DEPARTMENT OF STATE

Washington, D.C. 20520

S/S 16364

December 4, 1970

SECRET/NODIS

MEMORANDUM FOR MR. HENRY A. KISSINGER
THE WHITE HOUSE

Subject: Chile

There are enclosed for consideration by the Senior Review Group papers prepared in response to your memorandum of November 27. The discussion papers have been approved and the status reports noted by the Ad Hoc Inter-Agency Working Group on Chile. The Ad Hoc Working Group reviewed a draft study of implications and options for the United States in the event Chile takes steps to nationalize or expropriate U.S. business interests in Chile; it was agreed that the draft would be expanded and revised and submitted through the Ad Hoc Group for the next meeting of the Senior Review Group.

John Hugh Crimmins
Acting Chairman
Ad Hoc Interagency Working
Group on Chile

Enclosure:

Papers on Chile

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GROUP 4
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Downgraded at 12-year intervals;
not automatically declassified.

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Security Implications of Chile's Participation in the Inter-American Defense Board (IADB)

DISCUSSION:

The IADB has access to three categories of classified information:

U.S. classified information made available to the IADB;
IADB classified documents;
IADB classified discussions.

U.S. Classified Information. The IADB as a body has no access to any classified U.S. documents. The U.S. members of the Staff and Secretariat have temporary access to U.S. classified information through the U.S. delegation, but such information is not made available to the Board as a whole. The U.S. Delegation provides, from time to time, classified briefings of current importance (the most recent was on the Middle East Situation, on March 5, 1970. The material presented was U.S. CONFIDENTIAL, handled as "IADB SECRET" by the Board. The IADB occasionally receives classified information on its trips; this information is never of a category above U.S. CONFIDENTIAL. National Disclosure Policy permits disclosure on a case by case basis of U.S. SECRET information about Cuban subversive activities to the IADB; however, this has occurred only once.

IADB Classified Documents. All member delegations have access to all classified documents produced by the Board. These documents include minutes of all Board meetings, manuals, staff studies, and planning papers. The most comprehensive document is the IADB "Strategic Evaluation of the Situation" (an analysis of political, economic, social and military factors which exert influence on "continental security policy"). The information contained in these documents does not directly affect U.S. security. The subject matter contained in those of the highest classification, "IADB SECRET," is relatively bland. The significance of its compromise would derive from agreement by the IADB or from

the inability of the IADB to agree on substantive matters, rather than from the material itself.

IADB Discussions and Briefings. Access to the classified discussions and briefings of the Board constitutes the gravest security problem. This provides any member the opportunity to report all discussions, disagreements, positions of delegations, etc. It would be impracticable to keep all classified matter out of these discussions. Thus, membership in the IADB is a window from which to observe hemispheric military attitudes and to confirm intelligence gathered from other sources.

Current Situation. There is no present evidence of subversion of the Chilean Armed Forces, or of disruptive tactics on the part of the Chilean delegation to the IADB, that warrants expulsion of Chile at this time. A motion to expel Chile today might receive a bare majority of the vote; a dramatic event would be required to shift enough votes to a significant majority.

Precedent. Cuba was denied access to classified sessions and documents of the IADB on April 26, 1961, on a motion by the United States, "while the present and evident military alliance exists between Cuba and the Soviet Bloc," by a vote of 13 to 1 (Cuba), with 2 abstentions (Chile and Ecuador) and 3 nonparticipating (Brazil, Mexico, Venezuela).

Conclusions.

No serious damage would result from compromise of classified information available to the IADB.

There are no overt grounds for denying normal IADB access to classified information or for expelling Chile from the IADB at this time.

Expulsion or exclusion proceedings at this time could result in embarrassment or defeat.

RECOMMENDATIONS:

1. The U.S. Delegation to the IADB and the Director and U.S. members of the Secretariat should be asked to:

(a) keep the Ad Hoc Interagency Working Group apprised of any shifts in the attitudes and activities of the Chilean delegation and of developing attitudes and problems within the IADB, with special emphasis on the likelihood of disclosures of hemispheric military attitudes during classified discussions that might have adverse consequences to hemispheric security.

(b) Take necessary steps to insure added protection of U.S. classified information both in local proceedings of the Board and on trips during which such information might be divulged. No U.S. SECRET information on Cuba should be divulged without the approval of the Ad Hoc Interagency Working Group.

2. The Intelligence Community should carefully screen Chilean officers assigned to the Chilean delegation, should alert the Ad Hoc Interagency Working Group to changes in the political character of the Chilean delegation, and should keep the Ad Hoc Group apprised of any evidence of infiltration of the Chilean armed forces that would increase the danger of compromise of classified information within the IADB.

A Study of Options for U.S. Strategy Concerning Chile's Future Participation in the Organization of American States

The following study divides the problems we may face with respect to Chile's future participation in the OAS into five categories, as follows:

I. Chilean continuation in or exclusion from the OAS

II. Possible OAS sanctions against Chile

III. Possible Chilean initiative to end OAS isolation of Cuba

IV. Chilean general tactics in the OAS

V. Possible Soviet military facilities in Chile

The Allende Government can be expected to move sooner or later to seek to weaken U.S. influence in the OAS and to reduce the effectiveness of the Organization as one generally cooperative with U.S. objectives. Allende's present decision to keep Chile in the OAS is in line with this purpose. Chile's actions will develop as a matter of timely opportunity.

In developing U.S. strategy to deal with these problems it is assumed that we would continue our present role of discreet leadership in the OAS. This means limiting U.S. visibility in the OAS insofar as practicable, playing our roles behind-the scenes as much as possible, encouraging the Latin Americans to take the initiative but, if necessary, feeding suggested initiatives to them, taking our own initiatives jointly, and consulting without stridency on all problems of importance to us. We thus endeavor to minimize Latin American sensitivity to U.S. preponderance while still assuring the degree of U.S. leadership necessary to bring about meaningful action, i.e. a discreet leadership that the Latins them-

selves expect of us. We must also recognize that, despite the effectiveness of our leadership, the Latin Americans are increasingly determined to assert their individual positions and not to slavishly follow the U.S. lead.

