. Allende is grooming cabinet ministers Clodomiro Almeyda and Jose Toha as successors, and either of these choices would be a formidable candidate for the presidency. At the same time, the UP has begun to denigrate former President Eduardo Frei, the opposition leader most likely to be able to defeat the UP candidate in the presidential race. In addition, the UP expects the government's growing economic power will have a significant and beneficial impact on the political loyalties of the population prior to 1976. The Communist Party of Chile (PCCh) sees the next six to nine months as the critical period for the UP's economic program. Once having surmounted that period, the PCCh believes that the strength of the UP's control over the country's economic infrastructure will permit more efficient management and, thereby, induce the Soviet Bloc to provide more substantial economic support.

In contrast to the UP, opposition leaders and groups have lost some confidence in their ability to contain the UP until the 1976 elections. But, the opposition elements have not given up by any means. They are doing very well in blocking the government's proposed unified national school bill as well as government efforts to consolidate control over what remains of the private sector. Nevertheless, no opposition group, except possibly the PDC, can foresee surviving in its present form until 1976, and even the PDC is somewhat less sanguine than before the March 1973 elections about the prospects for preventing

the UP from perpetuating itself. Further, an increasing number of Chileans in the opposition camp have left or are preparing to leave Chile.

The survival of the private sector is under heavier pressure than ever before. Even Frei, who formerly championed Chile's need for a healthy and dynamic private sector, stated in the wake of the March 1973 elections that capitalism no longer has a future in Chile and announced his support for the concept of "socialist communitarianism," an ill-defined doctrine of "Christian" socialism long advocated by Radomiro Tomic.

Under the circumstances, the Armed Forces have become the key political force in Chile—wooed by both sides. An increasing number of opposition members tend to believe that only intervention by the Armed Forces can prevent the irrevocable imposition of Marxism, and they have been seeking some means to support or bring about such intervention. (Their hopes have been diminished by the ill-planned and uncoordinated coup attempt of 29 June 1973, although this abortive effort may not have completely discouraged serious coup plotters.) [*1½ lines not declassified*] On behalf of the government, both President Allende and Minister of Defense Toha have been highly effective in their personal appeals and relationships with Chilean military leaders.

The Armed Forces themselves remain basically anti-Marxist and critical of the UP, but have a strong tradition of hierarchal discipline and a basic predisposition against political intervention on any side.

During the coming months some combination of circumstances, such as increasing violence and deteriorating economic conditions, could bring the military back into the government at the cabinet level. The terms of its participation would be crucial. If the military got Allende's agreement to suspend or modify the UP program, its intervention would improve the opposition's prospects for 1976. It should be noted, however, that when the military last took cabinet posts, Allende maneuvered successfully to exploit them for his own purposes, and the UP increased its voting strength thereafter. Nevertheless, UP moves against the judiciary, the school system or other sectors may stimulate the growing discontent of middle and lower ranking officers with the present government and generate pressures on the military leadership for action to brake the UP's socialization programs.

### III. Options

There appear to be three basic covert action options with regard to Chile at this juncture.

*A. Withdraw financial support completely from the opposition groups, maintaining only intelligence contact.*

Since January 1971 the Committee has approved financial support totalling \$6,476,166 for the Chilean opposition in accordance with the

U.S. policy of maintaining maximum covert pressure to prevent the Allende government's consolidation and to limit its ability to implement policies contrary to U.S. and Hemispheric interest. Adoption of this option would require a conscious reversal of the present policy with regard to Chile aside from the fact that the opposition very probably could not endure until the 1976 elections without U.S. Government support.

*B. Undertake an action program designed to provoke military intervention.*

Some opposition leaders would like to undertake a coordinated program designed to heighten political tensions and increase economic chaos and popular discontent in order to provoke military intervention. Encouraging in any form these leaders to organize a series of confrontations designed to precipitate a military coup would involve grave risks. These risks are not acceptable at least at this time. This does not rule out the possibility that a period of increasing crisis and conflict may lead in any direction, including direct or indirect intervention by the Chilean military on its own volition in the months ahead.

*C. Provide financial support to the political parties and the private sector to enable them to maintain the effectiveness of their organizations and media, to implement new programs designed to improve their electoral support, especially among low-income groups, and to counter UP efforts to implement its revolutionary program.*

The opposition must have financial support to survive and to blunt the UP's primary objective of dividing Chilean society along class lines. Barring a military resolution, this option appears to represent the best hope for carrying a viable opposition towards 1976.

#### *V. Proposal*

It is proposed that Option C above be adopted and that, for the period from 1 July 1973 through 30 June 1974, [dollar amount not declassified] be authorized for support of the opposition as outlined below.

A. PDC.....[dollar amount not declassified]

The PDC is the only opposition party which is capable of making significant inroads into the UP's electoral strength. For this reason, funds will be required to support the PDC's projected efforts to recruit and organize new supporters among organized labor, farm workers, slum dwellers, and other lower-class sectors where the UP, and particularly the Socialist Party, attracted mass support in the March 1973 elections. The PDC's image and program activities must swing to the left, with emphasis on the party's "socialist communitarianism" doc-

trine, in order to win converts from among UP supporters. PDC leadership is now more united than ever in the past in its determination to oppose the UP. The PDC will also need assistance in maintaining and strengthening its media outlets.

B. PN .....[*dollar amount not declassified*]

The PDC plans to move left to compete with the Socialist Party, which has made the biggest gains in recent elections and could hold the key to the 1976 electoral contest. The PN, which also gained in the March 1973 elections, will maintain its inflexible opposition to the Allende regime on the conservative side of the political spectrum. The PDC and PN will continue to collaborate on specific strategic issues, but their CODE alliance will be terminated as a formal relationship. The PN will need organizational support, particularly in its efforts to strengthen the mass organizations which are linked to the party, such as the provincial farmer organizations, and to maintain its media, women's, and university sectors.

C. PDR and PIR .....[*dollar amount not declassified*]

These splinter factions from the Radical Party (PR) who went over to the opposition were battered by the March 1973 congressional elections results. They are groping to find some new approach to the problem of attracting those cohorts who remain within the mother PR in the UP coalition. These two groups, though small, cannot be ignored since every vote will be important in 1976. Whether or not these two splinter parties eventually decide to merge, they will need funds to maintain their organizations and to project an image capable of splitting the PR again as well as attracting PR dissenters.

D. [2 paragraphs (32 lines) not declassified]

The Ambassador is concerned about the current high-level of tension in Chile and has reservations about supporting the private sector, which he feels is likely to contribute to these tensions in the hope of stimulating some form of military intervention. While the Ambassador's reservations in this respect are certainly shared [9½ lines not declassified]

[3 paragraphs (44 lines) not declassified]

## VII. Coordination

This proposal has the concurrence of the Ambassador and has been discussed with the Department of State whose position will be stated at the 40 Committee meeting.

## VIII. Costs

The cost of the proposal is [3 lines not declassified]

### IX. Recommendation

It is recommended that the 40 Committee approve the proposals as set forth in Section V above for support of the opposition in the amount of [dollar amount not declassified] from 1 July 1973 through 30 June 1974.

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## 139. Intelligence Memorandum<sup>1</sup>

Washington, August 1, 1973.

### CONSEQUENCES OF A MILITARY COUP IN CHILE

#### Summary

The abortive military revolt on 29 June capped a period of sharply rising political tensions. Its repercussions have further strained the fabric of Chilean society and threaten to overwhelm what is left of the military and civilian commitment to constitutionality and democratic processes after almost three years of political polarization.

President Allende appears to be trying to defuse the situation, but his own supporters are proving nearly as troublesome as his opponents. At the same time, increasing numbers of military officers are coming to believe that, if the armed forces cannot correct what is wrong with Chile by forcing Allende to find a political solution, they may have to take matters into their own hands.

*This memorandum discusses the dynamics of the current situation, suggests several possible outcomes, and examines some consequences for the US that would arise from a successful military coup.*

It looked, last March, like a promising year for Allende. His Popular Unity coalition came through with 43 percent of the vote in nationwide congressional elections. The six-percent increase in the coalition's total over the 1970 presidential returns was a psychological victory for

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<sup>1</sup> Summary: This CIA memorandum explored possible contingency plans for a successful military coup by examining three types of potential coups and considering the consequences for the United States.

Source: Central Intelligence Agency, Office of the Director of Central Intelligence, Job 80M01066A: ER Subject Files, Box 12, Folder 3: Executive Registry Subject Files—1975 C-7, Chile. Secret; No Foreign Dissem; Controlled Dissem; Background Use Only. It was transmitted under the cover of an August 2 memorandum from Vernon Walters to Jorden, Rogers, Kubisch, Irwin, and Laird.

Allende, and he appeared eager to press ahead with his plans for “building socialism.”

After the election, however, new socialist initiatives prompted the opposition Christian Democratic and National parties to harden their positions. They began to challenge the government with increasing frequency and severity.

At the same time, a significant realignment was taking place within Allende’s governing coalition that was to have an almost immediate effect on his ability to maneuver. The Communist Party, reevaluating its strategy of caution and compromise, decided that it was futile to seek a dialogue with the Christian Democrats when the opposition was seeking to bring down the government. The Communists concluded that Allende’s failure to deal firmly with the opposition was damaging the coalition, and they joined the Socialists in pushing for a tougher stand. This shift eroded Allende’s ability to play off one party against the other for his own ends.

Political tensions rose sharply during May and June as a prolonged strike by copper workers put further strains on Chile’s battered economy. As supporters and opponents of the government tested their strength in the streets of the capital, Allende tried to ease tensions by coaxing the military back into the cabinet. But he could not come up with a formula that would meet the military’s stiff preconditions and yet be acceptable to UP leaders.

The last week in June was a watershed. On 29 June, a group of relatively low-level coup plotters in an armored battalion launched an attack on the presidential palace. The uprising was put down less than three hours after it began by loyal forces under the direct command of Army Commander Prats and other pro-government generals.

The abortive revolt was a wild gamble on the part of a small group of plotters who hoped other units would join the rebellion once the shooting started. Ironically, the military as a whole may have emerged with its image of defender of constitutional order enhanced.

Initially it appeared that the government’s success in putting down the revolt might be just the boost Allende needed to manipulate the military back into the cabinet, strengthen his hand vis-à-vis the Socialists and Communists, and deal decisively with the opposition.

The military, however, refused to budge from its insistence that it will return to the cabinet only if given the power to make policy changes. Allende was forced to name a new cabinet made up of civilians. The Socialists, Communists, and extreme leftist groups began pressing Allende to take over the factories their workers occupied on the day of the abortive revolt. In addition, they started to distribute weapons to their followers in preparation for what they apparently see as inevitable conflict with the military and the opposition parties. The

illegal arms issue in turn has rallied the opposition back to the attack, with some rightwing groups hoping that nationwide strikes and terrorist action will provoke the military into taking over the government.

This trend of events has left the armed forces more troubled than ever. The military have been concerned over the regime's manifest intent to impose Marxist teachings in the schools, the existence of paramilitary forces, and the occupation of factories. They are particularly disturbed over the stepped-up arming of the government's civilian supporters and by attempts to subvert military discipline. Serious coup plotting, dating from well before the maverick attempt of 29 June, continues among certain officers in the three services. The plotters' main problem—still unsolved—has been to ensure the cooperation of key army units in Santiago. The feeling that something must be done to relieve the nation's problems seems to be spreading, especially in the navy and air force where ranking officers reportedly are under intense pressure from their juniors to act.

While there is increasingly open coup talk in navy and air force circles, there is also recognition of the need for army support. Army Commander Prats remains the prime obstacle. He is so strongly opposed to a coup that he reportedly has told troops to disobey their commanders if they are ordered to participate in any move against the government. None of the plotters appears to have a viable scheme for getting around Prats, but the present level of tension is such that another desperation move, possibly directed against Prats as well as the government, is a continuing possibility.

#### *A Look Ahead*

The course of events over the next few months may take a new turn, or—in typically Chilean fashion—the crisis may simply continue. A protracted period of political unrest is a distinct possibility; even deterioration into civil war cannot be ruled out. Some break in the crisis seems more likely, however. This could come in several ways, ranging from a political "solution" relieving tensions but solving nothing, to a military takeover bringing fundamental changes.

In the following paragraphs we discuss *what might happen in the event that the military does decide to move against the Allende government*.

Military intervention could come in a number of forms that would produce varying results.

*Military Rule With Allende.* A first possibility is that Allende would remain as President but the military would fill all cabinet and important sub-cabinet positions. Such a move could take place with or without the leadership of General Prats, and the military would maintain that no coup had taken place. Many UP supporters would lose their

government jobs, however, and Allende would become little more than a figurehead.

The Christian Democrats would support an arrangement of this kind because it would maintain a facade of constitutionality and would seem to guarantee that presidential elections, which the party is confident of winning, would be held as scheduled in 1976.

The National Party probably would support the arrangement, or at least not oppose it.

The Popular Unity parties would be infuriated, but they probably would defer action until it was clear what kind of policies the military planned to follow. It is more likely than not, however, that eventually the Socialists and Communists would turn to violent opposition.

Leftist extremist groups such as the Movement of the Revolutionary Left would militantly oppose such an arrangement from the beginning.

*Complete Military Takeover.* A second form of intervention—an outright military coup that ousted Allende—would risk immediate violence on the part of Popular Unity supporters in the defense of socialism and Allende. Even though not all government policies are avidly backed by supporters of the regime, Allende retains great personal popularity. More than this, a coup against Allende would be seen by the UP parties as the effective end of their role in the government.

The militant members of the Communist, Socialist, and Movement of the Revolutionary Left (MIR) street brigades and at least some of the recently armed workers probably would be willing to take on the armed forces despite the military's superior firepower.

The outcome of such a confrontation is uncertain—neither side is prepared for a prolonged struggle. Assuming that the armed forces prevailed, there would still be strikes, demonstrations, and other forms of protest. Repressive measures would be necessary.

The Christian Democrats would support an all-military government only so long as elections were guaranteed. If the military showed signs of wanting to stay in power beyond 1976, Christian Democratic support would evaporate.

The conservative National Party's support for an all-military government would be less conditional.

*Coup by Lower-Level Officers.* A third possibility, holding the least promise of long-range success, would be a coup in which middle ranking officers acted independently of the military hierarchy. Such a move would encounter all the reactions noted above and would create divisions within the military.

The possible forms of military intervention discussed above have similar implications for the US.



*Consequences of a Military Coup*

*Favorable for the US.* An outright military takeover would have some benefits for the US. The first elected Marxist government in the Western Hemisphere would have ended in failure, and *the successor government, while nationalistic, would be favorably disposed toward the US.*

The demise of the Allende government would be a psychological setback to the cause of doctrinaire socialism in the hemisphere, even though the regime has not had the wide influence on other countries that many anticipated. *A new government would almost certainly eliminate the subversive activities—limited as they are—being carried out against certain neighbors, and the free-wheeling operations of the Cuban embassy would be curtailed, if not stopped completely.*

*The military probably would try to find some face-saving device for settling the copper expropriation/compensation dispute with the US.* It would, of course, be a largely symbolic settlement, intended to produce a political reconciliation, because Chile would still lack funds for any meaningful payment. All potential leaders of a move against Allende realize that, without prompt and large-scale support from the US, the new government could not survive.

*The government probably would open the doors to private foreign investment, under specified conditions and perhaps only in “non-strategic” sectors of the economy.* The government would not depart drastically, however, from the nationalist policies of its predecessors.

A military government probably would seek the assistance of the most highly qualified and least partisan civilian technicians available. It probably would ask former president Frei and other opposition leaders to recommend qualified individuals who have not been political activists.

After some, perhaps considerable, bloodletting, *Chile could eventually achieve a greater measure of political and social stability* than has been the case under Allende. This would depend on how skillfully the military handled the situation, and how successful they were in gaining popular support for their efforts to damp down political agitation and relieve economic distress.

*Unfavorable Consequences.* A number of consequences of a military coup would be less favorable for the US and for the internal stability of Chile.

*The overthrow of the Popular Unity government by the military would not bring about a complete reversal of policies initiated by Allende.* Indeed, a military government could even be instrumental in strengthening rather than reversing some socialist programs.

Socialism in Chile is based on widely held political beliefs and supported by a large part of the electorate. Many Christian Democratic

programs are socialist in nature. The majority of military officers probably want to continue programs that are welfare-oriented and designed to distribute the nation's wealth more evenly. While the military does not favor the wholesale elimination of small- and medium-sized private industries, it has little quarrel with government takeover of basic industries.

Other actions of the Allende government simply are irreversible at this point. The most obvious of these is the expropriation of the US copper interests, which was approved by practically all political sectors and is regarded as an expression of national sovereignty. Another is the illegal takeover of farms, either by peasants or government agencies. The military knows that further seizures and expropriations must be stopped if farm production is to be increased, but a concerted attempt to remove those already occupying lands would be unlikely.

*A new government would not find it easy to maintain public order and bring about economic recovery,* its essential tasks. The armed action that would be needed to deal with recalcitrant supporters of the previous regime might have to be prolonged indefinitely, and it could escalate into a wide-ranging civil war. This danger would be enhanced under a new government headed by lower-level officers.

Under these repressive circumstances, necessary support, especially financial, from various foreign sources would be severely curtailed. In addition, *the US would be expected to undertake a massive economic aid program* to rescue Chile.

*A military government would lack effective leadership* even with the support of the most qualified technicians. Chilean military leaders are capable in their own fields but are not as politically minded as their Brazilian or even Peruvian counterparts. The difficulty they have experienced in formulating a coordinated plan to overthrow Allende provides a preview of the difficulties they might experience in ruling the country.

*A military regime could not count on the continued support of groups that oppose the present government* under all circumstances. Such support, however, would be essential in restoring stability. The Christian Democratic and National parties would not be likely to back the military if it appeared that their own interests were to suffer. Political support might well be conditioned on a military promise to adhere to a strict timetable for calling new elections, a promise the military might be unwilling to make. Some of these misgivings would be reduced if Allende remained as a constitutional president with greatly reduced powers in a military-dominated government of national reconciliation.

# 140. Contingency Paper Prepared for the Interagency Ad Hoc Working Group on Chile<sup>1</sup>

Washington, August 24, 1973.

## CONTINGENCY PAPER FOR CHILE AD HOC WORKING GROUP

### Possible Chilean Military Intervention

#### *Introduction:*

Since it took office in November 1970, the Allende Government has undergone a series of escalating crises which have divided the country into increasingly hostile camps of pro- and anti-Allende forces. The nation's political life is characterized by inflamed rhetoric, ever increasing civil violence and unchecked economic deterioration. The October 1972 middle-class strike which was triggered by truckers and paralyzed the nation for over a month is now being repeated by another truckers strike with widespread support from middle-class labor guilds, shop keepers and professional men.

The nation's armed forces, traditionally remaining outside the political arena, have been increasingly drawn to the center of the political struggle. Although their constitutional persuasions are deeply rooted, the Chilean military are under extreme pressure by the contending political forces to either support the government in all its actions or to intervene against it in one form or another. Plotting by disaffected officers and rumors of impending coups are commonplace. Less common, but no less symptomatic of the tensions within the armed forces were the abortive attack of June 29 against the Presidential palace by elements of a disaffected tank regiment and the more recent confused efforts by some Chilean air force officers to openly defy President Allende's successful removal of the Air Force CINC, General Ruiz.

Allende is himself in part responsible for pulling the armed forces closer to the political arena by seeking on two occasions, in November 1972 and in August 1973, to strengthen the government through the inclusion of high-ranking military officers in his cabinet. This maneuver

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<sup>1</sup> Summary: This paper, titled "Possible Chilean Military Intervention," examined the political polarization and economic deterioration of Chile since the election of Allende in November 1970. It outlined contingency plans designed to force Allende to scale down or alter the implementation of his more radical programs and presented possible scenarios for more aggressive Chilean military involvement.

Source: National Archives, RG 59, Central Files 1970–73, POL 15 CHILE. Secret; Nodis. Drafted by Karkashian; cleared by Kubisch, Shlaudeman, Williams, Harrison, Gantz, Benedick, and Palastra. It was transmitted under a September 8 covering memorandum from Pickering to Scowcroft.

succeeded in its purpose in 1972 but obviously failed in the current situation. The resignation on August 23 of Army CINC and Defense Minister General Prats removes from the armed forces the most effective opponent to coup-minded military plotters. Having lost the confidence of most of the senior officers under his command and other ranks for his apparent determination to defend the Allende regime, Prats had no alternative but to resign when requested to do so by a majority of his generals. This development in the odyssey of the Chilean military would appear at this writing to ease the way for intervention-minded officers in the Army to cooperate more actively with their coup-prone colleagues in the Navy and Air Force.

This paper is limited to a review of only those more likely contingency situations involving a change in government or a major change in the present government's policies and which could require an overall review of U.S. policy toward Chile. The Ad Hoc Working Group recognizes that such a chain of events may be set into motion by deteriorating conditions or the actions of other power groups rather than by the military itself. However, no such change could be effected without active military support.

Possible military intervention could: (A) force Allende and the UP to moderate their policies; (B) oust Allende for constitutional "violations" and hold new elections; (C) carry out an outright coup without reference to early elections; or (D) attempt to oust the Allende Government but founder on divisions within its own ranks. These contingencies are separately reviewed below.

*Contingencies:*

*A. Force Allende and the UP to Moderate Their Policies*

Acting in unison, the Chilean military, including the Carabineros (National Police), could seek a compromise solution to the escalating confrontations between government and opposition forces by forcing Allende to moderate his policies specifically with respect to the economic survival of opposition media outlets, further government encroachments on the private sector, and the disarming of civilian partisans of the Government. The explicit or implied threat of more drastic military action might induce Allende to accede (possible leftist reaction is discussed below). An adjustment of economic policies to reduce consumer frustrations might also be contemplated.

This option for the Chilean military would have the attraction of staying within constitutional bounds. It could incorporate several variations. The most likely would be military insistence upon a determining voice in national policy, unlike the experience between November 1972 and March 1973 when military authority in ministries headed by armed forces designees often proved transitory or superfi-

cial. The military might eventually demand more strategic Ministries than they head now, as well as military staffing of key sub-cabinet and secondary posts. Another possible demand would be that the opposition parties be invited to participate in a Government of national reconciliation. This is a more remote possibility, if only because the opposition would hesitate to share the burden of resolving Chile's critical economic problems. It is more likely that military pressure would be exerted to give the cabinet a more technical cast than it has now.

This contingency would leave Allende in office and would not resolve our bilateral problems. The military might well press initially for a resolution of U.S.-Chilean differences out of a desire to resuscitate the Chilean economy but would soon find itself up against political constraints arguing against concessions of substance to the United States.

#### *B. Oust Allende for Constitutional "Violations" and Hold New Elections*

If the temper of popular discontent becomes sufficiently intense, coupled with some excess by Allende, a united military could force his withdrawal from the presidency and invoke the legal provisions for holding new elections. Although Allende can be expected to exercise great care in this regard, the military could cite some constitutional "violation" to justify its actions, or could find subtler means to carry out its intent. While Allende is unlikely to volunteer his withdrawal and would strongly resist any public charges of unconstitutional action, it is remotely conceivable that he might prefer a gracious exit on the pretext of ailing health to an unceremonious ouster.

While contingencies B and C both involve military interventions, the key element in contingency B is the military's declared intention promptly to restore constitutional government. It would serve to demonstrate that the military did not act out of selfish motives to usurp power. Possible elements of this contingency might be the designation of a military officer as Interior Minister who would then succeed Allende as Acting President during the interval (a total of 70 days) before elections are held. Cabinet changes to install noncontroversial or technically qualified persons in key positions in the interim also might be incorporated. This contingency assumes the Chilean military have no real desire to emulate their Peruvian counterparts.

A military government of this sort, because of its caretaker nature, probably would not be in a position to alter materially the course of our bilateral problems.

#### *C. Outright Coup Without Reference to Early Elections*

There is no indication of any widespread sense of "mission" among the Chilean military to take over and run the country. However, in a chaotic situation, it is conceivable that the influence of some mili-

tary men might cause an intervention in the form of an outright coup, holding power until the next scheduled Presidential elections in 1976, or for an indefinite period with little pretense of holding elections or returning to constitutional norms within a predictable time frame.

Depending on the circumstances, some private sector and political groups probably would welcome military rule, for a time at least, while the most difficult problems of economic adjustment and possible extreme leftist terrorism are being faced rather than assume that responsibility directly. However, as the period of military rule were extended, the normal reaction of the political parties, and particularly the PDC, to return the country to constitutional government would be manifested.

The general lack of preparedness of the Chilean military to run a government, particularly one enmeshed in critical economic difficulties, would also argue against this contingency. Furthermore, the Chilean military are all too well aware of the political pitfalls which they would face. However, an abnormal electoral climate accompanying political turmoil might induce the military to think in longer-range terms.

#### *D. Divided Military*

The divisions within and between Chilean military services, the absence to date of a charismatic military figure who could unite all the Armed Forces and the possible effective infiltration of the military by the UP could lead to a situation where some elements of the military might seek to carry out one of the above contingencies and encounter significant resistance from within the Armed Forces. This contingency would tend to escalate rather than lessen the level of public disorder and violence. This would be particularly true if the UP parties engaged in the same type of demonstrations and strike action now being employed by the government's opponents. The resulting uncertain situation with rival military factions supported by civilian elements could degenerate into a chaotic situation and possibly civil war.

We consider a full-blown civil war improbable, but military divisiveness or partial indecision could increase the chances of sustained civil violence cum insurgency. This contingency could appear in a variety of forms ranging from the revolt of a single unit, as in the ill-conceived June 29 rising where plotters in one unit acted without coordinating with any one else, to a revolt led by junior officers in one or more services, without the blessing of superiors. Coordination among the three services and the Carabineros on what to do about the course of events under Allende has been imperfect, but the likelihood of an entire service acting without the knowledge and at least the tacit approval of the others is very low. Sentiment in the army is more divided than in the other services. Individual unit commanders of an action bent could

take their men into the streets and attempt to trigger a chain reaction leading to Allende's ouster. This could crystallize divisions within the military, especially if loyal units fire on insurgents as in the June 29 rebellion. A further complication is the possibility of insubordination and armed resistance within the ranks in the event of a coup attempt. We doubt this would occur on any massive scale, but the recent discovery of a MIR-inspired penetration of the fleet has disquieted Chilean military leaders. The departure of General Prats from the Army probably reduces the chances for a divided army and a divided armed forces in a given emergency situation.

*Sub-contingency Applicable to all Above Contingencies in Varying Degrees:*

Immediate leftist reaction to any indication of the impending likelihood of one of the above contingencies could take the form of a non-violent show of strength through strike action, the occupation of factories, and street demonstrations. These are tactics favored by the Communists, Radicals and some Socialists and could be used to try to overawe the military and the country in general with working class support. Such passive resistance or peaceful show of strength probably would not deter or reverse the actions of a determined and unified military bent on carrying out the above contingencies. Failing its objective, the UP parties or elements thereof could turn to armed resistance.

In general, the possibility of armed leftist resistance would tend to increase from contingency A to D. The likelihood of a violent reaction from the smaller, more extremist MIR group and others including the VOP and hardline Socialist Party youth elements exists under any of the contingency situations described above. The MIR already receives assistance from Cuba and has close ties to the Uruguayan Tupamaros and other terrorist organizations. Its long threatened resort to armed struggle as the "only true road to revolution" probably would be carried out whenever it became clear that Allende's "peaceful path to Socialism" had failed. We believe, however, that a united military could control violent resistance or terrorist acts carried out by the relatively small extreme left.

The problem of maintaining public order would be exacerbated if the military were disunited and the larger U.P. political parties opted for armed opposition. This possibility would be more likely under contingency D than under contingencies A through C. Unless they sensed a successful outcome, the Communists and Radicals in particular probably would be inclined to avoid large-scale violence if possible and await another opportunity to gain power. The Communists, for example, could take comfort in the revolutionary gains already made by the Allende regime, much of which is not likely to be undone by a successor government.

In addition to the extreme left, both the Socialist and Communist Party shock brigades and security units possess arms and have some capability to protect party headquarters and key installations. These, however, do not yet encompass large numbers of party militants. UP sources including Allende have frequently asserted that any coup attempt would be countered by thousands of armed workers who would seize factories and other vital installations to defend the Allende Government by force of arms. While much of this can be regarded as tactical rhetoric, the Chilean military are not disposed to dismiss lightly the possibility of having an armed showdown in the streets with thousands of UP militants. In fact, since the June 29 episode, the UP parties have been making an effort to distribute arms to their partisans in the industrial belts surrounding Santiago. Decisive and united military action could forestall serious confrontations, while any evidence of military indecision or disunity would tend to increase its chances of occurring. In general, a milder form of military intervention, particularly one which incorporated Allende's continuance in office or the military's adherence at least to a semblance of constitutional norms, would tend to mitigate an armed leftist reaction except for those who are already violence prone.

*General Factors Affecting US Decisions:*

We expect that any new government resulting from a military intervention would quickly present us with urgent requests for substantial military and economic assistance, based on a badly deteriorated economy and a need to control disorders (of whatever magnitude). We also assume that, to the extent any new government will represent a turn toward moderation, we would wish to respond affirmatively to its needs. Our basic problem would be how to respond positively given our policy and legal constraints and given the magnitude of Chile's economic problems and financial limitations. We assume, given the nature and magnitude of our bilateral compensation and debt differences, that these constraints would continue for a time at least.

Our approach could be to separate out the emergency minimum essential military and economic assistance which could be provided without reference to our bilateral problems. Examples would be riot equipment and relatively small food transfers. The more substantial elements of economic assistance could depend on the kind of policy the new government would adopt with respect to the outstanding issues of compensation for expropriated American properties and debt rescheduling. However, provision of emergency assistance to a successor government would render us more vulnerable to the inevitable charges of political involvement in Chilean internal affairs.

Within the variations included in the range of contingencies, a key factor to any US decision would be whether any new government was



essentially a caretaker pending new elections, or whether it intended to remain in power indefinitely. Only in the latter case could the new government be expected to take significant decisions and actions on pending US-Chilean issues. In the case of a caretaker government, such issues would probably have to remain pending until the legally constituted successor government took office. The following factors would have to be weighed:

*A. Outlook for the new Government's Ability to Govern*

In any of the contingencies listed above, it could be difficult to reach a firm conclusion on this factor, at least at the outset of any new government. Elements to consider would include the new government's effective control of the national territory (taking into account the nature and extent of any subversive threat) and popular reaction to its initiatives.

*B. Likely Nature of its Domestic Political and Economic Programs*

This factor is related to the preceding one and could signal what positions the new government might take regarding relations with the US. Additionally, the new government's declarations on policy would have a direct bearing on its general image and thus could significantly affect reaction to it outside of Chile, including in the US Congress.

*C. Its General Foreign Policy*

Elements of particular importance in assessing this factor would be the new government's links to Cuba, the USSR and other socialist countries, the extent to which it uses international forums against U.S. positions, and its willingness to honor Chile's international obligations.

*D. Likely Attitudes on Bilateral Issues with the US*

The most important pending bilateral issues are Chile's failure to pay adequate compensation for expropriated US investments, particularly that of the copper companies and ITT; the GOC's unilateral moratorium on payment of contracted debt; and the debt rescheduling begun in the Paris Club.

The Ad Hoc Group believes that regardless of its desires, any successor government to Allende would find it extremely difficult to reverse or openly back away from the public positions already taken by the Allende Government on these issues. For obvious reasons, any new government can be expected to stress its nationalism and firm adherence to Chile's sovereign right to dispose of its natural resources in accordance with its own laws. Thus, it would have to scrupulously avoid any appearance of "selling out"—or already having sold out—to "imperialist pressure". This does not mean, however, that it could not co-

operate in seeking mutually acceptable solutions to our bilateral problems.

*E. Likely Effect of US Posture on Chilean Attitudes*

Similarly, the Ad Hoc Group believes that an overt indication by the U.S. Government that it welcomed the change of government would reduce the ability of a new government to reach an accommodation with us.

*Categories of Decisions to Make*

*A. Recognition*

The Ad Hoc Group believes that in the event of a new government, once that government has been firmly established, the US should confirm the maintenance of relations seeking to be among neither the first nor the last countries to extend recognition. The question of recognition does not arise, of course, if there is no formal change of government. We would want to consult with key Latin American governments about the developing situation.

*B. Setting the Tone of Relations*

Aside from the essentially mechanical question of recognition and the less tractable bilateral issues, the US will be under great pressure to specify its stance with regard to the new government in Chile. The Ad Hoc Group recommends that our posture be a restrained and dispassionate one in which we emphasize the strictly internal nature of, and entirely Chilean responsibility for, developments in that country. We would note that our future policies will depend on how our interests are affected. We would scrupulously avoid any comment on how the change in government might affect those interests.

*C. Bilateral Assistance*

*1. Military*

It is likely that any form of military intervention would result in a request to the US for bilateral military assistance, particularly for riot control equipment, tear gas supplies and possibly medical support and Mobile Training Teams. In fact, an interest in purchasing riot control equipment under FMS credits already has been communicated to us on an official basis. It might be useful to process this request before any change in government occurs, if the Chileans are willing to utilize unused past FMS credits or pay cash.

In an emergency situation, sufficient riot control equipment and military airlift capability are available in the Canal Zone to respond to anticipated initial requests for such assistance. The Chilean Government might possibly request assistance which would be highly visible

in Chile and involve a public identification between the US and the new government. An example would be for internal helicopter or aircraft transportation service. In response to such a request we could first seek to encourage support from other Latin American countries considered capable of performing these services, particularly Brazil, before deciding on whether US involvement is warranted.

Longer term military grant and FMS assistance requests can also be expected, particularly for such items as spare parts, transport and communications equipment, and possibly for COIN aircraft. Requests for equipment and training also can be expected from the Carabineros; these could be met through AID Public Safety programs or US military channels.

Chile is not currently a grant military matériel recipient, but could be so designated under the pertinent provision of the Foreign Assistance Act. The established, functioning foreign military sales and grant military training programs with Chile could be augmented to meet the need. Sections 620(e) (the Hickenlooper Amendment) and Sections 502, 620(q) and 653 of the Foreign Assistance Act would also have to be taken into account.

## 2. *Economic*

If a clear-cut emergency situation existed in Chile which warranted the provision of humanitarian disaster relief assistance, the U.S. would be able to respond almost immediately to an official request. For example, if an outbreak of fighting in Chile left large numbers of people homeless, we could supply tents, blankets and other emergency equipment from A.I.D. Disaster Relief stockpiles, provided that the Ambassador declared a disaster and AID/Washington approved the shipments. About \$200,000 of emergency equipment is kept in Panama for this purpose at all times. The equipment could be transported by U.S. military aircraft. Probable arrival time in Chile would be less than 24 hours after an official request were received. The Ambassador would also have authority to spend \$25,000 for disaster relief purposes as he saw fit. All cases involving Disaster Relief assistance must be reported to the U.S. Congress. Therefore, we would have to be prepared to justify the assistance in terms of the existing hardships for Chilean citizens.

If there were an immediate need for food assistance, the food already in Chile for our ongoing PL-480 Title II program could be used for emergency feeding. A report to the Congress is not required for this type of assistance but the basis for providing the assistance again would have to be in terms of existing rather than potential hardships. The U.S. Voluntary Agencies operating the Title II program in Chile would have to agree to the emergency feeding. They might possibly be reluctant to agree if, because of worldwide food shortages, the A.I.D./

Washington Food for Peace Office were unable to guarantee the replacement of the food used for the emergency.

Any new government in Chile would be faced with the need for massive balance of payments assistance. The IMF recently estimated that the 1973 balance of payments deficit will amount to \$338 million even if Chile obtains the maximum \$290 million in relief through debt payment deferments which it has requested. The problem, in any event, would be so large and complicated that no one agency could handle it, and it would be indispensable that there be close coordination among the IMF, IDB, IBRD, Paris Club and the U.S. Government.

The capacity of the U.S. Government to respond to a request for balance of payments assistance has declined considerably in recent years. The principal means in the past has been through A.I.D. program lending; however, there are many existing high-priority claims on very limited funds. The same is true for supporting assistance funds which are employed to meet major political requirements (e.g., Southeast Asia). Regular development lending, either in the form of sector or project loans, also faces serious funding constraints; moreover, the balance of payments impact of this kind of lending is likely to be small during the first year or two.

Aside from these funding limitations we would also have to take into account various legislated restrictions in considering assistance to Chile. These restrictions include requirements for prior Congressional notification, the Hickenlooper amendment, the Gonzalez amendment, and Sections 620(a)(3) and 620(q) of the Foreign Assistance Act.

Besides new A.I.D. assistance, the Chileans could request a reactivation of the \$15 million A.I.D. loan pipeline through extensions of the loan terminal disbursement dates (TDD's), which are currently expired. Technical problems would have to be worked out in several cases, however, before the TDD's could be extended. Also, the immediate balance of payments effect of the extensions would be small since the loans are generally tied to specific projects or sectoral programs.

In sum, there are tight constraints on our ability to mount an A.I.D. program of the dimension likely to be required. Should substantial bilateral assistance prove politically and economically feasible and desirable, we may want to consider a special request to Congress. This kind of approach might also be used to waive the legislative restraints mentioned above.

General balance of payments support could be requested through lines of credit opened by the Export-Import Bank although it has a policy against this type of lending. The GOC's creditworthiness would affect the Bank's response to a request for such assistance. Important factors would be the Bank's already high exposure in Chile and whether the GOC were up-to-date in its repayments to the Bank (ex-

cept, of course, for those included in a bilateral rescheduling agreement). The compensation issue would also be an important factor in the Bank's review of the GOC's credit-worthiness.

Food import needs which are projected at \$450 million in 1973, will be an area of particular concern for any Chilean government during the coming months. One source of long-term U.S. financing for food shipments is Title I of PL-480. Probable terms for sales to Chile would be up to 20 years. It would be very difficult, however, to provide significant amounts of Title I assistance to Chile during FY 1974 due to possible statutory restrictions, the reduction in Title I funding this year, and the severe shortage of foodstuffs available for Title I programs. The commodity in shortest supply is wheat, which is also the commodity for which Chile has the greatest need. To ship Title I wheat to Chile would require a diversion from top priority Asian countries and continued deferrals under already signed agreements with other countries. For most other commodities, the situation is almost as tight. With respect to corn for example, enough is hoped to be available to meet existing commitments but no surplus is expected for new programs. Only with vegetable oil is there expected to be an adequate amount available for new agreements.

The Hickenlooper amendment would be applicable to Title I sales if it were invoked. Additionally, Title I assistance may not be provided to governments making sales to Cuba or permitting ships or aircraft of their registry to carry cargo to or from Cuba. This restriction, which is subject to waiver, may be applicable to Chile.

We have an ongoing PL-480 Title II grant program in Chile which currently amounts to about \$2.5 million. This is down sharply from previous years. Since the Title II program is subject to the same commodity limitations as the Title I program, further cuts during the year are a distinct possibility. An increase in the program would be very difficult even if Chile were given top priority. The Hickenlooper amendment would apply to certain types of Title II programs if it were invoked.

Another possible source of funding for food shipments to Chile would be through the USDA's Commodity Credit Corporation. The CCC-financed commodities do not have to be declared in surplus as they do for PL-480 programs; therefore, the only supply restriction is that an amount be available for export. Because of the uncertainties with respect to this year's supply, however, the CCC currently is not approving new lines of credit and requests from countries such as Poland, the Philippines, and South Korea are being held in abeyance. The CCC is continuing to provide financing under already-approved lines, however, and it expects to be able to approve new lines of credit later in the fiscal year. CCC financing terms are very close to commercial rates.

The repayment period is one to three years and the current interest rate is from 9½ to 10½ per cent, the highest ever. There appear to be no statutory restrictions which would affect CCC sales to Chile.

### *3. Caveat on Bilateral Assistance*

While military and economic aid might be called for to shore up a successor regime more amenable to resolving our bilateral differences, such a decision would not be without unfavorable political consequences. It would lend credence to the inevitable charge that the US masterminded Allende's demise and moved with unseemly haste to identify itself with yet another Latin American military regime. It could tarnish the new regime in the eyes of the Chilean public. These repercussions would be mitigated to the degree that the Chilean military intervention adhered to constitutional norms and by the care with which we determined the timing and nature of our assistance.