A basic assumption that governs all components of this study is that the U.S. will not abandon the OAS as a regional organization in favor of a smaller association bound together by military ties but progressively deprived of its character and authority as a regional organization.

I

Problem: Chilean continuation in or exclusion from the OAS

Considerations:

1. While Allende was highly critical of the OAS in his campaign platform, he has since stated his intention of keeping Chile in the OAS. Chilean officials express particular interest in utilizing the facilities of IA-ECOSOC, CIAP and the other economic-social machinery of the OAS, as well as the IDB. This present Chilean intention of staying in the OAS may change, however, as a result of Chilean internal political dynamics or evolving requirements of Chilean foreign policy.

2. The only precedent for excluding a member from participation in the OAS is the Cuban case. The Eighth Meeting of Foreign Ministers (MFM) (Punta del Este, January 1962), acting under the Rio Treaty, referred to extracontinental and Cuban subversion as background but gave as specific reasons for excluding Castro's Government the facts that (a) Marxism/Leninism is incompatible with the inter-American system and (b) alignment with, and especially military assistance from, the Communist powers breaks the solidarity and collective security of the inter-American system under the OAS Charter and Rio Treaty. (On December 2, 1961 Castro had declared the Cuban Government to be Communist.) There was a separate Eighth MFM resolution excluding the Castro Government from the Inter-American Defense Board, which had, in fact, already (April 1961) denied the Cubans access to classified material and sessions on security grounds.

3. Allende has not explicitly identified his Government as Marxist/Leninist, describing it rather as a leftist/socialist coalition.

4. Allende is intent on closer relations, including economic, with the "socialist" countries, but has not spoken of military alignment. (He has already resumed full relations with Cuba and established commercial relations with North Korea.)

5. Thus, Allende has so far avoided identifying his political system and establishing military alignments in a way that could make the Eighth MFM grounds for exclusion fit Chilean case.

6. Moreover, Allende, unlike Castro, is the product of constitutional election and at present is governing within the framework of constitutional institutions.

7. It is likely that the Chileans will be more sophisticated than the Cubans and that they will endeavor, for a time at least, to avoid giving clear occasion for requiring OAS decisions, i.e. a basis for the application of the Eighth MFM criteria for exclusion.

8. It is entirely possible that at some point down the track Allende, in order to weaken the OAS and embarrass the U.S., may explicitly challenge the OAS on the exclusion issue. This could occur particularly in connection with the growing ferment in the OAS on the Cuban issue. (See also Section III).

9. A majority of OAS members are likely to prefer living uncomfortably with Chilean participation unless and until Allende triggers grounds for exclusion. Even then, most members are likely to give less weight to the espousal of Communism internally and/or alignment with the Communist powers than they would to the factor of interventionism (although the latter was, strictly speaking, the ground for the imposition of sanctions against Cuba rather than for exclusion). Thus, despite the different criteria for exclusion and sanctions applied by the Eighth and Ninth MFMs, there is a tendency among the Latin Americans to look upon interventionism as the crux of the entire Cuba isolation policy and to think of internal Communism as a country's own affair and on military ties to the Soviet Union as a matter of concern largely to the U.S.

10. An increasing trend toward advocacy of "universality" in the U.N., shared by many Latin American countries, would militate against an additional exclusion from the OAS. U.S.

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acceptance of this principle in the U.N. would, of course, greatly complicate a U.S. position favoring the exclusion of Chile from the OAS (as it would the continuing exclusion of Cuba).

11. An attempt to exclude Chile from the OAS under present circumstances i.e., in the absence of clear grounds and gross provocation by Chile, would be most unlikely to win sufficient support. Such an effort would, in addition, be highly divisive; would, if sponsored by the U.S., be a decisive and dramatic act of open hostility toward Chile; would alienate many of our Latin American supporters; and would project an unfavorable public image.

12. In all our recent conversations with Latin American governments and their OAS representatives, none has suggested excluding Chile under present circumstances. If we were to attempt to galvanize support for such action under present circumstances, we might bring into line a small handful who more or less automatically follow the U.S. lead, such as Nicaragua, but we could expect strong opposition from such countries as Colombia, Venezuela, Ecuador, Peru, Bolivia, Mexico and the three Commonwealth Caribbean members. Argentina would be unlikely to support us because of its desire to avoid problems with its neighbor, and we could not be certain of support from Brazil, Uruguay, or most of the rest.

13. This current negative prospect would be altered in direct proportion to the clarity, extent and blatancy of Chilean actions inimical to the interests of OAS members other than the U.S., particularly acts of intervention. Even under materially altered circumstances, however, the changes in the Latin American political and social environment since the early sixties would make the task of obtaining the necessary two-thirds majority for excluding Chile considerably more difficult and more divisive than it was with respect to Cuba in 1962 (when a minimum two-thirds was barely achieved).

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OPTIONS

Option 1:

Seize early opportunities to convice other members that Chilean participation in the OAS is unacceptable and that, as soon as feasible, the Eighth MFM criteria for exclusion should be interpreted to apply to the Chilean case.

Advantages:

a. This course would, if successful, remove a potentially disruptive element from the OAS and from other organs of the inter-American system (including the IDB).

b. Whether successful or not, it would make absolutely clear our hostility to Chile and to potential like-minded governments in the Hemisphere.

c. It would be a warning to the Soviets that we were determined to limit their scope of activity in the Hemisphere.

d. It would oblige the OAS members to stand up and be counted.

Disadvantages:

a. This effort would be most unlikely to succeed for the lack of support from member countries.

b. It would be widely and publicly interpreted as a premature over-reaction.

c. It would be used by Allende to help consolidate his government's position in Chile.

d. It might provoke further radicalization of the Chilean Government and even closer alignment with the Communist powers.

e. It would provoke retaliatory action against U.S. interests in Chile and internationally, including retaliation in the OAS.

f. It would be highly divisive in the OAS (with the preponderance against us) and would alienate many of our Latin American supporters.

g. Sectors of the opposition to the Allende Government would be disillusioned by a failure of the move after having been encouraged by its initiation.