### *D. Multilateral Assistance*

Over \$100 million of loan requests from Chile are pending with the IBRD and the IDB. None of these requests has yet been submitted to the respective Executive Boards, although two requests totalling \$8.3 million will probably be submitted to the IBRD board sometime after the next Paris Club meeting in October. Some of the pending proposals might possibly move forward fairly rapidly. However, there are outstanding technical problems in several projects, especially for the larger loans, and all of the loans would be tied to specific projects offering relatively little immediate balance of payments relief. The U.S. would be required to vote against all of the loans under the terms of the Gonzalez Amendment unless there were good faith negotiations or arbitration on compensation. Application of the Gonzalez Amendment would have the effect of vetoing one pending IDB Fund for Special Operations (FSO) loan of \$13 million and have an important, but not decisive, effect on the others. Also, if the Hickenlooper Amendment were invoked, the U.S. would be required to veto the IDB FSO loan.

Possibly the most readily available source of external financing to Chile would be drawings from the IMF, provided that Chile was willing to comply with some fairly restrictive financial conditions. If it agreed to maintain balance of payments equilibrium over a twelve month period and to contain inflation the IMF very likely would authorize a \$43 million first credit tranche drawing. To fulfill such a commitment, the GOC would probably have to cut back sharply on current imports, or obtain additional financing from other sources. A second credit tranche (standby) of \$43 million would also be possible if Chile agreed to further monetary and financial commitments. These IMF drawings could provide needed balance of payments relief relatively

quickly. Neither the Gonzalez nor the Hickenlooper Amendment would apply.

*E. Debt Rescheduling*

As provided for in the multilateral debt rescheduling agreement of April 1972 (Paris Club), we have discussed a bilateral debt rescheduling with the Chileans; an agreement would reschedule 70% of the repayments which fell due within the November 1971–December 1972 period. Since Chile has not been making any payments to the U.S., payment of the 30% due under the bilateral agreement plus other excluded repayments might mean an immediate balance of payments drain for Chile. However, we could agree to more favorable rescheduling terms if we wished.

Multilateral talks in the Paris Club have been underway this year on the rescheduling of Chile's 1973 and possibly, 1974 debt. Significant balance of payments relief could be provided if we agreed to Chile's proposed terms—rescheduling over a ten-year period of 95% of the payments due in 1973 and 1974. The other creditors might not be willing to agree to such liberal terms in the multilateral format, but we could agree to such terms in the subsequent bilateral negotiations. However, it could be embarrassing for the U.S. to reverse the "orthodox" approach we have applied to debt rescheduling for the Allende regime immediately after a successor regime assumes power.

**141. Excerpts From Testimony Before Congress by the Assistant Secretary of State for Inter-American Affairs (Kubisch) and the Deputy Assistant Secretary of State for Inter-American Affairs (Shlaudeman)<sup>1</sup>**

Washington, undated.

EXCERPTS FROM TESTIMONY BEFORE THE CONGRESS  
BY ASSISTANT SECRETARY KUBISCH AND DEPUTY  
ASSISTANT SECRETARY SHLAUDEMAN

Before the Subcommittee on Western Hemisphere Affairs, Committee on Foreign Relations, September 12, 1973

Senator Church: We may not have engineered that overthrow in Brazil, but information that has come to this Committee and been authenticated shows we had lots do with it in the end. The same as now is true with Chile.

Mr. Kubisch: To the best of my knowledge, no sir. (p. 15)

Senator Church: There were two events, one the miners' strike that has been well publicized, which apparently was undertaken to bring down the government or it may have had that as its objective. And the other is the "pots and pans" demonstration that took place earlier, much to the embarrassment of the Government, I think. Were we involved in any way in either of those activities? Were we behind them in any way? Was the CIA involved in them? Did we give financial support to them? (p. 24)

Mr. Kubisch: No.

Before the House Subcommittee on Inter-American Affairs, September 20, 1973

Mr. Kubisch: In sum, it is untrue to say that the United States Government was responsible either directly or indirectly for the overthrow of the Allende Regime. (p. 8)

We were not responsible for the difficulty in which Chile found itself. It is not for us to judge what would have been best or will now be best for the Chilean people. (p. 9)

Mr. Fascell: ... The question is whether or not the U.S. Government directly or indirectly financed in any way the activities of the opposition of the Allende Government. (p. 45)

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<sup>1</sup> Summary: Excerpts from Kubisch's and Shlaudeman's testimony before several Senate and House subcommittees beginning September 12, 1973, until June 12, 1974.

Source: National Archives, RG 59, Lot 80D43, Senate Subcommittee on Western Hemisphere Affairs. Secret.



Mr. Kubisch: Mr. Chairman, here again I think this is something that we should discuss in an executive session. I really don't want to get into any statements today in a public session that could be carried on the press that would give misleading impressions abroad. I certainly don't want to add to that. I just want to reaffirm categorically that we were not involved in any way in the overthrow of President Allende or his government, not the U.S. Government and not any element of the U.S. Government, including the Central Intelligence Agency. (p. 45)

Mr. Fascell: The official answer is that the United States Government knows nothing about it (Operation Centaur) and was not involved in any way? (p. 46)

Mr. Kubisch: That's right.

Before the Executive Session of the Subcommittee on Inter-American Affairs, September 25, 1973

Mr. Kubisch: Mr. Fraser, I will tell you all that I know that I am sure of, and that I feel authorized to speak on. In that connection, I want to exclude my competence to testify on CIA activities in Chile prior to the time I became Assistant Secretary of State on May 29th of this year. (p. 23)

Separate limitations on what I feel qualified or authorized to speak to. Yes; that is correct. In other words, I don't feel qualified nor am I prepared to go back and discuss all the allegations about ITT and CIA going back to early this year, or last year, or alleged CIA involvement in clandestine activities in Chile. (p. 24)

I believe that if the Subcommittee wants to get into that kind of information it should get someone who is better equipped to respond to those questions.

Mr. Fraser: Let me ask you this question, Mr. Secretary: Were there any decisions taken by the National Security Council regarding the position of the United States in giving tacit or covert encouragement or support to opposition groups in Chile let's say during 1973?

Mr. Kubisch: I am thinking carefully about this because it is an important question, Mr. Fraser. (p. 25)

I cannot recall any NSC decisions of that type.

Mr. Fraser: I am not asking if decisions were made during this year; if they were operated during this year.

Mr. Kubisch: I know of none.

Mr. Kubisch: Well, I am familiar with CIA operations in Chile; yes. I believe I am, and I believe I am fully informed at the moment on CIA activities in Chile, both intelligence-gathering, counter-intelligence, and their other activities there.

But, as an official of the Department of State, I do not feel really competent to speak for CIA and its activities in Chile. (p. 26)

Mr. Kubisch: If I may just make a general observation on that, without trying to speak for CIA, Mr. Chairman, and Mr. Fraser, I would say this:

In my judgment—I speak this very honestly and candidly and sincerely—the kinds of things that you have in mind, I believe—I think it would be a mistake to think that the United States did anything that had any kind of significant impact on what has happened in Chile. I do not exclude the possibility that there were some small program or activities that within the United States Government there was sponsorship of, but compared to what the situation was in Chile, compared to what has happened—and taken in the context of what has happened in Chile—I would say they were insignificant or nearly insignificant, what I know of them. (p. 27)

Mr. Kubisch: I am certainly not here to try and obfuscate you or the members of this committee. (p. 28)

Mr. Kubisch: Yes. I thought I made that clear to Mr. Fraser and subsequently to you, but if I did not, my impression is I know everything they do in the large programs, activities, number of personnel, what their programs are, et cetera. Yes. (p. 36)

Mr. Kubisch: . . . our policy in recent months was—as far as Chile was concerned—not to do anything to bring about the overthrow of Allende. (p. 58)

Mr. Kubisch: There were individuals who came to U.S. representatives and said, “Will you help the truckers in their strike, or will you help others who are fomenting work stoppages, others who are trying to bring about problems for the Allende regime and trying to bring about the government’s downfall?” (p. 60)

When those proposals came the CIA headquarters that received them would discuss them to see whether or not there could be any interest at all, and what kind of guidance or instructions they should have. And in those cases the instructions were “Forget it. We want no part of it.”

I can tell you categorically we did not finance the truckers’ strike, or any of the other work stoppages, or anything in those final months and weeks that led to the crises that led to the overthrow of Allende. We simply were not involved. That is the essence of the matter. (p. 61)

Mr. Kubisch: I would never come before this Committee or any authorized legislative body of my Government and tell anything that I did not believe to be true. (p. 63)

Mr. Kubisch: You said I was testifying in detail only with respect to May to September. I am not trying to conceal anything prior to May, and I am talking—and I thought I articulated—what our general policy

was and what our general policy was and what our posture was going back several years. (p. 70)

We are not trying to keep anything from you or this Committee on that earlier period. (p. 70)

Before the Executive and Open Session of the Senate Subcommittee on Refugees and Escapees

Mr. Kubisch: There were other work stoppages that led to a near paralysis in the country, and there were charges that the U.S. Government and CIA were assisting these people. (p. 70)

I deny that categorically.

Mr. Kubisch: As to any ITT involvement in the internal affairs in Chile I am not prepared to testify on that now, but my impression is that a proposal was made and discussions took place between ITT and CIA officials, but that the proposal was never approved by the U.S. Government or put into effect in any way. (p. 71)

Statement by Deputy Assistant Secretary Shlaudeman, June 12, 1974

Mr. Shlaudeman: Despite pressures to the contrary, the United States Government adhered to a policy of nonintervention in Chile's internal affairs during the Allende period. That policy remains in force today. (p. 6)

**142. Memorandum From the Executive Secretary of the  
Department of State (Pickering) to the President's Deputy  
Assistant for National Security Affairs (Scowcroft)<sup>1</sup>**

Washington, September 13, 1973.

SUBJECT

Transition: Fact Sheet on Chile

As requested we attach a memorandum which describes the status of negotiations with Chile on expropriation.

**Thomas R. Pickering**

**Attachment<sup>2</sup>**

Washington, undated.

CHILE

*Status of Negotiations on Expropriation*

Our Embassy has made numerous representations to the GOC concerning American firms nationalized or intervened under the Allende government. Many of these firms have also engaged in direct negotiation with the GOC or its entities.

Since December 1972, we have engaged in formal negotiations aimed at reaching a settlement to the dispute arising out of the 1971 copper nationalizations. Other nationalized American firms have been mentioned only marginally in the course of these conversations. Four bilateral sessions have been held, the latest in Washington August 16–17. We have sought Chilean agreement either to submit the dispute to an expeditious binding third party arbitration or to utilize some other means which would permit the GOC to pay compensation to the copper companies. The constitutional amendment expropriating the companies and the decision of the Special Copper Tribunal refusing to review Allende's determination that the companies owed excess profits exceeding book value are legal obstacles for the Chileans.

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<sup>1</sup> Summary: This memorandum transmitted a Department of State paper that summarized the U.S. Government's efforts to gain compensation for U.S. businesses that lost properties to Chilean expropriation.

Source: National Archives, RG 59, Central Files 1970–73, POL 15 CHILE. Secret. The attachment was drafted by the Chile Task Force and cleared by Kubisch. Blackwill signed the covering memorandum for Pickering above Pickering's typed signature.

<sup>2</sup> Secret.

The GOC has said in effect that it could not pay compensation to the companies without additional legislation and/or constitutional amendment, and has refused to accept binding arbitration on the ground that such acceptance would also require Congressional approval. Chile has asked that the dispute be submitted to non-binding conciliation procedures under a 1914 bilateral treaty, but has been vague about how the results of such procedure would be implemented internally. At the August meeting Chile suggested a procedure by which (a) an international panel would find that the proceedings of the Special Copper Tribunal amounted to a denial of justice, and (b) the Tribunal would reopen excess profits and other key issues, with the Chilean executive committed to pay compensation if such a finding were rendered by the Tribunal. The United States indicated its dissatisfaction with this procedure, but it was agreed that prior to the next meeting we would submit to Chile a list of questions concerning various aspects.

#### *How We Have Dealt With Other Latin American Expropriations*

We have for the most part avoided formal involvement in negotiations. However, our Embassies in Panama, Bolivia, Ecuador and Peru have assisted various U.S. corporations in attempting to reach settlements of expropriations or other takings of those governments. In one instance, Bolivia, several American mining firms were able to reach settlement agreements on nationalizations with the assistance of the Embassy in 1972 after the Torres Government was succeeded by the more moderate Banzer regime. In Peru, President Nixon's Special Representative Jim Greene has undertaken direct negotiations with the Peruvian Government in an effort to resolve a number of outstanding investment disputes there.

#### *U.S. Economic Assistance Under Allende*

##### *Bilateral*

No new A.I.D. loans were authorized; two approved but unsigned loans amounting to \$25 million were de-authorized. Some disbursements were continued under signed loans, but all such loans had expired as of June 31, 1973. The current pipeline is \$15 million.

P.L. 480 Title II assistance, mainly to schoolchildren, continued; it was phased down from about \$6 million in FY 1971 to \$2.5 million in FY 1973.

A.I.D. grant projects were phased out except for two people-to-people activities in training and community development, and narcotics control assistance.

Ex-Im Bank ceased new lending and insurance coverage and suspended all disbursements in December 1971 after Chile announced a moratorium on repayments to the U.S. and other creditors.

*Multilateral*

Two IDB loans amounting to \$11.6 million were approved in January 1971. The U.S. voted for the loans.

No other loans have been presented to the IDB or IBRD Executive Boards. In August, 1973, at the request of the U.S. and other creditor countries, the IBRD agreed to put off consideration of two loan rollovers.

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**143. Memorandum From the Executive Secretary of the  
Department of State (Pickering) to the President's Deputy  
Assistant for National Security Affairs (Scowcroft)<sup>1</sup>**

Washington, September 13, 1973.

SUBJECT

Economic Assistance Needs of the New Government of Chile and Possible Responses

Attached is a paper for the Washington Special Actions Group which outlines the general magnitude of economic needs of the new Chilean Government; examines resources available within the U.S. Government, the international institutions, and other governments to meet Chile's needs; and recommends that we send a team composed of representatives of A.I.D., the Departments of Agriculture and Treasury, and the Export-Import Bank to Santiago as soon as conditions permit to develop programs which will help meet the new Government's immediate needs. It also recommends that we encourage the GOC to make early contact with the international financial institutions, particularly the IMF, and that we be prepared, through special congressional action if necessary, to provide substantial additional resources.

**Thomas R. Pickering**

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<sup>1</sup>Summary: This memorandum transmitted a Department of State paper, titled "Economic Assistance Needs of the New Chilean Government and Possible Responses," that was prepared for the Washington Special Actions Group. It discussed the difficult economic problems Chile faced in light of the socialist programs instituted by the recently overthrown President, Salvador Allende. It then outlined the different types of assistance that could help the new junta stimulate economic growth.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, Vol. VIII. Secret; Exdis.

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Attachment<sup>2</sup>

Washington, undated.

ECONOMIC ASSISTANCE NEEDS OF THE NEW CHILEAN  
GOVERNMENT AND POSSIBLE RESPONSESI. *Nature and Dimensions of Need*A. *The Chilean Economy at the Time of the Coup d'État*

The September 11 coup in Chile occurred at a time of deepening economic crisis and chaos. Inflation, which had reached levels of 22 percent in 1971 and 163 percent in 1972, was pointing toward a 200 percent or greater surge in 1973. During 1971 and 1972, the Allende government lost more than \$600 million; it inherited \$340 million in foreign exchange reserves from the Frei government (and is now in a negative reserve position) and this notwithstanding virtual 100 percent relief (through default) from payments to USG creditors and very substantial relief from payment to other creditors. There have been widespread and increasingly serious shortages of foodstuffs and consumer goods. At the root of these phenomena was an economic policy designed to effect rapid income redistribution, resulting in a spiraling fiscal deficit. The GOC's price, income and exchange rate policies have also contributed to the disequilibrium.

As the economy has gotten further and further out of kilter, circumstances have become increasingly propitious for strikes. Particularly disruptive and costly strikes have occurred in the copper and transportation sectors; the coup occurred on the 47th day of a paralyzing truckers' strike.

Consequently, the new government confronts enormous problems in putting the economy back together and cannot possibly succeed without very substantial external help. It has effectively exhausted its international reserves, yet faces another whopping balance of payments deficit, compounded by extraordinary food import requirements attributable largely to the disruption of the agriculture sector by Allende policies. About the only bright spot is the rapid rise of world copper prices in recent months (from 46 cents per pound at the end of 1972 to about 85 cents currently). However, nationalization of the mines and labor strife have resulted in drastically reduced—and higher cost—production.

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<sup>2</sup> Secret; Exdis.

Particularly urgent is the shortage of foodstuffs, wheat foremost among them. We have one unverified report that 300,000 tons will be needed for the balance of 1973. Complicating the wheat problems may be the inability of Chilean ports to handle the quantities needed.

Also in acute shortage are spare parts, particularly for vehicles. We also have a report that pharmaceuticals are in short supply. Of course, should widespread fighting break out, additional requirements for emergency feeding, shelter, and medical supplies could develop.

### *B. Stages of Economic Effort*

The new government confronts three stages of economic effort. The first is a consolidation stage during which the government must try to create economic conditions which will facilitate a degree of normalization of national life which will, in turn, facilitate its consolidation of power. Priority goals during this stage, which can be expected to last for several months, will be the normalization of public services and the increased availability of foodstuffs and other critical commodities.

The second stage can be called the economic stabilization stage; it will overlap both the first and third stages. The new GOC inherits a bankrupt and contorted economy. Much will depend on the policies it chooses and the external support, both technical and financial, that it receives. The stabilization program is likely to take several months to develop; because of the severity of the disequilibrium, the execution of the program is likely to be both drawn out and difficult.

The stabilization program will have better prospects and be easier to bear if the third, or development, stage moves ahead promptly and effectively. The rehabilitation and expansion of the copper industry can be thought of as one of the keystones of this stage; also of great importance is agricultural rehabilitation and development.

## *II. Available External Resources*

### *A. Assumptions Concerning Future External Assistance to Chile*

Despite the present uncertainties in Chile, for planning purposes we make the assumption that the new Chilean government will urgently seek external assistance, both short- and long-term, in order to consolidate its position and to restore the economy of Chile. We make the further assumption, for planning purposes, that the United States will determine it to be in its national interest to respond positively to such a request. In such a circumstance, however, we believe that, for financial and technical as well as political reasons, the United States effort should be part of a larger effort of various international and other sources of assistance, and that the role of the U.S. should not be the leading one. That function is probably most appropriate for the IMF,



which may well be in the best position to respond rapidly and substantially.

### *B. United States*

In the consolidation stage, the U.S. Government faces serious constraints on its ability to help the new GOC. A.I.D. has two kinds of resources that are relevant: supporting assistance, for which the rationale is the promotion of economic or political stability; and development loans, where a development need is being met. First quarter FY 1974 availabilities of the former under the congressional Continuing Resolution are already committed for on-going needs in Southeast Asia and Pakistan flood relief. Amounts made available in the new Continuing Resolution that will be necessary on October 1 are likely to be required for other high priority needs, principally in Southeast Asia.

Development loan funds under the Continuing Resolution, covering the first quarter, are committed with the exception of \$10 million. Our ability to respond from this account will depend on the duration and size of the Continuing Resolution that will be required on October 1.

The needs for external resources during the consolidation stage may not be all that great, however—particularly by comparison with the stabilization stage—and may be manageable for the U.S. within immediately-available resources, even assuming an important USG role, through either or both of these A.I.D. accounts, PL-480, and Export-Import Bank lines of credit. This assumes that several legislative problems, discussed below, can be overcome.

As was mentioned above, wheat is likely to be a high priority requirement during the consolidation stage, and PL-480 Title I is an appropriate vehicle with which to meet the need. (For the foreseeable future, every effort should be made to assure the most concessional possible financing for Chile, given the enormity of the balance of payments problems facing it.) Unfortunately, the world food shortage has led to unprecedented rigidities in PL-480 programs. There are only two Title I wheat programs planned in FY 1974 for Latin America: 38,500 tons for Bolivia, 1,500 tons for Jamaica. Allocations for other parts of the world have also been most rigorously screened. Consequently, there are unlikely to be any easy choices should a decision be taken to program Title I wheat for Chile; we would require cutbacks in such programs as Southeast Asia, the Sahel, Bangladesh and Pakistan.

Before either A.I.D. supporting or development assistance or PL-480 Title I could be made available, certain legislative restrictions or procedures would have to be considered. The Allende government's uncompensated expropriation of U.S. investments poses one problem. The Hickenlooper Amendment to the Foreign Assistance Act prohibits

assistance to an expropriating government which fails to take “appropriate steps” to discharge its obligations under international law. Hickenlooper has not been invoked in Chile, but there have been no significant new programs since the first Allende expropriations, and significant new assistance could bring Hickenlooper concerns back into play. This might not be an insuperable problem, particularly if the new GOC approaches the disputes in a constructive way or if Hickenlooper is made more flexible in pending legislation.

Assistance under the Foreign Assistance Act is proscribed to countries which fail to take appropriate steps to prevent their flag carriers from engaging in the Cuba trade. PL-480 contains a similar proscription and also proscribes assistance to countries whose governments make matériel assistance available to Cuba. (Both the PL-480 prohibitions under certain circumstances can be waived by a national interest determination.) Presumably the attitude of the new GOC toward Cuba will obviate problems on this score.

There is also a prohibition of assistance to countries in default on Foreign Assistance Act loan payments. Chile is currently one such country. This prohibition can, however, be waived by a national interest determination (which has already been done for technical assistance by the Secretary of State).

The law requires justification to the Congress for supporting assistance programs not included in the Congressional Presentation.

Finally, under an agreement between A.I.D. and the Subcommittee on Foreign Operations of the Senate Appropriations Committee, the Subcommittee Chairman must be notified of proposed loans which have not been presented to Congress.

The foregoing legislative problems do not in any event apply in the case of the Export-Import Bank, which might be an appropriate source for the kind of financing Chile needs, given its economic woes, for spare parts, pharmaceuticals, and perhaps other key commodities the availability of which will contribute to achievement of consolidation objectives. A line of credit arrangement might provide a convenient device. Ex-Im would want to reach some understandings on its future relationships with the GOC, particularly with respect to debts, before establishing such lines.

If a clear-cut emergency situation existed in Chile which warranted the provision of humanitarian disaster relief assistance, the U.S. would be able to respond almost immediately to an official request. For example, if an outbreak of fighting in Chile left large numbers of people homeless, we could supply tents, blankets and other emergency equipment from A.I.D. Disaster Relief stockpiles. All cases involving Disaster Relief assistance must be reported to the U.S. Congress. Similarly, if there were an immediate need for food assistance, the food already in

Chile for our small on-going PL-480 Title II program (which is programmed in FY 1974 at a level of \$2.4 million) could be used for emergency feeding.

We may wish to consider expansion of the Title II program even in the absence of conditions which would qualify for disaster relief. This would be particularly true if there were widespread unemployment and hunger. We would, however, want to do this only in the case of very clear need because of the difficulty of reducing or terminating such programs after the emergency passes and because of the extreme tightness of PL-480 availabilities.

All of the foregoing program tools could play a role during the stabilization and development stages. However, the magnitude of requirements during these stages may be so great, particularly in the light of substantial recent reductions in A.I.D. and PL-480, that it may be necessary to seek special authority for Chile, even assuming that other institutions take leadership roles. As an example, the entire proposed A.I.D. lending level for Latin America in FY 1974 totals \$185 million; actual appropriations are likely to be substantially below this level. Similarly, the total PL-480 Title I wheat allocation in FY 1974 for Latin America is 40,000 tons, an amount which could be dwarfed by Chile's needs. Cost must also be considered: 100,000 tons of wheat would have a value of about \$18,500,000.

### *C. Other Sources*

Particularly in the stabilization and development stages, the IMF, IBRD, and IDB can make major financial and technical contributions to the Chilean economy. The dimensions of needed external resources are likely to be so great that indeed without the involvement of these institutions, as well as other developed countries, major gaps are likely to remain uncovered.

The role of the IMF is critical. Because of its staff work for the Paris Club, it has a better appreciation of the condition of the Chilean economy than any other institution. It has a natural leadership role among external financial institutions in both the design of and financial assistance to stabilization programs. It is possible that Chile could draw \$43 million very rapidly. Moreover, a serious stabilization effort by the GOC could qualify Chile for a standby agreement which could yield it substantially more. The IMF could also be extremely helpful to Chile in its negotiations with its Paris Club creditors. (For comparison purposes, the IMF recently projected a 1973 balance of payments deficit of more than \$300 million, after substantial debt rescheduling.)

While the IBRD would probably be more interested in the development than the stabilization stage (as would the IDB), it should be encouraged to consider program lending, a kind of quick-disbursing

assistance which can have important balance of payments as well as development consequences. Aggressive project lending by the IBRD and IDB (and A.I.D.), while primarily aimed at development objectives, could also contribute to the financing of the gap during the stabilization stage, but probably not before a year has passed.

U.S. votes on IBRD and IDB loans are governed by the Gonzalez Amendment, which requires that good faith negotiations be in progress in expropriation cases to avoid a negative vote by the U.S. Executive Director. The possible applicability of the Gonzalez Amendment will have to be considered carefully in the light of the policies and actions of the new GOC with respect to the expropriation disputes. Our ability to be helpful to the new GOC in terms of our influence in the IBRD and IDB would be clearly enhanced were a Presidential waiver authority added to the amendment.

The GOC will want to work closely with its creditors in Europe, Japan and North America (with the IMF's help) toward new debt re-scheduling arrangements. However, until at least the basic outlines of a stabilization program are established, it may be premature to begin such discussions. It may consequently be desirable to postpone the Paris Club meeting scheduled for next month. Beyond debt rescheduling matters, the GOC will also want to discuss with these countries the possibilities for new credits related to stabilization and development.

Finally, other Latin American countries and especially Brazil may be disposed to help in all these stages. Brazil may be particularly important because of its likely ideological identification with the new GOC and its substantial and growing economic strength.

### III. *Recommendations*

That, upon a request from the new government and a U.S. determination to respond positively:

A. We encourage the GOC to make early contact with the international financial institutions, particularly the IMF which should take the lead in working with the GOC toward the design of a stabilization program which would presumably involve the IFI's, the USG, and other members of the Paris Club, in addition to a drastically different set of GOC economic policies.

B. Immediate efforts be made to develop more complete information on the dimensions of the short-term need, and that we be prepared to send on short notice a team composed of senior A.I.D., USDA, Treasury and Export-Import Bank representatives to work with the Embassy, as well as the GOC and other institutions, to this end and to initiate the action necessary to get such assistance flowing at the earliest possible time. To the extent feasible without prejudicing these primary

objectives, the team would also attempt to develop an appreciation of the possible dimensions of required stabilization assistance and some ideas as to an appropriate U.S. role during the stabilization stage.

C. We be prepared, through special congressional action if necessary, to provide substantial additional resources in support of Chile's stabilization and development programs.

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**144. Memorandum From the Executive Secretary of the  
Department of State (Pickering) to the President's Deputy  
Assistant for National Security Affairs (Scowcroft)<sup>1</sup>**

Washington, September 13, 1973.

SUBJECT

Proposal by Senators Javits and McGee that The President Make a Statement  
About the Situation in Chile

Confirming Mr. Kubisch's telephone conversation early Wednesday evening with General Scowcroft, earlier that afternoon Assistant Secretary for Inter-American Affairs Jack Kubisch was asked to go to the Hill for a private meeting with Senator Gale McGee, Chairman, Latin American Subcommittee of the Senate Foreign Relations Committee. On his arrival, Mr. Kubisch found that there were other Senators in addition to Senator McGee and that Senator McGee wished to have a confidential briefing from Mr. Kubisch in Executive Session concerning the overthrow of President Allende in Chile.

During the session Senator Javits asked Mr. Kubisch to convey to the White House his hope that the President would consider making a public statement about Allende's overthrow. Specifically, Senator Javits suggested that the Presidential statement "deplore the abrupt end of constitutional government" in Chile, affirm his "great interest and concern" about developments there, and his hope for "early elections" that would return Chile to constitutional government and a free and democratic society. Senator McGee supported Senator Javits' suggestion.

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<sup>1</sup> Summary: This memorandum discussed a proposal, made by Senators Javits and McGee, to have President Nixon make a formal statement concerning the recent coup in Chile and deplore the abrupt end to constitutional government in Chile.

Source: National Archives, RG 59, Central Files 1970–73, POL 15 CHILE. Confidential. Drafted by Kubisch.

Mr. Kubisch debated with the Senators the advisability of such a statement given the unclear situation in Chile, the fact that what had happened was entirely an internal Chilean matter, and the need for the USG to consider all of its interests in that country including its relations with whatever new government might emerge.

Following the formal session, Senators Javits and McGee repeated informally their suggestion that such a Presidential statement be made but they also recognized that such a statement might be deemed inadvisable for a variety of reasons. They intimated that there may also have been some other reason for handling the matter the way they did—that is, to head off a more undesirable action by the Committee or some of its members.

**Thomas R. Pickering**

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**145. Memorandum From Director of Central Intelligence Colby to the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, September 16, 1973.

**SUBJECT**

CIA's Covert Action Program in Chile Since 1970

1. This Agency did not conduct covert action operations in support of either of the two democratic candidates who opposed Salvador Allende in the 1970 presidential election. Our role in the election was limited to an effort to denigrate Allende and his Popular Unity (UP) coalition during the campaign. Since Allende's inauguration, U.S. policy has been to maintain maximum covert pressure to prevent the Allende regime's consolidation. Under this policy the 40 Committee has approved since January 1971 financial support totaling \$6,476,166 for Chilean political parties, media, and private sector organizations opposed to the Allende regime. The attachment provides a summary of the amounts approved by the Committee and the purposes for which these funds were used.

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<sup>1</sup> Summary: This memorandum summarized the U.S. covert action program in Chile since 1970.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, Chile, Vol. VIII. Secret; Sensitive; Eyes Only.

2. Funds [*less than 1 line not declassified*] channeled to opposition forces in Chile through our Santiago Station enabled the three opposition political parties—Christian Democratic Party (PDC), National Party (PN) and Democratic Radical Party (PDR)—to improve their internal organizations, acquire new media outlets, and to compete successfully in a number of congressional by-elections. [*3 lines not declassified*] These congressional elections were considered by both the UP and the opposition as a form of plebiscite to determine whether or not the government had a popular mandate to continue the implementation of its revolutionary program. [*4 lines not declassified*] Funds authorized by the 40 Committee were also used to insure the continued existence of *El Mercurio*, Chile's largest and most important newspaper, which acted as an effective rallying-point for opposition forces. Limited support was also made available to private sector organizations, but because some of these groups began to try to provoke a military coup, our funding was confined to specific activities in support of the opposition coalition in the March congressional elections.

3. After the March 1973 elections, it became increasingly apparent that three years of political polarization had strained the fabric of Chilean society to the breaking point. Various U.S. policy options were considered, and on 20 August 1973 the 40 Committee approved an additional \$1,000,000 to support opposition political parties and private sector organizations through June 1974; support to the private sector, however, was made contingent on the concurrence of Ambassador Davis and the Department of State. Since this concurrence was not given, no support was provided to the private sector, whose initiative in launching and maintaining a series of crippling strikes was instrumental in provoking the military coup of 11 September 1973. Thus, while the Agency was instrumental in enabling opposition political parties and media to survive and to maintain their dynamic resistance to the Allende regime, the CIA played no direct role in the events which led to the establishment of the new military government.

W.E. Colby

**Attachment<sup>2</sup>**

Washington, undated.

## SUMMARY OF 40 COMMITTEE APPROVALS

*[chart (1½ pages) not declassified]*

## SUMMARY OF 40 COMMITTEE APPROVALS BY DATE

1. The Chilean opposition political parties and private sector organizations for which funds were approved by the 40 Committee are as follows:

*Political Parties*

Christian Democratic Party (PDC), largest political party in Chile  
National Party (PN), rightist and strongly anti-Communist  
Democratic Radical Party (PDR), a small conservative party  
which split in 1970 from the Radical Party  
Radical Party of the Left (PIR), a more liberal group which split  
from the Radical Party in May 1972

*Private Sector Organizations**[3 paragraphs (4½ lines) not declassified]**El Mercurio*, Chile's largest and most important newspaper

2. The following is a summary, by date, of 40 Committee approvals, including the results of elections for which funds were designated:

<u>Date and Amount</u> <u>Approved</u>	<u>Purpose</u>	<u>Election Results</u>
28 January 1971 \$1,240,000	Support to PDC, PN and PDR for 4 April 1971 mu- nicipal elections [2 lines not declassified]	Opposition: 48.90% Allende's UP Coalition: 49.74%
	PDC [data not declassified]	[dollar amount not declassified]
	PN [data not declassified]	[dollar amount not declassified]
	[data not declassified]	[dollar amount not declassified]

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<sup>2</sup> Secret; Sensitive; Eyes Only.



	PDR [data not declassified]	[dollar amount not declassified]
22 March 1971 [dollar amount not declassified]	[1½ lines not declassified]	Same as above
4 May 1971 [dollar amount not declassified]	[1½ lines not declassified]	
20–26 May 1971 [dollar amount not declassified]	[1½ lines not declassified]	Same as above
6 July 1971 [dollar amount not declassified]	Campaign expenses [3 lines not declassified]	Opposition: 50.14% UP: 48.52%
14 September 1971 \$1,000,000	Support for <i>El Mercurio</i> , which was being subjected to economic pressures by the Allende government	
5 November 1971 [dollar amount not declassified]	Support [less than 1 line not declassified] for one year through October 1972 as follows:  [dollar amount not declassified] [dollar amount not declassified] [dollar amount not declassified] [1½ lines not declassified] [dollar amount not declassified]	
	[3 lines not declassified]	
15 December 1971 \$160,000	Campaign expenses of [4 lines not declassified]	<i>Linares</i> Opposition 58% (PN) UP 40.9%  <i>5th Senate District</i> Opposition 52.7% (PDC) UP 46.4%
12 April 1972 \$965,000	[less than 1 line not declassified] support to <i>El Mercurio</i> , [1 line not declassified]	

24 April 1972 [ <i>dollar amount not declassified</i> ]	Support [2 <i>lines not declassified</i> ]	
16 June 1972 [ <i>dollar amount not declassified</i> ]	To support [4 <i>lines not declassified</i> ]	[ <i>data not declassified</i> ]
21 September 1972 [ <i>dollar amount not declassified</i> ]	[2 <i>lines not declassified</i> ]	
26 October 1972 \$1,427,666	Support to PDC, PN, PDR and PIR to enable them to campaign strongly in 4 March 1973 congressional elections, [3½ <i>lines not declassified</i> ]	
12 February 1973 [ <i>dollar amount not declassified</i> ]	Additional funds required to cover increased costs of congressional campaign. Total funds approved for the campaign were allocated as follows:	
	PDC	[ <i>dollar amount not declassified</i> ]
	PN	[ <i>dollar amount not declassified</i> ]
	PDR	[ <i>dollar amount not declassified</i> ]
	PIR	[ <i>dollar amount not declassified</i> ]
	[ <i>data not declassified</i> ]	[ <i>dollar amount not declassified</i> ]
	[ <i>data not declassified</i> ]	[ <i>dollar amount not declassified</i> ]
	[ <i>data not declassified</i> ]	[ <i>dollar amount not declassified</i> ]

3. On 20 August 1973 the 40 Committee approved \$1,000,000 to support opposition political parties and private sector organizations during FY 1974. No response has yet been received to a message sent to the Santiago Station asking the total amount of funds obligated prior to the military coup of 11 September 1973.

4. The total amount authorized by the 40 Committee approvals listed above is \$6,615,166, which is [*dollar amount not declassified*] more than the total given for funds broken down by recipient. This is because some funds were not needed. [4½ *lines not declassified*]

## 146. Chronology Prepared for the Washington Special Actions Group<sup>1</sup>

Washington, undated.

### WASHINGTON–SANTIAGO EXCHANGES BEARING ON ROLE OF CHILEAN MILITARY IN ALLENDE ELECTION

August 5—Crimmins told Korry over CAS Channels that, as Korry considered the three options transmitted to him over other channels, he should consider the “fourth option”: i.e., the overthrow of Allende or the prevention of his inauguration. Crimmins asked Korry to comment on: the prospect that the Chilean military and police would act on their own to overthrow Allende; their prospects for success if they made such a try; and the importance of the U.S. attitude to the initiation or success of such an operation.

August 11—Korry replied to Crimmins’ 5 August message that he would not regard the fourth option as a very realistic alternative and that it was one that in any event could be considered only as part of “Phase II”; i.e., after the general elections and prior to inauguration. If Allende were inaugurated by constitutional process, it was highly unlikely that there would be conditions for a military overthrow; only a condition of chaos could be an effective impulse for army intervention once congress elected Allende. Any military effort after inauguration would be almost impossible. Korry went on to say that it was doubtful that there would be any effective army move to block Allende. The idea of a military golpe without the blessing of Frei and without outside support in the form of technical assistance or political action was a non-starter. Korry, speculating on the possible scenario of an Alessandri rejection of a narrow popular-vote win and subsequent election with Frei as a candidate (President of the Senate acting as interim President) and Frei election, said that such a progression would work only with military support. Korry added that he could not conceive of any supportable scheme for a U.S. role strictly limited to the military. In Phase II, he said, the U.S. would have an opportunity to play a constructive role in which the military would be included.

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<sup>1</sup> Summary: This chronology, titled “Washington–Santiago Exchanges Bearing on Role of Chilean Military in Allende Election,” listed the key events in 1970 pertaining to the Chilean military’s response to Allende’s 1970 election.

Source: National Archives, Nixon Presidential Materials, NSC Institutional Files (H-Files), Box H-94, WSAG Meeting, Chile, 9/14/73. Secret. Marginalia for September 14 is not declassified. A marginal notation next to the bracketed paragraph for September 16 reads, “See cable in SS—it mentions President—so is probably the one on Kerry’s mind.” All brackets except those noting text not declassified are in the original.

Sept. 8—40 Committee agreed there was little likelihood of success in buying congressional votes. Helms said that a military golpe (which he noted he was not advocating) would have little chance of success unless undertaken soon. Packard agreed and said he hoped that the Chilean military would undertake such action soon on its own initiative. Johnson and Meyer noted that if Allende's election were frustrated by a military take-over, a full scale civil war would result. Allende was probably the lesser of the two evils. The chairman called for an assessment of the pros and cons involved in the organization of a Chilean military coup with U.S. assistance.

Sept. 9—CAS Headquarters, in a message to Santiago, asked for an assessment of the possibility of any action by the Chilean military. In introducing its message, CIA stated that the 40 Committee on 8 September, in considering "the possibility of manipulation of Chilean Congressional and military action, decided to give serious consideration only to the latter possibility." CAS was authorized to make appropriate contacts to obtain information but was instructed not to incite or organize at this point.

Sept. 12—Korry, presumably replying to same (8 September) query, said that it was clear that the Chilean military would not move, barring national chaos and wide spread violence. He said that if the Alessandri/Frei gambit were to be undertaken, the military would have no part to play in it until the final act. Here, he said, Frei was the problem. The success of the enterprise would depend on Frei's will and skill. Korry summed up by saying that opportunities for further significant U.S. action with the Chilean military were non-existent; they knew they had U.S. blessings for any serious move against Allende but, while the message could be repeated if circumstances so dictated, it would be imprudent and unreasonable to go further.

Sept. 14—The 40 Committee, through Johnson, instructed Korry to find out from Frei to what degree he was committed to the gambit of a congressional election of Alessandri with a subsequent Alessandri resignation that would leave Frei free to run for the Presidency. Suitable and discreet U.S. support was to be indicated for this effort if Frei wished it. The Committee further requested military contacts by all appropriate mission members on an intensified basis in order to assure that the USG had the requisite intelligence to permit independent assessment of the military determination to back the Frei reelection gambit. In the course of this message, Korry was reminded of his contingency fund of [*dollar amount not declassified*] that had been made available for covert support of projects that Frei thought important. Korry was told that his role was a very delicate one requiring him to walk a fine line.

Sept. 16—Korry, in the course of his reply, said that the Committee instructions regarding the military would be applied by him in a manner best designed to obtain optimum political mileage and the necessary intelligence on military plans. He said there was little hope that the military could be galvanized into action by anything the USG might do; they were a union of toy soldiers.