Option 2:

Begin now to maneuver the Chilean Government into withdrawing from the OAS and other organs of the inter-American system (including the IDB), through such tactics as blanket and concerted opposition to Chilean positions and proposals, harassment, and a slow-down or suspension of IDB loans and OAS technical assistance.

Advantages:

a. This would, if successful, remove a potentially disruptive element from the OAS, IDB, etc.

b. It would be less vulnerable to criticism than the frontal approach of Option 1.

Disadvantages:

a. Such tactics are likely to boomerang for lack of support or sympathy from other OAS members who wish to avoid driving Chile into adversary and extreme positions.

Disadvantages:

a. Exclusion might provoke even further radicalization of the Chilean Government (although the premise is that the latter would already have been identified as Marxist-Leninist).

b. It might drive Chile toward an even closer alignment with the Communist powers (although the premise again is that such alignment would already have been established).

c. It might provoke Chile into the further step (if not already taken) of Cuban-style support for subversive movements in certain Latin American countries, thus raising the issue of sanctions (see Section II).

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II

Problem: Possible OAS sanctions against Chile (in addition to exclusion or without it).

Considerations:

1. Previous cases of the application of OAS sanctions, taken under the Rio Treaty, have been tied directly to interventionism: (a) the application of diplomatic and partial economic sanctions against the Trujillo regime in 1960 by the Sixth MFM, which condemned that regime's acts of aggression and intervention against Venezuela; (b) the application of arms sanctions against Cuba in 1962 by the Eighth MFM, which cited Communist block and Cuban subversive activities in the Hemisphere; (c) the application of full economic and diplomatic sanctions against Cuba in 1964 by the Ninth MFM, which condemned the Castro regime for acts of aggression and intervention against Venezuela and authorized the OAS Council to discontinue these sanctions by two-thirds vote when Cuba ceases to be a threat to peace and security of the Hemisphere. The Twelfth MFM in 1967 condemned Cuba of further acts of aggression and intervention against Venezuela, Bolivia and others, urged strict application of existing sanctions and recommended efforts to discourage non-member trade, as well as cooperative security measures.

2. Several Latin American Governments seem to be moving toward the conclusion that Cuban interventionism is no longer a real threat and that sanctions, in any event, have not been effective.

3. While Allende and other members of his government have in past years given moral support to "National Liberation Movements" (e.g. Allende's participation in the Tri-continental Conference; Socialist Party support for LASO; Allende's welcome of escaped guerrillas from Bolivia), Allende as President is currently maintaining that he will respect the principle of nonintervention and as yet there are no clear signs that his government is engaged in subversive activities in other countries.

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4. Allende will probably attempt to avoid the interventionist label so as to minimize the chances of confrontations with neighboring countries and the application of OAS sanctions. It is possible, however, that in time he will choose, or be forced by his aggressive associates, to engage in identifiable interventionist activities.

5. Given the somewhat softer view of Cuban interventionism that is growing in certain Latin American countries, some of them important, it is almost certain that the necessary majority of Latin American governments would not support sanctions against Chile unless there were concrete evidence of substantial support of subversive and revolutionary activities.

OPTIONS

Option 1

Attempt to organize support for sanctions against Chile as soon as there is reiteration by Allende of his advocacy of revolution in the Hemisphere.

Advantages:

a. This would, if achieved, put the Allende government on plain notice that intervention will not be tolerated by OAS countries.

b. It might then induce him to desist from further moves in this direction.

c. Whether successful or not, it would make absolutely clear our hostility to Chile and to potential like-minded governments in the Hemisphere.

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d. It would be a warning to the Soviets that we are determined to limit the scope of their activities in the Hemisphere.

e. It would oblige the OAS members to stand up and be counted.

Disadvantages:

a. Advocacy of revolution, without concrete evidence of actual interventionist activities, would be most unlikely to engender sufficient support (two-thirds of Rio Treaty signatories) for sanctions.

b. Such a move by the U.S. would be widely and publicly interpreted as a premature overreaction.

c. It would be used by Allende to help consolidate his government's position in Chile.

d. It might provoke further radicalization of the Chilean Government and even closer alignment with the Communist powers.

e. It would provoke retaliatory action against U.S. interests in Chile and internationally, including retaliation in the OAS.

f. It would be highly divisive in the OAS (with the preponderance against us) and would alienate many of our Latin American supporters.

g. Sectors of the opposition to the Allende government would be disillusioned by a failure of the move after having been encouraged by its initiation.

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Option 2

Phase 1. Make no move in the OAS now but (a) continue to document further developments in Allende's attitude toward "armed struggle" in other countries, especially any clear evidence of actual interventionist activities, beyond propaganda, that would justify the imposition of sanctions; (b) make clear to other selected OAS members that we are watching the situation carefully and suggest similar attention by them, with provision for exchanges of hard information; and (c) continue to combat the relaxing attitude toward the associated question of Cuban activities.

Advantages:

a. We would be in harmony with the attitudes of most other member states, thus maintaining cohesion in the OAS.

b. We would avoid the disadvantages of Option 1.

c. We would project a favorable image of restraint.

d. We would retain the ability to move to concrete measures if and when called for (i.e. sanctions to restrain actual interventionist acts), having meanwhile accumulated the necessary evidence.

e. An alert stance on the part of the U.S. and others could serve as a restraint on Allende's moving toward actual interventionist acts.

Disadvantage:

a. Our position might be interpreted as showing weakness or undue tolerance for revolutionary propaganda.

Phase 2 If a persuasive body of evidence of actual interventionist activities beyond propaganda should develop in the future and if as a result there is a reasonable prospect of two-thirds support, move in concert with other Rio Treaty signatories to apply sanctions, preferably on a graduated basis in accordance with the seriousness of the interventionist activities.

Advantages:

a. The measures called for would be clearly warranted by the interventionist activities they are designed to restrain and they would be graduated to fit the level of such activities.

b. They would thus have a reasonably good chance of winning the necessary two-thirds majority of Rio Treaty signatories.

c. The graduated application of sanctions could serve as a strong deterrent to an increasing level of interventionism.

d. Such sanctions might induce Allende to abandon interventionist activities.

e. The factor of joint initiative would reduce somewhat the aspect of a U.S.-Chile confrontation.

f. Such action would minimize the split in the OAS and the alienation of support for the U.S. that would result from premature action.

g. It would place the burden of confrontation on aggressive Chile and not on the forbearing U.S.

h. Concerted action by OAS member countries might encourage domestic opposition to Allende's regime.