[N.B.: In the introduction to this message, Korry said that he was “extremely grateful for the confidence and support of President Nixon and the 40 Committee”. It will be recalled that it was at this time that Korry is reported in the Anderson papers to have said that he had a “green light” from the State Department and the White House. Both Korry’s expression of gratitude in his 16 September reply and his “green light” statement appear disproportionately exuberant when compared to the license extended him in the 15 September message (which makes no mention of the President), or in any other communication to him that we know of. It thus appears possible that another communication to Korry than the ones we have triggered his reaction in this message and the statement he was reported in the Anderson papers to have made.]

Sept. 21—Korry reported that he had asked USCINCSO for support in his intended move to tell the Chilean military that all MAP military training was to be suspended in order to bring about an awakening of the Chilean military.

Sept. 21—USCINCSO recommended against the proposed suspension of MAP training.

Sept. 21—Korry reported over CAS Channels that Minister of Commerce Figueroa had not challenged his observation that General Schneider should be informed that Frei felt that a parliamentary solution was no longer feasible. Korry urged the Minister to persuade Frei to talk with Schneider and put the rest of the military in the picture.

Sept. 21—Korry reported over CAS Channels that Minister of Defense Ossa had agreed with the Ambassador that it was necessary to bring home to the military that inactivity in the face of threatening Allende victory would open a “highly damaging reorientation” in US-Chilean relations. The Ambassador noted that he had told Ossa that oral messages should be sent to General Schneider and other Chilean officers to the effect that all MAP support trips to the U.S. would have to be suspended. Ossa also agreed, according to Korry, to pursue actively the Ambassador’s suggestion that Frei be persuaded either to quit the country or to invite military participation in the cabinet in such a way as to offer Chile an option other than Allende. “If necessary, General Schneider would have to be neutralized, by displacement if necessary”.

Sept. 22—Johnson informed Korry that today “we (apparently the 40 Committee) considered the concept the military take over the government, control the militant leadership of the UP, and offer a general election with Frei as candidate.” Korry was authorized to let Frei know that if such a course—which must be entirely Chilean—was taken, Frei could count on U.S. financial support and that, if Allende were blocked from office, the Chilean military could continue to count on U.S. support and maintenance of its close relationship with the U.S. Korry was requested to keep his profile low and operate strictly within his instructions.

Sept. 23—Meyer, over CAS Channels, said that Washington was unclear as to the relationship of the new Chilean military awareness of the danger of Allende to the scenario which would result in an entrance of military officers into the cabinet.

Sept. 24—Korry reported that Frei had ruled out cabinet resignations with military replacement, on the pretext that this would do nothing more than assure a constitutional election of Allende. He said also that Frei had informed Schneider that the congressional formula was out and that it was the military or nothing and that a Marxist government would probably end U.S. military aid. Korry said that, according to his informant, Schneider had interpreted Frei to mean support for his [Schneider’s] constitutionalist doctrine.

Sept. 24—Johnson told Korry over CAS Channels that Korry’s message was puzzling; Washington had assumed that the offer of financial support to Frei would encourage him to take whatever action was necessary to block Allende and also that the assurances to the Chilean military of continued support if they participated in this effort would also encourage them. Korry was told that he should be clear that the USG hoped the Chileans would find a way to block Allende from taking office. If Korry did not believe that the assurances he had been authorized to give were sufficient, he should let Washington know as soon as possible.

Sept. 24—Korry, apparently [“apparently” because relevance of reply is dubious] replying to Johnson’s 24 September message, said there was no necessity of his giving assurances of any kind to Frei since he had emphasized from the start that whatever Frei did would be Chilean and only Chilean.

Sept. 25—Korry reported over CAS Channels that in his view Frei would welcome the U.S. doing his dirty work for him by seeking to provoke a military takeover but that he, Korry, was convinced that we could not provoke one and should not run any risk simply to have another Bay of Pigs. Hence, he had instructed his military and CAS very strongly to engage in no encouragement of any kind.

Sept. 26—Korry reported over CAS Channels that Ossa had told him that Frei had explained to Schneider the consequence of an Allende victory but had said that he did not ask Schneider to change his constitutionalist doctrine because, even though Frei believed the military could block Allende, he could not ask the military to do what he himself would not do. Korry noted that Ossa had also, in pursuance of Korry's suggestion, met separately with other military leaders to explain that there was no hope of a political solution and the military was the last resort.

Sept. 28—Korry reported hearing indirectly from an Anaconda representative that a group of military persons (below the top level) was prepared to launch a coup if they could get certain assurances from the USG. Korry reported that he had given no answer to this indirect approach other than to remind his interlocutor that Allende's adherents might be attempting to provoke an abortive action that would seal his victory.

Oct. 1—Johnson informed Korry of the 40 Committee decision of 30 September that MAP training and travel should be suspended and that the Chilean military might be so informed.

Oct. 5—Korry suggested that MAP deliveries should be described as "held in abeyance" since the term "suspension" might cause a reaction favorable to Allende.

Oct. 6—In a message to Korry, apparently from Johnson, the Ambassador was notified of the Committee's concurrence to hold Chilean military training and travel in abeyance and of its concurrence in a recommendation that delivery of military equipment to the Chilean Armed Forces should also be held in abeyance and that it should be made known to those forces that the USG would not discriminate against them in the event of a non-Allende Government.

Oct. 7—In another message to Korry, this time from Kissinger and Johnson, the same points were made except that the point about discrimination was made a little more explicit. "You have also previously been authorized to inform the military that if the effort to block Allende from taking office is successful, the Chilean military will not be ostracized, but rather can continue to count on us for MAP support and maintenance of our close relationship". The message went on to say that Korry was now authorized to inform discreetly the Chilean military that, if a successful effort were made to block Allende, the USG would reconsider its cuts in Chilean MAP and would otherwise increase programmed MAP for the Chilean Armed Forces. Increased ship loans were also a possibility. "If any steps the military should take should result in civil disorder, we would also be prepared promptly to deliver support and material that might be immediately required. Obviously we cannot, and we assume Chilean Forces do not want, sup-

port of American personnel in such a contingency". The message concluded by saying that the USG would not want the Chilean military to be deterred by what they might feel was ambiguity with respect to the U.S. attitude toward the election of Allende. It was left to Korrry's discretion on how all this could best and most promptly be communicated to the military.

Oct. 9—In response, Korrry said that he had taken every appropriate measure to make known to the Chilean military the points about MAP suspension and how the Chilean military could count on continued MAP support and a close relationship with the U.S. should a successful effort be made to block Allende. He went on to say, however, that as far as a coup was concerned, he was unalterably persuaded that the U.S. could and should do nothing to encourage such an action. He said as well that any effort to block Allende by offering more MAP would be totally ineffective and might even produce a contrary reaction. He said that his own view and that of his senior State associates was that the odds were overwhelmingly against a successful coup without Frei and/or Schneider. In sum, he said, any attempt on the part of the U.S. activity to encourage a coup could lead the U.S. to a Bay of Pigs failure. An abortive coup (and this, he said, was what was under discussion) would be an unrelieved disaster for the U.S. and for the President that would do the gravest harm to U.S. interests throughout Latin America. There was no basis, he said, for any hope that there was a reasonable chance of success for any action program.

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#### 147. Chronology Prepared for the Washington Special Actions Group<sup>1</sup>

Washington, undated.

##### CHILE: CHRONOLOGY FROM DDC FILES—1970

March 25—Minutes of 40 Committee Meeting. The 40 Committee approved a proposal that [*dollar amount not declassified*] be committed to

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<sup>1</sup> Summary: This chronology, titled "Chile: Chronology From DDC Files—1970," summarized the U.S. covert actions undertaken to prevent Allende from coming to power.

Source: National Archives, Nixon Presidential Materials, NSC Institutional Files (H-Files), Box H-94, WSAG Meeting, Chile, 9/14/73. Secret. Marginalia for the June 18 entry are not declassified. Several handwritten additions have been incorporated in the published text.



the Chilean presidential campaign; the assistance should not go to any specific candidate; rather the covert effort should be confined to spoiling operations undertaken against the UP. It was recognized that recommendations might later be advanced for additional action, possibly including even direct support to one particular candidate.

April 10—[*less than 1 line not declassified*] pressed Meyer very hard on the need for USG to make a large contribution to the Alessandri presidential campaign. He promised to go as high as necessary in the USG to ensure that this was done. [2 *lines not declassified*]

April 29—Santiago 1538 (SECRET/NODIS)—Korry recommends rejection of [*name not declassified*] proposition, stating that Alessandri had enough money, that our assistance would become known and that even if there were an Alessandri victory, the climate in Chile would not be propitious for capitalistic enterprise.

June 18—Korry reported over CAS channels that trends could well culminate in election of Allende. He advised substantial strengthening of the USG covert anti-Allende effort. He asked for approval of: [*dollar amount not declassified*] chiefly to be used in an anti-UP propaganda campaign, for the pre-electoral period; [*dollar amount not declassified*] for the post-electoral period to buy congressional votes. [2 *lines not declassified*] The 40 Committee decided to approve Korry's proposal for [*dollar amount not declassified*] for pre-electoral anti-Allende activities but decided to defer for later consideration the proposal to buy congressional votes. [1½ *lines not declassified*] No positive action was to be taken on the congressional matter without further deliberation by the Committee. Communicated to Korry (7/2/70) with this caveat emphasized.

August 5—Crimmins told Korry through CAS channels that as Korry considered the three options transmitted him in other channel, he should consider the "fourth option"; i.e., the overthrow of Allende or prevention of his inauguration. Korry was asked to comment on the prospect that Chilean military and police would act, their chances of success, and the importance of the US attitude to the initiation or success of such an operation.

August 11—CIA discussed in annex to NSSM 97 the "fourth option" in terms of capability of military to overthrow Allende or prevent his taking office.

August 11—Korry replied to Crimmins that he did not consider the "fourth option" as very realistic. It could only be considered after the elections and prior to the inauguration. If Allende were inaugurated by constitutional process it would be unlikely that there would be a military move. If Allende should win the popular vote by less than 100,000 the army perhaps could assure an opportunity for the congress to block his election. After examining the various possible permutations of the electoral finish, Korry concluded that he could conceive of

no supportable scheme for a US role that was strictly limited to the military. Korry reiterated the importance of influencing the congressional vote after 5 September.

August 17—Exploration of the extreme (“fourth”) option under NSSM 97 by ARA, which recommends against as being very risky regarding our exposure and unlikely of success.

August 21—Korry once more informed over CAS channels he should not go outside of Embassy in considering feasibility of so-called phase 2—the covert actions to be taken after the general elections (buying congressional votes).

August 24—Korry speculated over CAS channels on various actions that might be taken depending on who finished where in the popular vote. Speaking of the possibility that Allende would win this vote, Korry said that in this case he would have to concentrate on the congressional vote. He spoke of pressure on foreign statesmen, copper prices, etc., suggested any USG reaction should be limited to that which does not injure U.S. prestige (money and information).

August 29—CAS Santiago outlined at length steps that might be taken, including a suggestion [*2½ lines not declassified*]. Any US role will be auxiliary.

August 31—ARA and INR/DDC, in a memo to J commenting on a CIA paper to the 40 Committee, recommended intensifying propaganda action in Chile, but against buying congressional votes, on grounds risk is prohibitively high. Mr. Cline noted in an addendum that if there were assurances that the operation would be secure, he would advise authorizing the [*dollar amount not declassified*] that Korry requested for buying congressional votes.

September 4—Mr. Cline, commenting in a note on a memo from Coerr advising against buying congressional votes, reiterated his position that such purchase should be employed if necessary.

September 5—Korry asked through CAS channels how election affects Phase II. Korry responding, expressed pessimism about the possibility of buying congressional votes.

September 8—40 Committee agreed there was little likelihood of success in buying congressional votes. Helms said military coup would have little chance of success. Packard said military leaders would have to move quickly were there to be any chance of a successful coup. Johnson and Meyer said that Allende was probably less of an evil than full scale civil war in Chile. The Chairman asked for an assessment of the pros and cons of US helping to organize a Chilean military coup.

September 8—INR/DDC and ARA recommended against attempting to buy congressional votes and against actions that could be interpreted as inciting the Chilean military to take action.

September 9—CAS Headquarters, in a message to Santiago, asked for an assessment of the possibility of any action by the Chilean military. In introducing its message, CIA stated that the 40 Committee on 8 September, in considering “the possible manipulation of Chilean congressional and military action, decided to give serious consideration only to the latter possibility”. CAS was authorized to make appropriate contacts to obtain information but was instructed that it was not to incite or organize at this point. (NOTE: The military action contemplated was, according to the message, either coup d’état or action along lines of Korry’s “Labor Organization telegram”—which is not available in INR/DDC).

September 9–10—In an exchange of NODIS telegrams with Washington, Korry indicates he is sending telegrams on two levels, one for general consumption; one for more privileged reading. State’s belief that future of Chile lies in hands of Frei, apparently through “Rube Goldberg” Alessandri/Frei ploy. Korry says he “worked on” Frei’s (Alessandri?) statement.

September 11—The Secretary reminded Korry that there had been, in a [*handling restriction not declassified*] telegram [*number not declassified*], a reminder that there was no decision authorizing a program of political action to prevent Allende from being elected. He spoke of the importance of keeping information collection from becoming interpreted as encouragement or support to a course of action that the USG had not in fact adopted.

September 11—Ambassador reported over CAS channels his contacts with PDC dignitaries, who speculated on the effective help that the US might give to prevent an Allende election.

September 12—Korry stated over CAS channels that it was clear that Chilean military would not move to prevent Allende’s accession, barring national chaos and wide spread violence. He noted also that the Alessandri/Frei formula had acquired new life. The military would probably support the gambit if Frei issued the necessary orders. The military would not take significant action on its own, even though it knew that it had US blessings if it did so. He added that he and CAS were maintaining a very low profile.

September 14—ARA, in a comment on a CIA memorandum, recommended to Johnson that Korry should continue to encourage the Frei re-election ploy; that covert activities and propaganda campaigns should be undertaken to encourage Frei but not open diplomatic effort; and that discreet contacts with the Chilean military should be maintained for information purposes only.

September 14—Korry reported over CAS channels that the army attaché had spoken to General Valenzuela, Santiago Garrison Commander, who told of having spoken to President Frei, who had said he

would resign on September 18 so as to permit new elections to be called. Senate President Tomas Pablo, who then would be interim president, would name a military cabinet which would neutralize the communist party and then, after the country was cleaned up, Frei would run for the presidency.

September 12—Crimmins submitted a memo to Johnson that argued against stepping up US support for the Frei/Alessandri election campaign, on grounds revelation U.S. involvement would be worse than Allende victory.

September 14—40 Committee instructed Korry through Secretary Johnson to find out to what degree Frei was committed to the re-election gambit and to tell him that the US would support him in a suitable and discreet way. Korry was reminded of his contingency fund of [*dollar amount not declassified*] for support of projects which Frei thought important and was informed that more could be made available, for this line of action. Korry was told that military contacts by appropriate mission members should be intensified in order to assure that the requisite intelligence was available regarding military determination to back the campaign. Korry was told his role was a delicate one; US would not want to get out in front yet would not wish Chilean will to flag for lack of support.

September 15—Korry reported that [*name not declassified*] had reported through a “trusted intermediary” that Viaux would issue a statement saying that he was a firm anti-marxist at the disposition of his country.

September 16—Korry, through CAS channels, replied to Johnson that he was extremely grateful for the confidence and support of the President and the 40 Committee. He said he was aware of the delicacy of his situation. That through an intermediary, he had now informed Frei that the US was prepared to give appropriate support if Frei would only act. That there was little hope that the military could be galvanized into action; they were toy soldiers. Korry reminded Washington that he had been deprived over the past three years of all means of influencing the military.

September 16—Korry asked that moves be made to keep [*less than 1 line not declassified*] from pressing *El Mercurio*, [*1½ lines not declassified*].

September 17—Meyer affectionately requested Korry to write shorter cables.

September 18—Meyer told Korry over CAS channels that because he understood that Korry had already approached [*name not declassified*] no further action would be taken in Washington. [*1 line not declassified*]

September 19—CIA circulated to 40 Committee principals a 17 September CAS report from Santiago reporting that the Chilean armed forces might shortly stage a coup.

September 20—An NSC memo to the 40 Committee explored the questions that would arise from a Chilean move to prevent Allende from taking office. It said there was a 60 per cent chance that in such case that there would be violence but that there was less than an even chance of long term insurgency. If the coup succeeded, the resulting government would have a very difficult problem in maintaining law and order; if it failed the military would be destroyed; external assistance would probably be necessary.

September 21—Korry told USCINCSO, General Mather, that he proposed to tell the Chilean military that all MAP military training was to be suspended—this in an effort to get the Chilean military to move.

September 21—General Mather recommended against Korry's proposed action.

September 21—Korry reported through CAS channels that Economics Minister Figueroa had not challenged the Ambassador's observation that Frei should let General Schneider know that in their view a favorable parliamentary solution was no longer in the cards.

September 21—Korry reported that Ossa agreed to pursue Korry's suggestion that Frei should be persuaded to either quit the country or to invite military participation in the cabinet and that, if necessary, Schneider would have to be neutralized even if by displacement.

September 22—Over CAS channels, Korry argued that the US ought to suspend MAP training.

September 22—Johnson informed Korry that today "we (apparently the 40 Committee) had considered the concept the military take over the government, control the militant leadership of the UP, and offer a general election with Frei as candidate." Korry was authorized to let Frei know that if such a course—which must be entirely Chilean—was taken, Frei could count on US financial support and that; if Allende were blocked from office, the Chilean military could continue to count on US support and maintenance of its close relationship with the US. Korry was requested to keep his profile low and operate strictly within his instructions.

September 23—Meyer asked Korry over CAS channels how he visualized a military-dominated cabinet; would not Frei still lack votes in congress or was there some other formula that could be "worked out whereby constitutionality" could be maintained?

September 23—State informed Korry over CAS channels that MAP should not be suspended.

September 24—Johnson told Korry over CAS channels that Korry's message was puzzling, that the assurances Korry had been authorized to give (presumably Johnson's 22 September message) would serve the end of persuading the Chileans to block Allende; if Korry did not believe so he was to come in with recommendations soonest.

September 24—CIA, in a memo to the chairman of the 40 Committee, reported that Frei had ruled out a political solution and that he was now working for a breakdown in PDC–UP negotiations in order to impress the military that Allende wanted a Marxist State in Chile and thus trigger it to military intervention.

September 24—Korry reported:

Frei had ruled out cabinet resignations for the time being on the grounds that if the military supported the government they would do nothing more than assure a constitutional process that would elect Allende. Frei had told Schneider that it was the military or nothing. Perez Zujovich had informed his key party workers in the PDC that he was disengaging from their works, on the grounds they had used his name and had sought money from the US Embassy, and that he and Frei were furious over these indiscretions with foreigners.

Frei had told a good source a day before that he had had to abandon the congressional formula because of Tomic's activities.

[*less than 1 line not declassified*] told Korry that only a fast down-turn in the economy could affect the military outlook and provoke it into a move. He suggested: that US banks cease renewing credits to Chile; that US companies should foot drag to the maximum possible on orders, deliveries, credits and so forth; that word should be passed that some of the building and loan associations were near bankruptcy; that a few businesses should close their doors in the next three weeks; that word should be spread that rationing was probable; and that the business down-turn should aim at affecting the provinces as well as Santiago.

September 24—Referring to Santiago NODIS 3872, Korry over CAS channels said that there was no necessity for him to give assurances of any kind to Frei since he, Korry, had emphasized from the start that whatever he did would be Chilean. Embassy profile, Korry said, was at zero level and no risk had been taken. Korry still had his doubts about a coup. Embassy was operating under strictest orders to seek no contacts of any kind. Korry said he would welcome a reversal of the Department's position of diplomatic non-action with our friends, especially the British.

September 24—Korry explained that the DAO cable "Chilean military looking for way out" was based on information given to MAP by the Chilean Air Force Commander. Korry explained that he could not

cut off this kind of reporting even though the reporters in this instance were not aware of what was going on under the surface.

September 25—Korry reported that Frei would welcome the US doing his dirty work for him by seeking to provoke a military coup, but Korry said that he was convinced that we could not provoke one and that we should not run any risk simply to have another Bay of Pigs. He therefore had instructed strongly his military and CAS to engage in no encouragement of any kind. Korry commented that [*name not declassified*] advice (see above) was directed not only to stopping Allende, but also to providing a survivable climate for the opposition should Allende become president. Korry said he saw no risk in pursuing [*name not declassified*] suggestions with US companies in the US, particularly if one totally discreet leader [*name not declassified*] were selected. Korry suggested a number of steps: stop bank credit; give wide distribution to the bleak Zaldivar analysis; have one large company fold up—he suggested Ford or Bank of America; the business community should mention specifics in any propaganda it spread in order to push savings and loan associations over the edge; and persuade Anaconda to accede to union demands. The rest of Korry's message was devoted to procedures that should be followed if Allende became president.

September 25—Korry took back his recommendation that Anaconda accede to union demands, and reported speaking to FNCD manager about credit actions.

September 26—At the conclusion of a long message, Korry noted "the economic lever is the last card" and urged the Department to be more swift and purposeful than it had been up to now. Beyond suggesting economic pressures by working with our European friends and by the use of press leaks about the sort of economic measures Chileans might expect if Allende were elected, Korry did not dwell on specifics.

September 28—Korry reported hearing from Anaconda representative that a group of military persons was prepared to launch a coup if it could get appropriate assurances from the USG. Korry noted that he had given no answer to this approach.

September 30—Johnson told Korry that certain steps had been taken in the economic field; they included deferring an SLC loan on cattle; deferral of an EXIM Bank loan to a steel company; EXIM Bank reclassification of Chile from "C" to "D"; deferral of any new IDB loans; suggestions to the Bank of America that its future would not be bright in Chile; and Meyer conversations with Ford. Johnson said also that Meyer would talk with Geneen about uncertainties in the private sector, that DOD was taking action to suspend MAP sponsored trips and training, that Washington was doing its best on external press coverage, and that VOA treatment, about which Korry had complained on 26 September, would be better balanced.

September 30—40 Committee: Johnson said that Alessandri-Frei gambit was dead, as was a cabinet resignation with military replacing it. Johnson said that provoking the military to act by economic crisis was questionably constitutional. Vaky said what we were talking about was a coup. Packard said action was imperative. It was emphasized that there would be no military action unless economic pressures brought it about. Karamessines named various pressures that could be applied. Johnson said that this sort of economic warfare amounted to a change in foreign policy. Karamessines said this was all we had left and Mitchell asked what was there left to lose. Meyer observed that even if Allende came to power he would not be around forever. Helms said that his experience indicated that if Allende did come in, Chile would have no more elections—we should take Allende's statement at face value. Johnson noted the adverse effect on US interests in the rest of the hemisphere were the US to attempt to use economic pressure to frustrate Chilean constitutional processes.

The Committee agreed that the MAP program should be stopped, [4½ lines not declassified]. Karamessines emphasized Korry's and Frei's belief that economic pressure should be undertaken. Meyer noted that US private and public sectors not always in concert in thoughts or actions.

October 1—Johnson informed Korry of the Committee's decision that MAP training and travel should be suspended and that the Chilean military should be informed.

October 5—Korry suggested that MAP deliveries be "held in abeyance" since the term "suspension" might cause a reaction favorable to Allende.

October 6—McAfee minutes on 40 Committee noted that the Committee was faced with a problem since higher authority would not accept the fact that Allende was likely to be President although Meyer and Korry apparently did. Meyer, according to the minutes, took a less catastrophic view of possibility of Allende's succession than did some others.

October 6—Korry reported over CAS channels that the last paragraph of his 4087 offered the only remaining constitutional hope, and that it was the slimmest. Korry said the economic situation was continuing to bite but that nothing spectacular had happened.

October 6—In a message to Korry, apparently from Johnson, Korry was notified of the Committee's decision to hold MAP training and visits in abeyance. He was requested also to reopen his information-gathering channels with the military.

October 7—Kissinger and Johnson told Korry over CAS channels that highest levels in Washington were much concerned that anti-Allende forces in Chile did not seem to be coalescing around any effec-



tive action to block his election. Korry should reconfirm to the military that if Allende was elected, it would expect no further MAP or other support from the U.S. He was reminded that he had been authorized to tell the military that if the effort to block Allende was successful, the Chilean military would not be ostracized but could rather continue to count on MAP support “and maintenance of our close relationship.” Korry was informed that he was now to inform the Chilean military discreetly that if there were a successful blocking effort, MAP would be renewed and increases made in the presently programmed aid for the armed forces. Increased ship loans also were possible. If military steps should result in civil disorder, the USG would be prepared to deliver promptly support and material that was needed. Support of American personnel was of course not envisaged. The message said that we did not wish the military to be deterred by any feeling of ambiguity with respect to US attitude toward election of Allende.

October 8—Korry reported that he had notified the Minister of Defense of the decision to hold MAP training and travel in abeyance.

October 9—Korry reported that he had taken every appropriate measure to make the points made in the message from Kissinger and Johnson of 7 October known to the military. He said, however, that he was “unalterably persuaded” that the US could and should do nothing to encourage coup action. The odds were, he said, overwhelmingly against a successful coup without the compliance and commitment of Frei and/or Schneider. Any attempt to encourage a coup could lead to a Bay of Pigs failure. He said he had been appalled to learn that there was liaison for coup plotting among Pablo Rodriguez, Viaux, Major Marshall and discredited rightists. Korry said he had not been consulted or informed of what if any role the US may have had in the financing of Rodriguez.

Korry emphasized again that a coup would be a disaster for the USG and the President. It would, he said, be disastrously risky and recommended that the US should disassociate itself promptly from any association with Rodriguez, and that all indirect contacts with Viaux, Marshall, et al should be ended.

October 9—Korry reported that all elements of the Mission believed that Allende was assured of the Presidency and that the problem now was to construct a policy to deal with that fact. Said he told U.S. businessmen at meeting Oct 9 that US prepared maintain pragmatic relations with Allende, and businessmen agreed.

**148. Memorandum From the Executive Secretary of the Department of State (Pickering) to the President's Deputy Assistant for National Security Affairs (Scowcroft)<sup>1</sup>**

Washington, September 14, 1973.

SUBJECT

CHILE: Background and Briefing Papers

Attached are background and briefing papers on Chile assembled in accordance with Dr. Kissinger's instruction to Assistant Secretary Kubisch this morning.

The first paper contains a set of questions on Chile which we think Dr. Kissinger may be asked by the Senate Foreign Relations Committee, together with suggested lines of reply. Other selected papers on Chile, some of which have already been transmitted to the White House in connection with WSAG meetings this week, are also attached for his convenience and possible use.

**Thomas R. Pickering**

**Attachment 1<sup>2</sup>**

Washington, September 14, 1973.

CHILE: Possible Questions and Suggested Replies—  
A Paper For Secretary-Designate Kissinger

1. *QUESTION: What brought down the Government of President Allende in Chile?*

*SUGGESTED REPLY:* In a word, Allende fell because his Government was a failure. On the economic side, his Administration had brought Chile in less than three years from a relatively prosperous and stable position to a point of utter bankruptcy. During 1971 and 1972 the Allende Government lost more than \$600 million. Widespread shortages of foodstuffs and consumer goods had developed.

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<sup>1</sup> Summary: This memorandum transmitted background and briefing papers on Chile for Secretary of State-designate Henry Kissinger in the event he was questioned on the overthrow of Allende at his Senate confirmation hearings.

Source: National Archives, RG 59, Central Files 1970–73, POL 15 CHILE. Confidential; Exdis. Drafted by Kubisch. Seitz signed for Pickering above Pickering's typed signature. Attachments 3 through 7 are attached but not published.

<sup>2</sup> Confidential.

At the time of the coup last Tuesday, the country was paralyzed economically and near social chaos. Truckers were in the 47th day of their strike and public transportation had been brought to a virtual halt. Distribution facilities were not functioning. The middle classes—shopkeepers, doctors, housewives, etc.—were demonstrating against the Government. Even the workers had suffered heavily, as a result of the inflation, under the Allende regime. Misguided monetary, fiscal and economic policies had carried the annual rate of inflation to almost 300%. There had been prolonged and costly strikes by the copper miners.

The country simply could not go on in this fashion. Allende did not fall just for political reasons or because of his political ideology, he fell because his Government and its policies were an absolute failure.

2. *QUESTION: What is the United States Government attitude toward Allende's overthrow?*

*SUGGESTED REPLY:* Frankly, we regret this interruption of Chile's long democratic tradition. We certainly regret very much such a violent end to President Allende's regime and his own death. However, I do not believe that any of us are in a position to make a value judgment about what happened last week in Chile. It is not for us to say whether the people of Chile would have been better served to continue on under the Allende Government or to see his Government overthrown. This had to be—and it was—a Chilean decision by Chileans and, in my view, we must accept it.

My impression is that those who made the decision to overthrow the Allende Government did so reluctantly and could not have found it more painful or difficult. The Chilean armed forces have been among the most competent, respected and democratic-minded of any military services anywhere in the world. In observing what happened in Chile we must keep in mind the terrible ordeal that the Chilean people have suffered in recent months and how hopeless their future looked to them under the Allende Government.

3. *QUESTION: Did the United States Government know about the coup in advance?*

*SUGGESTED REPLY:* Much has already been said on this publicly. The truth is that we did not *KNOW* about the coup in advance. It is important to distinguish between our *KNOWING* about the coup and our receiving reports about the possibility of a coup.

We had been receiving a steady stream of reports from a wide variety of sources in Chile speculating about a possible coup. Indeed, as we all know, an unsuccessful coup was attempted on June 29 and the reports of possible new attempts increased in frequency in recent weeks. We assessed these reports and concluded that there was indeed such a possibility. However, Chile had moved to the brink of a coup a

number of times in the past, and as a result of some last minute decision or compromise by President Allende—or a reshuffling of his Cabinet—had managed to draw back from the brink. Therefore, reports prior to and up to the eve of September 11 were evaluated in that light: there might or might not be a coup at any time. We simply did not know.

I want to make it absolutely clear, however, that there was no official direct contact of any kind with us by the organizers and leaders of the coup, who have subsequently become the Government of Chile. We did not learn of the coup itself until shortly after it began early Tuesday morning, September 11.

4. *QUESTION: Did the United States Government adopt a “hands-off policy” with respect to a possible coup in Chile?*

*SUGGESTED REPLY:* Our policy has been that this was entirely an internal Chilean matter. We were not consulted about the coup but if we had been our position would have been that this was none of our affair.

5. *QUESTION: Why didn’t you notify President Allende that there was going to be a coup?*

*SUGGESTED REPLY:* As I have said, we did not know that there would be a coup. We did know that there was considerable unrest and tension in the country and that the possibility of a coup existed. I am sure that that would have been no news to President Allende who had himself repeatedly spoken out publicly against plotters and called upon the nation to unite behind him and his Government to avoid a coup.

6. *QUESTION: Why didn’t “responsible officials” see these reports in a timely manner?*

*SUGGESTED REPLY:* Responsible officials did see these reports in a timely way. Responsible officials were following developments in Chile very closely. Some misunderstanding has arisen on this point, I believe, because messages of Monday evening, September 10 from our Embassy were transmitted during the night and read by responsible officials in Washington the next morning after the coup had begun at 0620 (Washington and Santiago time are the same). In any case, there was no reason to give Monday evening reports any special credence over other reports that had been received over previous weeks that had turned out to be false.

7. *QUESTION: Was the United States Government, including CIA, the United States Navy and others, involved in the coup in any way?*

*SUGGESTED REPLY:* No, absolutely no.

8. *QUESTION: Were private American companies or private Americans involved in any way?*

*SUGGESTED REPLY:* Obviously, I cannot speak with absolute certainty about all the American companies and the 2,500 or so Americans in Chile. However, I can say categorically that I know of no involvement of any kind by any American in the coup and to the best of my knowledge and belief, there was no such involvement.

9. *QUESTION:* According to several press reports, the United States Government has kept American companies “apprised” of the coup and developments immediately following it. Is that true?

*SUGGESTED REPLY:* We have made no special efforts to contact American companies about the coup and we have certainly not endeavored to “apprise” them of developments in Chile last week. If I am not mistaken, the press reports were based upon a luncheon a State Department official (Assistant Secretary Kubisch) had with the Latin American Subcommittee of the International Economic Policy Association in Washington last Wednesday. Some 25 businessmen were present, representing United States companies with business interests all over Latin America including, in a few cases, Chile. The date for this luncheon meeting had been set a month before and it was held in the context of regular meetings by Government officials with private groups of all kinds in the United States to discuss world affairs. The previous day’s developments in Chile were naturally discussed during the course of the luncheon, but no classified material was discussed and no special significance should be attached to such a get-together.

10. *QUESTION:* Will the President make any public statement deploring the abrupt end of constitutional government in Chile?

*SUGGESTED REPLY:* I do not consider it advisable for the President to make such a statement. Our views on constitutional government are well known and I see no need for the President to make a public statement injecting himself into an internal Chilean matter.

11. *QUESTION:* Do you intend to cooperate with the new Chilean Government?

*SUGGESTED REPLY:* That depends to a large extent upon the new Chilean Government and the policies that Government decides to follow. I hope very much that we will be able to cooperate with it because of the very important interests the United States has in Chile and, together with Chile, in many other matters affecting Latin America and the world.

The reality is that there has been a coup in Chile and that there is a new Government. There has also been a long tradition of warm friendship and close ties between Chile and the United States. I hope these will continue.

I would also hope that the new Government’s policies will be such that we will be able to cooperate on matters of mutual interest and find

ways to deal with a number of common problems. As I indicated earlier, the country is in very bad economic condition. I believe Chile will need substantial assistance from abroad—of many kinds—in order to recuperate and find its way to an economically sound and politically and socially healthy situation. Obviously, it will be well beyond the resources of the United States alone to provide for all of the needs of Chile, but I would hope that it will be possible for us to help in the country's recovery.

12. *QUESTION: What was Ambassador Davis doing in Washington last weekend just before the coup?*

*SUGGESTED REPLY:* As part of my preparation for my new responsibilities, I had asked a number of Ambassadors to come back to the United States during these past few weeks for consultations. Ambassador Davis was one of those asked to come from Latin America. He was permitted to select a time convenient to himself and the date for our meeting was set several weeks ago. He arrived in Washington on Friday morning, September 7 and returned to Chile Saturday afternoon, September 8. Obviously, he would not have wanted to leave his post nor would I have allowed him to come to Washington to see me if we had believed then that a coup was imminent.

13. *QUESTION: Has the United States recognized the new Chilean government?*

*SUGGESTED REPLY:* We have not yet responded to a note from the Chilean Foreign Ministry expressing its desire to maintain friendly relations with the United States. We have not had any formal, ambassadorial level contacts with the new Government, although there have been a few limited, informal contacts at the working level. In recent years, the United States has moved away from the concept of recognition, focusing instead on whether diplomatic relations are to continue. This avoids the value judgments often attributed to "recognition" of a Government. As you know, there is a Senate Resolution (205) which disclaims any such implications.

FYI: Brazil, Uruguay and Guatemala have already advised the new Chilean Government of their desire to maintain relations, and informal or technical level contacts are being carried on by Israel, Venezuela, Mexico, Argentina, and Spain. END FYI

14. *QUESTION: What is the attitude of the USG toward violations of human and civil rights by the military junta?*

*SUGGESTED REPLY:* The importance the USG attaches to respect for human rights is well known. We will be making our views known in all appropriate ways to the new Chilean Government. The bitter nature of the conflict in Chile may have led to abuses but there is no evidence that the junta has adopted systematic repression as a deliberate, long-term policy.

FYI: The junta has ordered the detention of 117 Chileans identified with the Allende Government and 25 foreigners described as extremists. One Chilean to our knowledge has been summarily executed in accordance with the junta's announced policy for dealing with armed resistance. Foreigners illegally in the country have been ordered expelled. Senator Kennedy has publicly expressed concern about the fate of several thousand Brazilian refugees. The junta has applied rigid curfews and imposed censorship on all media. END FYI

15. *QUESTION: What about reports that there may have been some connivance between our Navy and the Chilean Navy in the UNITAS exercise?*

*SUGGESTED REPLY:* There was no connivance of any kind between the two navies. The specific schedule for the 14th annual UNITAS exercise was agreed to by the participating navies about a year ago. Our vessels (3 destroyers, 1 submarine) left their anchorage at a Peruvian port on Tuesday morning, September 11, to proceed with the scheduled next phase of the exercise scheduled with the Chilean Navy. After our vessels sailed, we learned that a coup had been initiated in Chile. Our vessels were then instructed to interrupt their schedule and they subsequently turned north in order to avoid giving any credence to the possible charge of involvement.

FYI: We still don't have confirmed information whether the Chilean Navy actually left Valparaiso the night before the coup and then returned. If true, it's difficult to see what advantage could be gained. END FYI

16. *QUESTION: What about the Pentagon statement that our UNITAS vessels were warned before the coup that they might have to alter their schedule?*

*SUGGESTED REPLY:* The situation in Chile was tense and had been tense for many weeks. It was only reasonable to have a contingency plan—and alert the vessels to it—in case it became necessary to modify or change their sailing orders.

17. *QUESTION: What role did Cuba play in the Chilean situation and why did the Chileans "violate" the Cuban Embassy and attack Cuban ships?*

*SUGGESTED REPLY:* I will be glad to tell you what I know about this although I hope that we don't become involved in this dispute between the Cubans and the Chileans.

Our information on the events is fragmentary and second-hand. We do not know who started shooting first at the Cuban Chancery on the morning of September 11. We do know the Cubans in Chile were viewed with hostility by the Chilean military. Junta President Pinochet announced the rupture of relations with Cuba on the evening of September 11, and the Chilean armed forces radio announced on September 12 that the authorities had seized "150 armed Cuban extremists."

The Cuban charge involving their Chancery in Santiago, the treatment afforded their nationals and diplomatic personnel, and the apparent firing on a Cuban vessel form the basis for Cuba's formal complaint to the UN Security Council filed late on September 12. The complaint alleges that these actions threaten international peace and security and require UNSC intervention. Despite reservations by the United States, the United Kingdom, Australia, and to a lesser degree France—all of whom felt the connection between the Cuban situation in Santiago and international peace to be tenuous—a UNSC consensus was reached at mid-day September 14 to schedule a formal Council meeting on September 18.

FYI: The new Chilean Government may send a special representative to the UNSC meeting, or ask that it be postponed. END FYI

### Attachment 2<sup>3</sup>

Washington, undated.

#### THIRD COUNTRY REACTION TO CHILEAN COUP

##### *Latin America:*

Argentina: Peron condemns, blames U.S.

Bolivia: Banzer: Coup expressed people's will.

Brazil: Recognized Junta.

Colombia: Foreign Minister says blow to democracy.

Costa Rica: Figueres condemns.

Dominican Republic: National mourning.

Guatemala: Recognized Junta.

Mexico: National mourning; Echeverria deplored events, sent plane to fetch Mrs. Allende.

Panama: Government-controlled congress deplored Allende "murder"; vowed common cause with Chilean patriots.

Peru: Velasco refers to Allende's "tragic death".

Uruguay: Recognized Junta.

Venezuela: Declared national mourning.

##### *Western Europe:*

Austria: Kreisky deplored "events and Allende's death."

Netherlands: Deplored events.

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<sup>3</sup> Secret.



Sweden: Palme deplored coup; insinuated CIA involvement; suspended aid.

West Germany: Brandt dismayed, but avoided condemnation.

*Communist Countries:*

CPR: NCNA calls Allende “martyr”; coup was conclusion of incidents engineered by domestic and foreign elements.

Cuba: Seeking UNSC session.

East Germany: Condemns Allende’s “foul assassination”.

Romania: Central Committee demanded end to “acts of terror”, hinted at foreign involvement.

Yugoslavia: Tito “pained and horrified”, charged “international imperialism”.

USSR: Central Committee denounced reactionary forces backed by “foreign imperialism”; expressed full solidarity with Chilean left and confidence in continued struggle. Media quote third parties charging U.S. complicity.

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**149. Memorandum From William J. Jorden of the National Security Council Staff to the President’s Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, September 16, 1973.