Disadvantages:

a. Despite the justification, there might still be considerable resistance among member countries to sanctions, given the present skepticism of some over the continuation of sanctions against Cuba.

b. Sanctions might provoke even further radicalization of the Chilean Government (although by that time it may already have been thoroughly radicalized).

c. They might drive Chile toward an even closer alignment with the Communist powers (although again such an alignment may by then have already been achieved.)

III

Problem: Possible Chilean initiative to end OAS isolation of Cuba.

Considerations:

1. Allende's government acted outside the OAS framework in re-establishing diplomatic, economic and other bilateral relations with Cuba (thereby violating a binding obligation under the Rio Treaty) and, while it informally notified member governments individually of this action, it did not notify the OAS per se.

2. It is obvious that the Allende government would like to see the OAS terminate the 1962 exclusion of Cuba (Eighth MFM) and the 1964 sanctions against Cuba (Ninth MFM), but Chile's OAS Representative has told us the Allende government does not intend to raise the matter of relaxing sanctions against Cuba in the OAS and the Allende government has not taken any initiative with respect to ending the exclusion of Castro's government from the OAS.

3. On balance, it seems unlikely that the Allende government will itself raise these issues in the OAS for the time being at least, because it would presumably wish to avoid a confrontation with other members over such an initiative in the interests of establishing its credentials as an acceptable member of the inter-American community and because there are other "respectable" members who may be ready to do the job.

4. Therefore, if these matters are raised in the OAS, it is more likely that the initiative will come from some other country or countries as a result of the soundings now taking place with respect to possible OAS consideration of the Cuba question, and that Chile would simply take sides with those advocating change.

5. If, however, Chile finds itself in an open adversary relationship with the U.S and certain other

members in the OAS or if other potential initiators of a move on Cuba back away, the Allende government might find it useful to place this divisive issue before members, thus embarrassing the U.S. efforts to hold the line on Cuba.

OPTIONS

(NOTE: These options are advanced in the framework of existing policy that calls for preventing any change in the OAS policy toward Cuba and forestalling, if possible, formal discussion of the Cuban case in the OAS. Therefore, in the context of this paper, there is no address to the conceivable option of maneuvering Chile into taking an initiative on Cuba in the OAS in the hope that its sponsorship would reduce support for the move.)

Option 1:

Prepare the groundwork now, in consultation with other OAS members, for concerted action to block any possible move by Chile in the OAS to terminate OAS sanctions against and exclusion of Cuba.

Advantages:

a. We would be prepared for this contingency.

b. This would be consistent with our general policy of preventing OAS reconsideration of the Cuba question and would reinforce our efforts to dissuade others from introducing the issue.

Disadvantage:

a. The Chileans would probably get wind of our efforts and might thus be led to take the very action we are trying to prevent.

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Option 2:

Take advantage of the Allende government's apparent present intention not to raise the Cuba question in the OAS and avoid adversary attitudes that might give it an incentive to introduce this difficult question.

Advantage:

a. We would probably achieve our objective of keeping Chile from raising the Cuba question in the OAS, at least in the short run.

Disadvantages:

a. We would probably not deter Chile from introducing the Cuban issue over time.

b. In our effort to avoid provoking Chile into introducing the Cuba question, we would be placing some degree of constraint on our ability to oppose other Chilean actions in the OAS or elsewhere.

c. Such a passive attitude might be interpreted as weakness or lack of concern.

Option 3:

Deal with the problem of possible OAS consideration or reassessment of the Cuba question on its own merits and divorce it insofar as possible from the Chilean problem, whether or not it is Chile that attempts to introduce the matter.

Advantages:

a. We would thus recognize the fact that, although it is Chile's resumption of relations with Cuba that has provoked the present flurry of re-assessment and consultations, the problem is now one of across-the-board attitudes toward OAS Cuba policy.

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b. Other member countries would recognize that we were dealing with the Cuba problem on its merits, without having our attitudes toward a possible reconsideration of OAS Cuba policy colored by our antipathy toward Chile.

c. We would thus be in a somewhat better position to pursue our policy of discouraging other members from suggesting that the OAS reopen the Cuba question.

d. We would be free of constraints on our ability to oppose other Chilean actions in the OAS or elsewhere.

Disadvantages:

a. It may seem somewhat artificial to separate these two questions.

b. We might lose the chance of capitalizing on suspicion of Chile's motives to provide an extra ingredient of support for our general policy on Cuba.

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IV.

Problem: Chilean general tactics in the OAS.

Considerations:

1. As stated in Section I, Allende has announced his intention of keeping Chile in the OAS.

2. In the Cuban case, Castro's Government between its accession in January 1959 and its exclusion from the OAS in January 1962 participated in the OAS in an increasingly disruptive manner, using it as a propaganda forum to advocate Castro's system and to attack the U.S. and certain other member countries, and introducing divisive issues when opportunities arose. Until Castro's representatives were virtually excluded from the IADB in April 1961, they had followed obstructionist tactics with respect to hemispheric defense against Communism and had engaged in polemics against allegations of Cuban support of guerrillas in certain countries.

3. Many Latin American governments and their OAS representatives, while privately expressing their own concern, have urged us to be as forbearing as possible with respect to Chile's participation in the inter-American system, and to avoid adversary relationships that might drive Chile even further along the road to alignment with the USSR and Cuba.

4. It is likely that Allende's government, at least at the outset, will be more subtle in its tactics than Cuba was and will attempt to avoid the image of the saboteur of the OAS, bearing in mind Chile's need for friends among the same Latin American member countries and for allies in Latin American movements such as CECLA.

5. Hence the Allende government is more likely to pursue lines that will try to stay short of a disruptive confrontation but will be an intensification and amplification of pre-Allende Chilean policy, such as:

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(a) The strengthening of purely Latin American organizations (e.g. CECLA) to the detriment of the OAS.

(b) Efforts at weakening the political attributes of the OAS, e.g. by strictly limiting the powers of the Permanent Council, opposing a strong Secretary General and a centralized Secretariat, eliminating the Special Consultative Committee on Security, diluting OAS action against terrorism and kidnapping, etc.

(c) Advocacy of permanent observers from all countries including "socialist" countries and the employment of "socialist" country technicians in OAS assistance programs.

(d) Advocacy of UN primacy in peacekeeping.

6. While Chile will probably try to avoid a confrontation in advocating the foregoing positions, it is likely to have even less support for them from other members than it has had heretofore because of greater suspicion of Allende's motives.

7. If sophisticated tactics do not prosper and cease to serve Chile's interest, or if Allende's government finds itself in an adversary position in the OAS and elsewhere in the hemisphere, it might then resort to more aggressive and disruptive tactics in the Cuban style.

8. If the U.S. should move toward taking overt measures against Chile in the economic and financial fields, such aggressive Chilean tactics are likely to be intensified and Chile as a consequence, would probably counteract by accusations of economic aggression, citing Article 19 of the OAS Charter.

OPTIONS

Option 1

Convince other member governments now that Chile's actions in the OAS will serve to weaken and disrupt the Organization

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and persuade them of the need for early concerted action to render Chile's participation ineffectual.

Advantages:

a. This would draw clear and early lines on issues and might undercut Chile's efforts from the outset.

b. This would demonstrate U.S. concern over the existence of another Marxist state in the hemisphere and over its actions in the OAS.

Disadvantages:

a. Other members would be reluctant to draw such clear battle lines against Chile, especially at this early stage, with the result that we might find ourselves more alone than Chile.

b. We would project an image of overreaction.

c. We would give the impression of taking positions to frustrate Chilean initiatives rather than addressing the merits of each issue.

d. Other members would see little reason for not approaching issues on their individual merits.

e. Such an early confrontation with Chile in the OAS would lead it to more aggressive and disruptive tactics.

Option 2

Phase 1. If Allende's government initially pursues a relatively restrained policy of building on and amplifying existing Chilean policy in the OAS, counter such moves on a case-by-case basis, on the merits of each, avoiding attitudes of automatic opposition but at the same time alerting other members to major shifts in Chilean policy and

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tactics so as to be able to move, in concert with other members to thwart Chilean actions.

Advantages:

a. Our attitudes and tactics would be in harmony with most other members.

b. We would be more likely to receive support when needed.

c. We would deprive Chile of the opportunity to make emotional appeals against frontal U.S. opposition.

d. We would hopefully avoid confrontations that would lead Chile to more aggressive and disruptive tactics.

e. We would be credited by fellow members, and publicly, for acting with poise and restraint.

Disadvantages:

a. Our position might be interpreted as a sign of undue tolerance, weakness or unconcern over the presence of a Marxist government in the OAS.

b. Chile might thus be in a more favorable position to influence other members.

Phase 2. If Chile should turn to more disruptive and aggressive tactics, concert with other members to render Chilean participation ineffectual.

Advantages:

a. Our reaction would be commensurate with the problem to be confronted.

b. We would, under the circumstances, have wide support from other members.

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c. Chile would be effectively isolated in the OAS and might then withdraw from it.

Disadvantages:

a. Chile's isolation and withdrawal might provoke further radicalization of the Chilean Government and even closer alignment with the Communist powers (although such radicalization and alignment may already have occurred by that time).

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V.

Problem: Possible Soviet military facilities in Chile

Consideration:

If Soviet military facilities affecting hemispheric security were to be established in Chile, the OAS, while not the focal point of our actions, would nevertheless play an important role.

In the above eventuality, we judge Soviet and Chilean actions would be viewed with such seriousness in the hemisphere as to assure in all probability a two-thirds majority for the adoption of appropriate measures commensurate with the threat.

Just as in the 1962 Cuban missile crisis, in which United States action received unanimous support of the OAS member states, the OAS Council, under authority of the Rio Treaty, could provide useful legal justification and political support for our actions.

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Legal Implications of Chilean Trade with Communist Countries

I. Pertinent Agreements and Legislation

A. OAS Decision of 1964

The Ninth OAS Meeting of Foreign Ministers (1964), acting as Organ of Consultation under the Inter-American Treaty of Reciprocal Assistance, adopted certain measures against Cuba including the suspension of -

diplomatic and consular relations;

"trade, whether direct or indirect, with Cuba, except in foodstuffs, medicines and medical equipment that may be sent to Cuba for humanitarian reasons;" and

"all sea transportation between their countries and Cuba, except for such transportation as may be necessary for reasons of a humanitarian nature."

These measures are binding under the Rio Pact, but there are no specific procedures or sanctions for their enforcement. Mexico has not accepted these measures and does not comply with them.

B. U.S. Legislation

United States legislation provides certain sanctions against third-country trade with Cuba and North Vietnam.

1. Under Section 103(d)(3) of the Agricultural Trade Development and Assistance Act of 1954 (ATDA), Chile would become ineligible for further PL 480 commodity sales in the event

it should resume trade with Cuba by making government sales to that country. The President may, however, authorize PL 480 sales in the national interest if the sales to Cuba are limited to medical supplies or non-strategic agricultural materials or food commodities.

2. If Chile should make government sales to North Vietnam, or if it should permit ships or aircraft of Chilean registry to transport equipment, materials or commodities to or from Cuba or North Vietnam, Chile would be precluded from receiving any new loans or other assistance as well as further PL 480 sales. (Sections 620(a)(3) and (n), FAA Section 103(d)(3), AIDA.) The President may authorize assistance under the FAA, however, if he determines that such authorization is important to the security of the United States. (Section 614, FAA.)

3. Although there is no provision of the Foreign Assistance Act applicable to Chilean Government sales to Cuba, the 1970 Foreign Assistance and Related Appropriations Act would prohibit furnishing assistance to Chile in the event of GOC sales to Cuba or to North Vietnam of "Battle Act" items or other materials of primary strategic significance, including petroleum products. (Sections 107(a) and 116--these provisions probably will not be carried over in the new appropriations legislation.) The President may waive this limitation if he deems assistance to be important to the security of the United States. (Section 614, FAA.)