SUBJECT

Allegations of U.S. Economic Pressure Against Chile—and Answers

The attached package deals with the allegation (as in this morning’s *Washington Post*) that the U.S. carried out a campaign of economic pressure against Chile that led to Allende’s downfall. The first paper puts this whole matter in perspective. I would drive home several key facts:

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<sup>1</sup> Summary: The memorandum responded to allegations made in the September 16 edition of the *Washington Post* that the United States used economic pressure to destabilize the Allende regime, and maintained that U.S. actions did not cause Allende’s downfall. It included five attached papers with background information.

Source: National Archives, Nixon Presidential Materials, NSC Files, Country Files, Latin America, Chile, Vol. VIII. Confidential. Sent for urgent information. Penciled under the date is, “Done for HAK confirmation hearings.”

(1) The overriding cause of Chile's economic plight was its own misguided economic policies and government mismanagement.

(2) A good case can be made that we were, if anything, too soft in dealing with a Chile that had seized without compensation more than \$800 Million worth of U.S. private assets, and defaulted on more than \$1 Billion direct or guaranteed debts.

(3) Multilateral banks continued disbursements on existing loans to Chile throughout the Allende period—with average annual disbursements *exceeding* those of the three years before Allende.

(4) Multilateral banks—like the Inter-American Development Bank and the World Bank—are independent institutions with expert staffs of wide experience. They are not controlled by the U.S., but make their own independent judgments. (I would cite especially the statement made by Bob McNamara of the World Bank regarding Chile in November 1972—see page 2 of the “Allegations and Responses” paper.)

(5) On the question of military credits, two things stand out: (a) the requests were made by the Allende government *not* by the military forces themselves; and (b) Chile had paid its military debts in contrast with its sad performance on government and bank credits.

(6) The Congress will understand that our general approach on aid and loans was to a great extent determined by the will of Congress itself as expressed in the Hickenlooper amendment (which requires us to cut off aid to any country that expropriates U.S. assets without compensation) and the Gonzalez amendment (which requires us to vote in international financial institutions against any loan to a country that has seized U.S. assets without payment).

The “Allegations and Responses” Paper (prepared by State at my direction) deals with the specific charges raised in the Stern article.

I am also attaching for possible use or background:

—An economic fact sheet on Chile;

—A list of U.S. actions that benefitted Chile during the Allende years;

—A list of Inter-American Bank Disbursements from 1968 to 1973.

Attachment<sup>2</sup>

Washington, undated.

### DID U.S. CAUSE CHILE'S DOWNFALL?

Question: Did U.S. wage economic warfare against Chile and cause downfall?

Answer: No. Chile's economic plight was caused by their own misguided economic policies. The facts amply support that as does objective international opinion.

The posture of USG was correct in every sense of the word in its economic relations with Chile, and I might even say, benign in view of the actions they took in expropriating without compensation over \$800 million of U.S. private assets and in defaulting on over \$1 billion worth of USG direct or guaranteed debt. Here are the facts:

1. No embargoes (unlike Cuba) on trade with Chile were carried out. In fact, U.S. firms continued to supply spare parts and equipment as long as the country's economic management and credit rating merited. Cash sales continued. No overt or covert pressure or restrictions were put on U.S. firms or their subsidies abroad by USG.

2. Private U.S. copper firms whose assets had been seized in Chile pursued their international legal right by court actions abroad (in France and Germany).

3. The USG continued to disburse normally on the small remaining bilateral aid loans after Mr. Allende came to power.

Characteristic of most Marxist governments, there was no evidence of a desire on their part to ask for bilateral aid from us. Under laws of our country (Hickenlooper Amendment) it would not have been legal for us to make new bilateral loans—even had they expressed an interest.

The 100 percent default on Chilean debts to U.S. since November 1971, representing not having to pay about \$250 million, was, of course, equivalent to making a new loan to them of like amount.

4. Multilateral banks continued to disburse during entire period on existing loans to Chile—totaling \$83M during the August 1971 to August 1973 period. This represented an increase in average annual disbursements as compared with the three years prior to Allende's coming to power.

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<sup>2</sup> Confidential.

The World Bank made no new loans to Chile—in line with its stated policies of (a) not loaning to countries who are in default on their international debt, (b) who have expropriated and not compensated assets of private firms, or (c) who don't meet normal economic policy criteria. Chile failed on all three counts. I would refer you to a speech by Mr. McNamara, the President of the World Bank—never known as one who is the implementor of U.S. policies—answering the Chilean charge that no World Bank loans were made to Chile for political reasons. As he explained, the absence of credit was due purely and simply to the disastrous economic policies which the country was following.

This same objective analysis and conclusion was repeated this year, when professional International Monetary Fund Staff, after an in-depth analysis, reported on the deplorable state of the economy and the need for sensible policies. The Fund has never been known as a particularly American-biased institution.

The creditor countries who make up the Paris Group—including countries most sympathetic to the Allende Government, such as the French, Germans, Danes, Spanish and Italians concluded in April of 1972 and again in July of 1973 that there was little they could do to help Chile unless it would adopt sensible policies. I will provide subsequently some facts and figures for your records on the extent and nature of their economic policies—but let me return to some other points first.

(a) Illustrative of our giving the benefit of the doubt to Chile were the USG favorable votes on two Inter-American Bank loans to Chile of over \$10 million in January of 1972—more than two months after accession of President Allende and after nationalization of the copper companies had been announced.

(b) New Eximbank loans were withheld for economic reasons, not political. Chile was and is still in default on all their Eximbank debt. For 18 months discussions on this debt have gone on multilaterally in the Paris Club and bilaterally without any payments having been made—again with some considerable restraint on U.S.'s side. This, of course, is why the request for Exim loans for the purchase of Boeing aircraft was turned down in 1971.

(c) Minor military loans of about \$12 million were made to Allende's government to keep the minimum level of equipment going and maintained. It could be likened to our continuing disbursement on existing AID, and Eximbank loans for past projects, as well as our decision to approve the two mentioned Inter-American Bank loans. We were trying to keep the signals positive and the door open.

(d) In 1971/3 period the International Monetary Fund made the equivalent of two separate loans (drawings) to Chile totaling \$86 mil-

lion to make up shortfalls in export earnings. The U.S. took no action to oppose or otherwise make these drawings difficult.

Thus the answer to the question: did the U.S. cut off their credit in international agencies is demonstrable NO. Where new credit flows ceased, it was due to the rules and policies of the institutions themselves and to Chile's own economic action.

(e) Private credit from industrial countries did dry up over time. This again was a function of a response to Chilean economic policies and actions rather than some plot. U.S. and European banks postponed payment of 70 percent of Chile's debt payment falling due in 1972—worth about \$128 million, which is the same as having given her new money.

What I can say unequivocally—what President Nixon said earlier regarding our relations with Chile—is that we were prepared to have the kind of relations that Chile wanted. A consistently open-handed policy was followed. In fact, some consider that we were soft on Chile, as I am sure you will recall from the testimony given earlier this year before the Church Subcommittee.

The truth of the matter is we did not want to drive the Allende Government into an opposing camp or to an extremist position. We hoped they would be reasonable and pragmatic. It would have made little sense in this era of détente to have done otherwise. The fact remains that for their own domestic political reasons the Government of Chile showed little or no inclination to have good relations with us and, in fact, did use international forums to attack us continuously—to which we responded with restraint.

In sum, I believe no one can assert that this Government—the Administration of President Nixon—did anything directly or indirectly to bring down the Allende regime. Quite to the contrary, I believe we bent over backward to show patience and restraint in word and deed in the face of their economic and public attacks. The Chilean revolution was a revolution of the middle class—of doctors, housewives, airplane pilots, truckers and the like. It was to support these people and to save Chile from economic chaos that the military government intervened. It was done after many months of trying to work as part of the Allende Government, and after failing by that means to bring order. While we can all regret the fate of Dr. Allende and his government, it can in no way be laid at the doorstep of the U.S.

**Attachment<sup>3</sup>**

Washington, undated.

ANSWERS TO ALLEGATIONS CONTAINED IN STERN  
ARTICLE, WASHINGTON POST, SEPTEMBER 16

*Allegation:* USG has used various instruments to exert economic pressure against Allende Government, including the Inter-American Development Bank, the World Bank, and private U.S. banking institutions.

*Response:* This is patently false. The international institutions cited are independent bodies which have their own lending criteria and have sufficient experience in this field to formulate their own judgments.

Private banks and other private U.S. entities are entirely free to make decisions as they perceive in their self-interest. Some private bank lending has continued, although it is true that the amounts have dropped sharply. We assume this is because private banks have been as concerned as others about Chile's lack of creditworthiness.

*Allegation:* Ex-Im Bank refused the loan application for the purchase of Boeing aircraft in August 1971 and arbitrarily ended further lending.

*Response:* Regarding the aircraft case, there was no refusal. The Ex-Im was perfectly prepared to continue discussions on the loan request.

Ex-Im did ask for information on Chile's economic policies pertinent to the Bank's responsibilities, since assurance of repayment is fundamental. This normal precaution by Ex-Im was fully justified when, less than three months later, the Allende Government unilaterally declared a moratorium on its existing debt schedule, effective November 12, 1971. Chile has been in default to Ex-Im ever since. In accordance with its normal practice, Ex-Im extended no further loans or insurance and guarantee coverage after Chile defaulted. Disbursements were also suspended then, for the same reason. I emphasize the sequence of dates. It is totally false to state that Ex-Im informed Chile in August 1971 that disbursements would be terminated.

*Allegation:* U.S. prevented Chile from obtaining credits from international financial institutions.

*Response:* We have said many times that the international lending institutions are responsible organizations, staffed by experienced, skilled and responsible experts in their field. They know their business

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<sup>3</sup> No classification marking.

and we have every confidence that their decisions are based entirely on such considerations as creditworthiness and economic performance.

I should like to clarify the repeated misstatements on this subject by quoting a statement made by the President of the World Bank on October 18, 1972. I quote: "The primary condition for bank lending—a soundly managed economy with a clear potential for utilizing additional funds efficiently has not been met. The Chilean economy is in severe difficulty . . . in this situation it is clear that internal measures to re-establish reasonable economic stability are required—and no amount of external financial assistance can substitute for them. As matters stand—in the absence of such fundamental economic stability—it is simply impossible for Bank funds to be used productively for the benefit of the Chilean people, and with the reasonable probability of repayment, which the Bank's Articles of Agreement require."

I think it also important to note that during the entire period of the Allende Government no Chilean loan applications were presented to the IBRD Board, therefore, it is absurd to speak of "U.S. veto". Regarding the Inter-American Bank, two Chilean applications for loans came to a vote early in 1971 when economic conditions were much healthier. At that time, the U.S. voted for these loans. It is totally false to say that the U.S. blocked a Chilean loan application for the development of a petro-chemical industry. This project has not come before the Board for a vote and has been under study by the Bank's technicians.

*Allegation:* While the U.S. refused economic assistance on the grounds that Chile was a bad credit risk, it continued to extend credit to the Chilean military.

*Response:* The decision of the Allende Government to request the extension of U.S. credits under the FMS program was one which only it could make. Our decision was whether or not to continue extending credits under the FMS program to military institutions which had, over the years, developed and maintained an inventory of items produced in the U.S. The fact is that the Allende Government was current in its FMS repayments, whereas it has been in default since November 1971 on payments due to other U.S. Government creditor agencies.

*Allegation:* The USG cut off its aid program.

*Response:* The USG reduced its lending to Chile even before the Allende Government took office in November 1970. Only one loan was signed after October 1968 and that was a \$2.5 million Human Resources loan which was signed in April 1970. After President Allende took office, we continued disbursements on existing A.I.D. loans and Chile did not request any new loans.

It could hardly be expected that the U.S. would extend new development loans, even if the GOC had requested them, after Chile stopped servicing existing loans beginning November 1971. Nonetheless, in

1972 when the GOC was more than six months in arrears in repayment of certain A.I.D. loans, the U.S. waived legislative provisions which would have cut off existing U.S. grant assistance programs. It is frequently overlooked that there are ongoing U.S. assistance programs in Chile. These include a P.L. 480 grant program for food shipments which has amounted to some \$10 million under the Allende Government, grant assistance for training abroad, and community development projects, and the Peace Corps. We also provided substantial amounts of disaster relief supplies to the Chilean Government in the wake of winter storms and an earthquake in mid-1971.

#### **Attachment<sup>4</sup>**

Washington, undated.

##### *Economic Facts*

1. At time of accession of new government in November 1970, the Chileans had a historic net foreign exchange position of \$343 million. The net foreign exchange position now is estimated at negative \$450 million.

2. The preceding government laid the groundwork for a stable economic expansion, particularly in the copper sector. A purchase favorable to Chile of 51% of U.S. companies share at book value or less had taken place with 12 year repayment terms. Payment would come from the government's share of company profits, so in effect it cost them nothing. In addition, an expansion plan was agreed to by the companies to double production.

3. In spite of the doubling of physical capacity by the companies as a result of the above decision, production has never come close to capacity because of mismanagement. The professional cadres in the mines, particularly engineers and supervisors, left the country.

4. Copper which was worth 45¢ to 50¢ per pound has increased to over 80¢ today. Under normal economic management, each cent increase should have meant \$20 million in new exports to Chile.

5. The money supply was increased 150% in 1972 and is estimated to rise more than 400% in 1973. A fiscal deficit as a percentage of total revenues increased from 14 percent in 1970 to over 80 percent in 1972. Naturally, inflation was rampant—reaching from around 163% in 1971 and 350 or more in 1973.

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<sup>4</sup> No classification marking.



6. For a good part of the first year—while Chile was living beyond its means, some felt better off. Once the reserves had run out, investment declined and the inflation had caught up with everyone, it was clear even to workers that they were worse off.

7. Debt refinancing worth \$130 million for 1972 payments took place. New Communist country credits of more than \$100 million were reportedly made. In addition, Chile has not made any debt repayments for 1973, worth about \$262 million. They drew \$86 million from the International Monetary Fund. All of these resources, on top of historically high reserves, were used up.

### Attachment<sup>5</sup>

Washington, undated.

#### US ACTIONS BENEFICIAL TO ALLENDE GOVERNMENT

1970

Nov. When withdrawing its installations from Easter Island, USAF donated two sets of basic weather forecasting equipment for use on the island

Disbursements of AID loans in pipeline continued

1971

Jan. 14—US voted in favor of two IDB loans for university development

June—AID provided \$50,000 in special relief supplies in wake of severe winter storms

July to Dec.—AID provided \$205,000 in special relief supplies in wake of earthquake

—Residual disbursements of Ex-Im loans

1972

Apr. 19—Signed multilateral Paris Club Agreement to reschedule 1972 GOC debt subject to subsequent bilateral agreement

Sept–Oct.—In addition to continuing scientific assistance, NSF put its research vessel *Hero* at the disposal of GOC-sponsored scientists

Nov. 17—When GOC fell more than 6 months in arrears in repayment of certain AID loans, Secretary of State exercised authority to waive Section 620(q) of Foreign Assistance Act which would have

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<sup>5</sup> No classification marking.

cut off U.S. assistance programs in Chile for training and community development

### ONGOING

The US Weather Bureau continues to provide equipment and technical advice to Chilean counterpart

FMS and military training program (at the request of the Allende Government)

PL–480 Title II programs

Special Development Activities (SDA) grant assistance

Grant assistance for technical training overseas

FAA technical assistance to Chilean Aeronautics Board

Peace Corps

Narcotics enforcement assistance

### Attachment<sup>6</sup>

Washington, undated.

#### IDB Disbursements, 1968–July 31, 1973 (\$ millions)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	Ave. <u>1968–70</u>	<u>1971</u>	<u>1972</u>	<u>1st-7 Mos.</u>	Ave <u>1971–73</u>
FSO	13.9	21.6	18.5	18.0	24.8	16.8	7.1	17.9
OC	<u>15.9</u>	<u>5.1</u>	<u>7.4</u>	<u>9.5</u>	<u>9.3</u>	<u>3.2</u>	<u>5.4</u>	<u>7.3</u>
Total	29.8	26.7	25.9	27.5	34.1	20.0	12.5	25.2

#### IBRD (FY's)

<u>6/30/67–6/30/78</u>							<u>6/30/72–6/30/73</u>
7.9	2.4	9.5	6.6	21.0	14.9	21.0	19.0

<sup>6</sup> No classification marking.

**150. Transcript of a Telephone Conversation Between the President's Assistant for National Security Affairs (Kissinger) and Senator Frank Church<sup>1</sup>**

Washington, September 20, 1973, 10:23 a.m.

K: Frank, I just wanted to call you to tell you two things—one how much your vote meant to me personally and secondly to reaffirm what I said to the committee during the sessions of my really strong desire to establish a new relationship with the committee—and of course with you personally whom I've known for many years.

C: It's awfully nice of you to do that Henry, I was glad to give you my vote—you knew that and I look forward to working with you.

K: I know you must—it couldn't have been easy in the total context of the pressures in this country right now.

C: You were the most deserving man to be nominated as any I know and I'm sure you are going to make a great secretary. And if we can reestablish an effective working relationship between the State Dept and the Committee, I think it would serve the country—

K: I feel very strongly—and anything I can do I will do, and if you have any suggestions on how we might do it effectively, I'd be eager to hear them.

C: Thank you Henry. I will take that as an opening wedge and I wish that—I will follow them up. There's one thing that's been weighing heavily on my mind and that's the question of political asylum for these large numbers of people that have been taken into custody in Chile and it occurs to me—two things, first I understand there are or may be some American citizens among them and I assume the State Dept is pursuing it at the moment, the other thing is that the OAS as I recall has a council or commission that deals with questions of political asylum—and I am wondering if we have done anything to urge the OAS to look into this question on strictly humanitarian grounds.

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<sup>1</sup> Summary: During this telephone conversation with Kissinger, Church expressed concern for the plight of Chilean citizens and foreigners—including U.S. citizens—caught in Santiago in the immediate aftermath of the military coup. Church suggested that the Organization of American States should intervene to facilitate offering political asylum elsewhere in Latin America. Kissinger agreed to raise the issue during a meeting of the Washington Special Actions Group that afternoon.

Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversation Transcripts, Box 22, Chronological File. No classification marking. Church was chairman of the Subcommittee on Western Hemisphere Affairs, Senate Foreign Relations Committee. The Senate Foreign Relations Committee voted 16–1 on September 18 to recommend confirmation of Kissinger's appointment as Secretary of State.

K: I don't think—in the last few days, I've not had the chance to follow this as closely as I should—I don't think we have, but I have a meeting scheduled this afternoon—an interdepartmental meeting on Chile—and I will raise this issue and if anything develops, I'll call you first thing in the morning.

C: That'd be fine. I appreciate it if you would. We've been—we've often been the asylum you know for fascist exiles in this country—I don't propose we be an asylum for these Chileans, but I think there are other countries like Mexico that might open up their gates for some of these exiles and the OAS would be the appropriate instrument through which to work, it would seem to me.

K: Let me—first I'm very sympathetic to the asylum idea. I don't know what the best instrument is—I'd like to consult my colleagues, but you can be certain that it will be high on the agenda this afternoon and I'll call you tomorrow.

C: Thank you Henry.

K: Goodbye.

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**151. Transcript of a Telephone Conversation Between Frank Mankiewicz and the President's Assistant for National Security Affairs (Kissinger)<sup>1</sup>**

Washington, September 20, 1973, 2:42 p.m.

M: Henry.

K: Frank, how are you?

M: I'm fine. I have to . . . I was talking to Frank Touch [Church] this morning and he told me you might be having some kind of discussions about Chile this afternoon.

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<sup>1</sup>Summary: Following up on Church's telephone call that morning, Frank Mankiewicz called Kissinger to discuss in more detail what was happening in Chile—in particular, regarding the emerging human rights crisis—and what the United States might do to improve the situation.

Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversation Transcripts, Box 22, Chronological File. No classification marking. All blank underscores are omissions in the original. Mankiewicz had been Latin America Regional Director of the Peace Corps (1964–1966) and, more recently, National Political Director of the McGovern for President Campaign (1972). The Washington Special Actions Group met in the White House Situation Room on September 20, 3:05–3:49 p.m. For the minutes of the meeting see *Foreign Relations, 1969–1976*, vol. XXI, Chile, 1969–1973, Document 361.