4. The only pertinent statutory provision that would preclude the disbursement of funds obligated under AID loans is Section 103(b) of the Mutual Defense

Assistance Control Act (Battle Act). This section requires the termination of assistance to any nation which knowingly permits the shipment of arms and other designated strategic materials to communist areas that threaten U.S. security. Again, the President may authorize aid under the FAA if he deems such authorization important to the security of the U.S. (Section 614, FAA.)

5. The Battle Act provisions relating to strategic materials, and similar provisions of the Export-Import Bank Act prohibiting the extension of credits to any nation that furnishes by direct governmental action goods, supplies, military assistance or advisors to a nation engaged in armed conflict with the U.S. (Section 3), are the sole statutory sanctions applicable to Chilean trade with communist countries other than Cuba and North Vietnam.

6. In the event Chile should provide items of economic assistance to the present government of Cuba, further assistance under the FAA would be prohibited unless the President finds that such aid is in the national interest. (Section 620(a)(1), FAA.)

7. Further assistance under the FAA or any other act is prohibited to any country which furnishes equipment, materials or commodities to North Vietnam so long as that regime supports hostilities in South Vietnam. (Section 620(n) FAA.) The President may waive this restriction if he determines that the assistance is important to the security of the U.S. (Section 614, FAA.)

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Apart from Battle Act provisions concerning strategic materials, there are no statutory sanctions against private trade between Chile and any communist country. There are no U.S. statutory sanctions applicable to purchases by Chile from any communist country.

II. Implications and Options

The primary--and probably early--implication of a resumption of Chilean trade with Cuba, North Korea or other communist countries would be public and Congressional pressure upon the Administration to explain its intentions concerning the pertinent legislative sanctions. While we would not expect the public to know much about the precise legislation in question, we could anticipate sharp queries, even from the uninformed, along the lines of "what is the U.S. going to do about this trade" or "why do we give aid to a Marxist country which helps our enemies," or, conversely, "are we going to overreact in the face of a relatively unimportant threat to our interests?"

The nature and strength of such pressures would, of course, be conditioned by the nature of the trade. If the trade consisted of foodstuffs or medical supplies to Cuba, for example, the reaction would probably be less significant than if the trade consisted of strategic materials to North Vietnam or North Korea.

The immediate operational decision with which the Administration would be faced would be whether--and in which instances--to apply the waiver of the sanction. "Importance to the U.S. national security" is the criterion on which such a waiver would have to be based. Any judgments on the applicability of this criterion would necessarily represent an amalgam of factors, including such considerations as the reaction of Chile and other Latin American countries if the sanction were to be applied and the reaction of other nations outside the Hemisphere.

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The gross options available to the Administration relating directly to the cited sanctions are simple, i.e., to apply the sanction in each pertinent case or waive it. In addressing this question, we would have to determine the relationship of our action to two fundamental objectives of U.S. policy toward Chile, i.e., (1) strengthening the position of anti-communist forces within Chile, and (2) persuading or preventing the Allende government from effectively disrupting U.S. relations with other countries of the Hemisphere and the inter-American system itself.

A pertinent element in the consideration of the fundamental decision is the fact that the sanctions in question are relatively mild. They involve declaring Chile ineligible for new PL 480 sales and precluding Chile from further economic assistance. The disbursement of present loans would not be affected except in the unlikely event that Chile should provide Battle Act items to communist countries (copper is not such an item).

These sanctions are not as severe or as broad as those provided under U.S. legislation not directly related to the question of Chilean trade with communist countries. For example, the Export Control Act of 1949 and the Trading with the Enemy Act (1917) provide far greater coercive capability. These and other sanctions that might become available to the Administration are discussed in Section III of this paper.

Application of the sanctions described in paragraph I.B. would nonetheless have possible effects of foreign policy significance for the Administration. These effects might be as follows:

On the one hand -

Terminating assistance (or PL 480) to Chile might provide Allende a plausible basis for posing as a victim of the U.S., thus rallying the Chilean public to his

support and gaining him sympathy in other sectors of Latin American opinion.

Such action might be viewed by other Latin American governments and Hemisphere public opinion as unreasonably coercive relative to the provocation. Governments outside the Hemisphere might react similarly, particularly those which themselves conduct trade with Cuba or other communist countries.

Such action by the U.S. might be viewed as inconsistent with our attitude toward Mexico, which carries on some trade with Cuba, which did not accept the 1964 OAS decision, and which enjoys unusually cordial relations with us.

Uruguay, Trinidad and Tobago, and other Latin American countries reportedly considering resumption of trade with Cuba might resent U.S. retaliation against Chilean trade with Cuba and might well wonder what our reaction would be should they follow a similar course.

Our action might precipitate retaliation by the Allende regime against U.S. investors or other U.S. interests in Chile.

On the other hand -

Application of sanctions would demonstrate the serious concern with which we view economic and commercial linkages between a Hemispheric nation and communist countries. It would indicate to our friends and allies, particularly those in Latin America, that they can count on us to be both consistent and determined (saving the Mexican case) in our continuing opposition to rapprochements by Chile or other Hemispheric governments with countries avowedly unfriendly to the U.S.

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In the event of Chilean trade with Cuba, application of sanctions would underline our continued support for the 1964 OAS decision, a decision what we believe continues to command majority Latin American adherence.

It would be a clear signal to Allende that we mean what we say, that our concern is serious not trivial. He may thus ask himself whether greater provocation will be met by heavier retaliation.

It would demonstrate a willingness to abide by the intent of legislative prescription.

III. Other Sanctions

In addition to the legislative sanctions that might be directly triggered by Chilean trade with communist countries, the following additional sanctions are available in certain circumstances or under specified conditions:

Under existing agreements with Chile the U.S. Government retains in large measure the right unilaterally to control the pipeline of military assistance and military sales, and the disposition of U.S. naval vessels on statutory loan or lease. Balances of AID loans not committed through irrevocable Letters of Credit or other payment arrangements may be suspended if further disbursements would violate the legislation governing AID, or if AID determines that an "extraordinary situation" has occurred which makes it improbable either that the purpose of the loan will be attained or that the Borrower will be able to perform its obligations." Project agreements for grant technical assistance normally provide for termination upon thirty days written notice by either party, and the implementing contracts normally provide for termination in the best interest of the Government with fair reimbursement to the contractor for costs resulting from such termination.

Similarly, the standard form for military sales agreements, DDF 1513, provides that the USG "under unusual and compelling circumstances when the best interest of the U.S. requires it, reserves the right to cancel all or part of this offer at any time prior to the delivery of defense articles or performance of services. It shall be responsible for all costs resulting from cancellations under this paragraph." This right of cancellation applies to all FMS pipeline items up to the point of delivery, normally at the initial point of shipment, whether paid for with cash in advance or on credit.

The USG can also control the delivery of any commercially supplied military items by withholding the necessary export licenses. In the event of a FMS credit arrangement with a commercial supplier, however, USG liability may result.

The loan agreements and leases under which U.S. naval vessels are being utilized by the GOC provide for the return of such vessels to the U.S. control upon request.

The President could determine that Chile is a "communist country" under Section 620(f) of the FAA and a country "dominated by a communist government" under Section 103(d) of the ATDA, thus precluding assistance and sales of agricultural commodities for foreign currencies under these statutes. The President could waive the restriction on assistance if he deemed that such assistance were vital to the security of the U.S. and would promote the independence of Chile from international communism, but he would be required to determine that Chile is not controlled by the international communist conspiracy.

The President could exercise the authority provided by the Export Control Act of 1949 to prevent the export from the U.S. of commodities the shipment of which either would be inconsistent with the foreign policy

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of the U.S. or would impair the national security. This authority has been used to prohibit all exports to Cuba, Noeth Vietnam, Communist China, North Korea, and Southern Rhodesia. Licenses also are denied for any export which is determined to be a significant contribution to the military or economic potential of the communist countries.

The President could exercise the authority provided under the Trading with the Enemy Act of 1917 during a time of war or period of national emergency declared by the President to prohibit financial transactions with a foreign country and transactions involving any property subject to U.S. jurisdiction in which a foreign country or national has an interest. (The Declaration of Emergency issued by President Truman in 1950 as a result of the Korean conflict is still in force, and the Trading with the Enemy Act has been used as authority for the Cuban Assets Control Regulations and regulations relating to limitation of direct U.S. investment overseas. The 1950 Declaration of Emergency made reference to the dangers of "communist imperialism" and the "increasing meanace of the forces of communist aggression.")

The array of favorable and unfavorable effects of applying any or several of these additional sanctions is different only in degree from the effects already listed for the "standard" sanctions. The unfavorable reaction could be expected to be strongest were sanctions to take on the color of "economic warfare" as might be implied from a severe application of the Export Control Act or the Trading with the Enemy Act. In that event, Chile might well attack the U.S. in the OAS and perhaps in other forums for "economic aggression" or "unlawful intervention." Chile might call attention to Article 19 of the OAS Charter which provides that "no state may use or encourage the use of coercive measures of an economic or political character in order to force the sovereign will of another state and obtain from it advantages of any kind." Similar provisions have been adopted in the UN Declaration on Principles of International Law Concerning Friendly Relations and Cooperation among States, and UNGA

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Resolution 2131 on nonintervention. If strong sanctions were applied in the absence of demonstrable Chilean interventionism or threatening military ties with the USSR, Chile would find some public and more private sympathy from Latin American governments for the "economic aggression" charge. An at least equally sympathetic response could be anticipated from some some sectors of public opinion in Latin America.

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Plans for Congressional Consultations
on U.S. Policy Toward Chile - January 1971

Soon after the 92nd Congress convenes in January 1971, the Department of State, supported by other interested agencies, including USIA, AID, DOD and CIA, will make a concentrated effort to hold confidential discussions concerning U.S. policy toward Chile including recent developments, future possibilities and some of the problems we shall be facing. Targets for these discussions should be Congressional leaders, Chairmen and ranking opposition Members of relevant Committees, and selected Committee Staff Members. Methods to be employed will range widely from general discussions in which Chile is included with other items, through one-to-one briefings and discussions, to group briefings in the Department. A decision whether to favor formal hearings should be delayed until after the informal consultations. General responsibility for directing consultations will lie in the Bureau of Congressional Relations. Soon after determining the date to begin consultations, assignments of officer responsibilities will be made in coordination with other Departments and agencies concerned, to insure qualified back-up on the various aspects of interest.

WHOM TO CONSULT

(some leadership changes should be expected)

SENATE

Leaders

Mike Mansfield
Edward Kennedy
Hugh Scott
Robert Griffin
Richard Russel

Party Policy Committees

Gordon Allott

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Discussions with the above should be general rather than specific, with Chile being only one of several items discussed, and should be conducted by David Abshire. Leaders should be told that others will be briefed in more detail, but, if they desire, they will be so briefed too. If they choose to be briefed, Charles Meyer will brief them.

Substantive Leaders

Foreign Relations Committee

J. W. Fulbright
George Aiken
Frank Church

Armed Services Committee

John Stennis
Margaret Chase Smith

Foreign Operations Subcommittee

Gale McGee

Senate Staff

Carl March
Pat Holt
Norville Jones
Maurice Pujol

HOUSE

Leaders

Carl Albert
Gerald Ford
(Majority Leader)

Discussions with the above should be general rather than specific, with Chile being only one of several items discussed, and should be conducted by David Abshire. Leaders should be told that others will be briefed in more detail, but, if they desire, they will be so briefed too. If they choose to be briefed, Charles Meyer will brief them.

Substantive Leaders

Foreign Affairs Committee

Thomas Morgan
William Mailliard
Dante Fascell

Armed Services Committee

L. Mendel Rivers
William Bates

Foreign Operations Subcommittee (Appropriations)

Otto Passman
Garner Shriver

Subcommittee on Foreign Operations and Government Information (Government Operations)

John Moss
Ogden Reid

House Staff

Roy Bullock
Marion Czarnecki

WHO SHOULD CONSULT

Most substantive consultations will involve Charles Meyer or his deputies, assisted by representatives of other Departments and agencies as occasion requires. Senator Church and Congressman Fascell should be invited to lunch separately in the Department. ARA and INR/RAR will prepare a twenty minute factual briefing which will be performed twice, on the occasion of two breakfasts, to be held in the Department and hosted by Mr. Meyer, one for substantive Leaders of both Houses and the other for listed Congressional Staff.