K: That's right.

M: And I thought if I could I would take about a minute and a half and give you a couple of notions which may or may not work. I don't know what attitudes are but it seems to me that with foreign correspondents in there now we are going to start to get I think a fair amount of rather unpleasant reporting because all of the reports I get are that these are not very nice people and very insecure. And that there are probably a lot more people dead and there may be you know torture going on and people being held in the stadiums and that all has a bad ring. It's not your kind of classic Latin American coup by any means and from the fact that they're making up all kinds of stories. Maybe they are all true but it's hard to believe that these people were simultaneously stashing Russian arms and planning assassination plots and stealing all the money. I mean that has all the ring of insecurity that those stories are coming out of the junta. I think that regardless of what kind of face the U.S. is going to put toward this at a very minimum we could be talking about human rights you know. About asylum and respecting asylum and after all the courts are working. There is no reason to have military trials of civilians make that kind of representation, because, I'll send you the excerpts from the newspapers that are being printed and statements that were made in the week or so prior to the coup. They talk about an Indonesian solution which is most ominous. And I also got this 2 days ago. Something somebody sent me a full week before the coup, which was an editorial in the Christian Democratic paper. The party paper. A most straight anti-semitic editorial including last names of the suffixes of names of people we must now go after. This editorial says, "the Soviet Union is an anti-Jewish dictatorship and Chile is pro-Jewish Communist dictatorship." I just can't believe that more than 9 Jews in the whole country.

K: I was just going to say.

M: I don't think its Jews they're after but it indicates a state of mind that I think is most un-Latin.

K: Yeah. That is amazing.

M: I assume we have people down there now but as I say I would guess that by tonight, tomorrow morning, the next day, the foreign journalists are going to put quite a different face on it. You're not going to have foreign journalists being arrested.

K: Well, you know, I told Frank that this was something that we were discussing this afternoon but really, only in a sort of a fact finding way. I'm not in a good position until I'm confirmed and sworn in really to take a reading roll but I did tell Frank that I would raise the asylum issue.

M: Yeah, you see there is a U.N., there's a OAS rights commission and unlike anything connected with OAS he has done some good work

in the past. Almost in spite of himself and has some respect down there. I think it would be very difficult for these people to refuse to let it in. The civilians even are trying not to let them come in and investigate allegations of torture a couple of years ago and we're not on it which is even better. I think 5 members and kind of a distinguished jurist \_\_\_\_\_ and I would think anything that could promote their coming in or sending a representative in would be very effective.

K: Let me . . . this is a point about which perhaps I can do something this afternoon but don't expect it.

M: I realize you're in a very difficult position.

K: I'm going to look into it.

M: When do you think confirmation is coming?

K: I think they are voting tomorrow morning. I think there is unanimous consent now to vote tomorrow morning.

M: Well that's fine.

K: And then I'll be sworn in Saturday but next week I'll have to spend three days at the U.N.

M: Seeing the new members.

K: Well, I've got to deliver the speech and . . . for the U.S. It gives me a chance perhaps to say something a little more thoughtful than has been said in recent years though I have hardly the time to prepare something.

M: Well, I think it is a good opportunity. Don't let them ask you questions afterward. That's my advice to you but you know major foreign policy speakers do not accept questions. Do you think the White House wants Agnew to resign and then you'll say I have no comment and then that's the story.

K: I'll bet that's right.

M: So just keep your counsel.

K: No, I'll say I couldn't be interested in it since I'm ineligible.

M: That's right, constitutionally ineligible. I think you'll do fine up there. So it's tomorrow. That's good.

K: I hope so.

M: And then you'll be sworn in Saturday.

K: That's what it looks like.

M: OK.

K: Many thanks.

M: I'm just passing this on because you know when ever anything happens . . .

K: That's what I want you to do Frank.

M: 10 or 15 people call me up every hour.

K: I want you to feel that I am a place you will try and call and should call.

M: Normally I'll do it by paper but you know this thing is moving fast and I . . .

K: I enjoyed seeing you on Saturday.

M: Yeah, and we'll set up a couple of dinners up here very soon. Holly thinks that's an excellent idea.

K: Good. McGovern also mentioned it when he called me the other day and told me he was going to vote against me but . . .

M: Yeah, I thought that was a pretty good statement of his, all things considered.

K: It was a good statement. No, he had his constituency to worry about.

M: Sure.

K: I thought it was the minimum criticism he could make.

M: That's right. That's exactly my thought that he could have done a lot more.

K: No I understood it very well and there were no bad feelings, not only no bad feelings, I thought it laid the basis for good . . .

M: I had dinner with him last night and he told me that he had called you and I said I thought, my feeling was that you would respect that considerably. He said he thought you had. So I think that will be good. Well, alright. If I get other things I'll pass them along.

K: Good, wonderful. Bye.

**152. Telegram From the Department of State to the Embassy in Chile<sup>1</sup>**

Washington, September 20, 1973, 2055Z.

187383. Subject: Detained Americans.

Department spokesman having difficult time with questions if Embassy officers have seen detained Americans and what we are doing to assure their welfare.

Imperative that consular officers gain access to detainees so spokesman can say so. We note Junta representative told Embassy officer they trying to improve their image in foreign press. Continued refusal to allow access by consular officers to detainees runs counter to this effort.

Can anticipate that questions will be asked about detained Americans at noon briefing tomorrow and hopeful we can answer by then that they have been contacted.

**Rush**

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<sup>1</sup>Summary: After the daily news briefing on September 20, the Department instructed the Embassy to redouble its efforts to contact any U.S. citizens detained by the military junta in Chile.

Source: National Archives, RG 59, Central Foreign Policy Files, [no film number]. Confidential; Niact; Immediate. Drafted and approved by Bell in ARA/PAF; cleared by Karkashian in ARA/BC, Shlaudeman (in substance), and King in S/PRS (information).



# 153. Telegram From the Department of State to the Embassy in Chile<sup>1</sup>

Washington, September 21, 1973, 0004Z.

187854. Subject: Transcript of State Dept. News Briefing, Thursday, September 20.

The following are the pertinent remarks concerning Chile made by the State Department spokesman at today's noon briefing for your information and possible use in answering questions:

Q: John, on Chile, how many Americans are being held by the Chile Government and what is the U.S. doing about getting them out?

A: We have, from various sources, information about the Americans and their condition at Chile. At the moment, it seems that perhaps as many as six have been detained by the Junta. I have some of their names but, in other cases, next of kin have not been notified, so we would withhold that for the time being.

But, in any event, to answer the second part of your question, we've instructed the Embassy to continue its efforts to communicate with all American citizens who we would have reason to believe have been detained or otherwise deflected from their original purposes.

We will do the usual—that is to say, ascertain their welfare—seek to insure their human needs, if any—and, obviously be in contact with Chilean authorities to insure that they receive fair and equitable treatment.

Q: Why are they being held, John?

A: We don't know yet. As I say, we don't have all the facts.

Q: Are any of the six American officials—of any agency?

A: No, they're not officials. There are a couple of Maryknoll missionary priests: Joseph Dougherty, and Francis Flynn.

Q: Has there been any contact between the Embassy and these detainees to this point?

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<sup>1</sup> Summary: During the daily news briefing on September 20—which took place between Kissinger's telephone conversations with Church and Mankiewicz—the Department of State spokesman, John F. King, received numerous questions about the situation in Chile; King struggled, in particular, to answer concerns raised regarding the welfare and whereabouts of U.S. citizens detained in Santiago.

Source: National Archives, RG 59, Central Foreign Policy Files, [no film number]. Limited Official Use; Priority. Repeated priority to all American Republic diplomatic posts, USUN, and USCINCSO. Drafted and approved by Bell in ARA/PAF; cleared by Karkashian in ARA/BC.

A: I'm pretty sure with some of them, but I just can't catalog it for you. Let me give you the other names I have: Adam Schesch, and his wife Patricia.

Q: Who are they, do you know?

A: American citizens. That's really the only way to characterize them now. And the last two names are: Carol Nesso—and—David Cusack. I'm sorry. That's all the information.

Q: Do you have occupations for the two last ones, John?

A: No.

Q: John, you don't have any information that Adam Schesch and David Cusack are American professors who were under contract to an American agency working in—

A: They could well be. I did see reference in at least one story this morning that the Schesch's were connected with an American university. But I can't confirm that; I don't know it yet.

We may well have the information. It just hasn't come in.

Q: American professors under contract to the United States Government, working in Chile?

A: It could well be. I just don't know.

Q: Do your previous sources say anything about the sort of treatment that these and other people are receiving?

A: Well, I guess I'm left in the unsatisfactory position of just saying that we don't have any firm information which would substantiate these charges which we've seen in several reports, but—

Q: What charges?

A: About repressive measures used against people who have been detained in Chile. I can assure you that the Embassy will do everything it can to perform the usual functions on behalf of American citizens who may be in need of assistance.

Q: We have not been given access to them though. We have not been denied that privilege?

A: This came up in a different form earlier. I just don't know. I can't speak to all of them. We know they're there, and we've been in touch either with them or with the appropriate authorities.

Q: John, Mrs. Allende, in an interview in the "Times" today, suggested that the U.S. Government might have helped foment the coup by paying off the striking transportation workers. Do you have any comment on that?

A: I'm not sure exactly what Mrs. Allende said, but let me repeat that the United States Government—and I speak for all elements of the Government—were not involved in the Chilean coup. We've said this repeatedly; I will say it again in answer to that.

Q: You recognize my question is different from that, do you?

A: Yes.

Q: Will you check into that? I mean it's getting a lot of publicity.

A: I realize that.

Q: Will you look into that?

A: I will stand on what I just said: We were not involved—and I repeat that.

Q: Then you're not denying you might have paid off the transportation workers.

A: Well, we were not involved in any way in that coup.

Q: John, are these people who are being detained—the Americans—charged, or about to be charged, with anything?

A: We don't know yet. We just don't know.

Q: John, in your opinion, would the payment—if you made any to the transport workers in Chile—constitute what Dr. Kissinger would have construed as an "interference in the internal affairs of another country"? He made a great issue of this at the confirmation hearings about internal affairs.

A: Look, I have great trouble accepting this premise that "if we did this" and that "if we did that." I said—and I repeat—we were not involved in any way in the overthrow of the Allende government.

Q: No. I realize, of course, that's a theoretical question.

A: Yes.

Q: Not directly or indirectly involved—is that what you're saying?

A: I said "in any way."

Q: John, I realize that your remarks are directed about the coup, but it still does not get down to the question about whether there was money given to the transportation strikers. Could you address yourself specifically to that question and not to the coup itself?

A: I see; yes.

Let me look into that. (Note: See end of cable.)

Q: Including the possibility that there may have been humanitarian assistance?

A: Well, we're including all possibilities. That's why I want to be as careful as possible about this matter.

Q: John, do you know if these Americans are being held in the sports stadium, or where?

A: I don't have their locale at hand. I can try to find that out for you. I assume they're in one of the two sports stadiums, which apparently are being used for detention purposes.

Q: John I'm a little bit surprised at you. You had no answer to the question whether there was any contact between the Embassy and the detained people.

A: Yes. I assume there has been, but I don't know whether they've seen them all. As I said, the information that they are detained has come to us from various sources; and I just can't be categorical about it. But, in any event, we will make every appropriate effort to do what is needed to assist these people.

Q: John, could I turn that question around? Has the Chilean Government offered any obstacles to American requests to see the six?

A: That's hard to say. It's a pretty confused situation. You know how you can run into anomalous situations. When I tell you that, I don't want you to think that we're having trouble.

The one case I do know about, where we were informed that the American had a problem, that the Embassy moved immediately, was in contact with the authorities—the person was released within hours, and everything seems to be all right.

Q: John, it's correct though that you have made representations to the new government on behalf of the six?

A: Well, no. We always like to be sure of our facts first. And before we get to that stage, you want to know exactly what they're charged with or why they're being held, and that sort of thing.

Q: Well, we have gone that far. We have asked the Chileans for the facts surrounding the individuals?

A: Yes. You can assume that we're doing that. Yes.

Q: John, how many of the Americans who were held, who were detained, have now been released?

A: I know of a couple of cases. I can't be more specific than that. And the material we pulled together here just doesn't address itself to that question. But you know that the swimmers were having a problem there. They arrived in Miami this morning.

Q: How many?

A: Half a dozen or so.

Q: Can you apply that statement of the "no American involvement in the coup in any way" to the six?

A: To the six?

Q: To the six who were being detained?

Q: In Santiago?

A: Yes. As far as I know, these were private citizens. I'm speaking about government involvement—the allegations of government involvement.

I just can't be blanket and categoric about a matter involving individuals.

Q: But you did say, John, that a couple of Americans were released; is this true?

A: Yes. To my knowledge, yes.

Q: Then you're not ruling out the possibility that some private business interests may have been involved in the coup? You're only denying from a government standpoint.

A: No change; surely. I wouldn't presume to speak for anybody else.

Q: I ask: Do you rule out the possibility?

A: I wouldn't even accept the question. I speak only for the Department.

Q: But you said you spoke for all agencies of the U.S. Government.

A: For the United States Government, lest there be any misapprehensions here.

Q: Could I just finish up one question on Chile, please?

I'm just puzzled by your wording. You said "as many as six have been detained." Does that mean that you know there are no more and that some of these may be released by now?

A: I guess we calculate that at the time of the coup there may have been as many as several thousand Americans in Santiago or environs; and, you know, who knows what problems some of these people have?

Well, for instance—for days you couldn't get an airplane out of Chile. And I just can't be categoric about all the Americans.

Q: But you know there are no more than these six in detention.

A: We have no information that there are more; I have no information that there are more.

What I'm saying is that we're dealing with a half dozen to a dozen people here, as I understand it. Only six Americans that we know of were being detained as of today.

Q: John, just for the purpose of this story, when was the last time the Department was absolutely sure that these six people were still being detained?

A: This morning.

End transcript.

Later in the afternoon the following statement was released by the spokesman to the press:

We have seen the statement attributed to Mrs. Allende as well as other stories suggesting that the United States might have financed the truckers' strike which preceded the coup in Chile. Such suggestions are

absurd. The United States played no part, financial or otherwise, in that strike or in the other stoppages and protests mounted by the opposition to Allende.

Decontrol December 20, 1973.

**Rush**

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**154. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, September 21, 1973, 0036Z.

4462. Subj: Detained Americans. Ref: State 187383.

1. Of nine persons reported currently detained or missing in last sitrep (Santiago 4442), four are confirmed by Chilean authorities—two Garrett-Schesches and two Maryknoll priests, Flynn and Dougherty—all held at National Stadium. We have assurances that two Garrett-Schesches will be released to Embassy at 1000 hours Sept. 21st. Of remaining five, two were seen by employers or neighbors when detained. Other three reported missing by relatives or friends and presumed detained. Chilean military authorities deny they are held at National Stadium and have no further info. Embassy continues to check other sources including hospitals to locate them.

2. Of thirteen additional persons reported in sitreps to be missing or detained, but then subsequently reported safe, eight personally reported circumstances of detention and release to Embassy. Their time of detention varied from thirty minutes to overnight. Consulate made inquiries in four of these cases—other four were released before Embassy heard they detained. In the remaining other five of these thirteen cases, all of which were eventually reported safe, consulate had unconfirmed info on detentions and sought unsuccessfully to locate them.

3. Because of special military security procedures, normal consular channels are not highly effective and embassy must rely on informal

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<sup>1</sup>Summary: In response to previous instructions from the Department, the Embassy reported on its ongoing efforts to contact U.S. citizens either missing or detained by the military government in Chile.

Source: National Archives, RG 59, Central Foreign Policy Files, [no film number]. Confidential; Niact; Immediate.

military contacts to obtain info re detainees and to attempt to secure their release.

Davis

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155. **Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, September 21, 1973, 1715Z.

4480. Subject: Military Procurement. Ref: State 188023.

1. Re paragraphs 8 and 9 of reftel, I regret that I must report that a request for ammunition has been received since the flare and helmet request. The Chilean Air Force would like to buy one million rounds of 7.62 mm NATO ammunition. They would like to do this as an FMS cash sale. The FACH would send aircraft to pick up ammunition if made available, and would prefer Canal Zone.

2. While we have not so far had any requests from Chilean Army and Navy, as a realistic assessment, we must expect similar requests soon to be forthcoming. In fact, the Army has already asked about hydraulic fluid for artillery recoil mechanisms and the Navy is talking about 3000 rounds of 3" /50 projectiles for shipboard use.

3. In light of the foregoing, I shall not rpt not make any statement about the continuance of previously planned and approved shipments of military supplies to Chile until further instructed. I fully understand the sensitivity of this problem and factors which would make it immensely preferable if Chileans could turn to procurement from other friendly countries. However, I am sure you also fully understand the urgency of Chile's needs and the importance the GOC does and will place on the willingness of the USG to be helpful very quickly even at considerable cost and risk. A decision to deny all such requests—even

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<sup>1</sup> Summary: This telegram discussed a recent Chilean military request for funds to procure weaponry. Given the multiple recent requests by the Chilean military, the telegram predicted that their demands would continue to increase and concluded that it was important that the U.S. Government meet their needs.

Source: National Archives, Nixon Presidential Materials, NSC Files, Box 777, Country Files, Latin America, vol. VIII. Secret; Immediate; Nodis. Reference telegram 188023 to Santiago, September 21, is *Foreign Relations*, 1969–1976, vol. XXI, Chile, 1969–1973, Document 363.

for a relatively short period—would have extremely serious and long term consequences here in our relations with Chilean military.

Davis

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**156. Telegram From the Embassy in Chile to the Department of State<sup>1</sup>**

Santiago, September 23, 1973, 2154Z.

4529. Subj: W/W: Analysis of Status of AmCits Missing or Detained in Chile. Ref: Santiago 4462 and 4528 State 187383.

1. Of ten persons reported currently detained or missing in last sitrep (Santiago 4528), one (Abeid) has been removed as not AmCit—determined to be Kuwaiti according to military authorities at National Stadium. Four have been confirmed by Chilean authorities as detained—the two Maryknoll priests, Dougherty and Flynn, at the National Stadium; Fisk, at the Aviation School; and Nolasco, by the Investigations Bureau. According to military authorities at the National Stadium, the latter two had not yet arrived there—the normal long-term detention locale—as of noon 23 Sept. Of the remaining five, three (Nezzo, Ritter and Welsh) were seen by friends or neighbors to be detained and taken away. The other two (Horman and Wool) have been reported missing and are assumed to be detained. Chilean authorities report no info on any of these five. Embassy continues to check other sources including hospitals to locate them.

2. Of the twenty additional persons reported in sitrepts to be missing or detained, but then subsequently reported safe, twelve personally reported circumstances of detention and release to Embassy. Consulate made inquiries in eight of these cases. Four—two Garrett-Schesches, Cerretti and Warlow—were released to consular officer. Four were released on their own cognizance, and the other four were released before Embassy heard they detained. Of the remaining eight of these twenty cases, all of which were eventually reported safe, con-

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<sup>1</sup>Summary: The Embassy continued its efforts to account for the welfare and whereabouts of U.S. citizens in Chile, including journalist Charles Horman, who it noted was “reported missing” and “assumed to be detained.”

Source: National Archives, RG 59, Central Foreign Policy Files, [no film number]. Unclassified; Immediate. For the text of telegrams 187383 and 4462, see Documents 152 and 154.



sulate had unconfirmed info on detentions and sought unsuccessfully to locate them.

**Thompson**

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**157. Telegram From the Department of State to the Embassy in Chile<sup>1</sup>**

Washington, September 24, 1973, 2216Z.

190077. Subject: W/W AmCit Charles Horman. Ref: Santiago 4442, 4529.

1. Department receiving numerous inquiries. Given congressional and other high level interest in this case, would appreciate Embassy redoubling its efforts locate Horman, including possibility he may be detained by Chilean authorities. Request status report ASAP.

**Rush**

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<sup>1</sup> Summary: The Department instructed the Embassy to file a status report on the welfare and whereabouts of Charles Horman.

Source: National Archives, RG 59, Central Foreign Policy Files, [no film number]. Limited Official Use; Immediate. Drafted by Karkashian in ARA/BC; cleared by Anderson (substance) in SCA/SCS; and approved by Shlaudeman.