TIMING

Initial consultation should cover a three-day period.
Day 1 - discuss with Leaders and invite Senator Church to lunch.

Day 2 - breakfast for Substantive Leaders and lunch with Congressman Fascell. Day 3 - breakfast for Congressional Staff and special briefings for those who have missed earlier opportunities. It is not necessary for the above three "days" to run consecutively.

CONTENT AND TONE

The content of the discussions will be adjusted in specificity to the member. The talking papers will be prepared by the Ad Hoc Interagency Working Group for submission to the SRG for approval.

Some members of Congress have recently expressed strongly their anger at not being consulted as should be true when bipartisanship in foreign policy is desired. Furthermore, there is a widespread feeling that consultations come too late, involve matters of limited importance, and are more informings than consultations. The lack of a major public Congressional clamor over Chile-U.S. relations does not mean lack of Congressional interest. The failure to consult Congress before January and the wait to consult until after the completion of the NSC process are matters of potential vulnerability. Nevertheless, our approaches should stress a tone of dialogue, an examination of where we stand on Chile at the time, a search through the coming problems, and the need for confidential dialogue.

We should consider recommending that Committee Staff prepare a confidential report on the problem to their Committees. We should offer our assistance in preparations for such a report.

THE PRESS

Thought must be given to whether the press is to be notified of our actions. If not, we must stress the need for keeping confidences in the process of Congressional

consultations. Yet we should examine further if such an expectation is wise or realistic. If not, a press strategy should be developed concurrently with, but be complemented somewhat behind, the Congressional strategy.

OPIC

A special problem may arise over possible expropriations of U.S.-owned companies holding investment guarantees. We should be prepared to write a specific scenario for the OPIC problem if it becomes clear that it is indeed a problem, and having in mind the possibility of a future request for a supplemental appropriation.

[redacted]

Status Report on U.S. Actions to Discourage Further Resumptions of Relations with Cuba

As reported to the SRG by the Ad Hoc Interagency Working Group on November 17, the Department of State on November 15 instructed all ARA posts to inform host governments of our November 13 public statement deploring Chilean resumption of relations with Cuba, to encourage similar unilateral statements and to review with host governments the U.S. position in favor of maintaining sanctions on Cuba. A summary of responses is at Enclosure 1.

On November 17, the Department of State supplemented the instruction mentioned above with a circular message to all ARA diplomatic posts containing a detailed refutation of Allende's public justification of his decision to renew relations.

Our OAS Delegation is continuing consultations with counterparts in Washington, and during his attendance at the inauguration ceremonies of President Echeverria in Mexico City November 28-December 5, Assistant Secretary Meyer will have extensive consultations with Latin American leaders consonant with the policy guidance of NSDM 93 and of SRG decisions. He will then return in time to make an oral report to the SRG.

SRG principals have approved a draft cable instruction (Enclosure 2) on dissemination to Latin American Governments of covert information on Chilean activities, which are adverse to the security interest of other American republics and awareness of which should serve to discourage other countries from following Chile in renewing relations with Cuba.

[redacted]

In addition, a cable instruction to ARA posts is being prepared and cleared with SRG principals which describes in detail recent Cuban efforts to export its revolution. This up-dating of information on Cuban activities will support our contention that Cuba has not abandoned its policies to export its revolution, provide a renewed basis for declaring that U.S. policy of isolating Cuba remains unchanged, and provide the opportunity for our Ambassadors to consult in detail with host governments with a view to persuading them to support the continued application of the OAS resolutions affecting Cuba.

Enclosure 1

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Latin American Reactions to Chilean Renewal of Relations with Cuba

Unilateral public statements of adherence to OAS decisions were made by Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, Honduras, Uruguay and Venezuela. The Foreign Ministers of Brazil and Costa Rica pointedly reasserted their opposition to resumption of relations with Cuba or re-admission of Cuba to the OAS. However, only the Costa Rican was openly critical of the Chilean action. Several others privately expressed adherence to OAS decisions, but seemed reluctant to speak publicly. President Velasco of Ecuador elaborated upon his Foreign Minister's statement of support for the OAS position by saying that Cuba should not be maintained in permanent excommunication.

The Foreign Ministers of Guatemala and El Salvador seemed receptive to making statements similar to ours and in addition urged a concerted effort to block Chilean candidates for Inter-American and international offices as a reaction to Chilean contravention of OAS decisions.

Disappointingly, Argentina said publicly that it considers Chile's action of domestic Chilean concern, although this was obviously stated with Argentina-Chilean relations in mind. Panama will consult with other American governments before deciding on a public statement.

On the possibility of an OAS meeting on the general subject of Cuba, the Colombian Foreign Minister announced that Colombia would support convocation of an OAS meeting of Foreign Ministers as soon as possible to reconsider the Cuba case. He stated that diplomatic relations could be resumed

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if Cuba commits itself to a policy of non-intervention, adding that he understood there had been a change in Castro's aid to guerrillas. The Uruguayan and Colombian Foreign Ministers expressed concern in private over possible further eroding of OAS decisions and over a resultant weakening of the Rio Treaty under which they were made. They thought a meeting of the OAS might be called to review positions one way or another. The Venezuelan and Ecuadorean Foreign Ministries are also weighing the prospects of OAS discussion, and there are indications that the latter may be moving toward advocacy of lifting sanctions as no longer needed or useful. These governments plan to consult with others over the possibility of an OAS meeting.

On the other hand, the Brazilian Foreign Minister has doubts over the outcome of an OAS meeting; the Salvadorean thinks a meeting would be counter-productive; and the Paraguayan, while also supporting OAS decisions, thinks little can be done by the OAS.

The Foreign Minister of Mexico spoke approvingly of Chile's action, saying that although Mexico would not raise the issue in the OAS, it would vote "in accordance with its traditional principles" if it is raised. The Peruvian Government stated that it favored fresh consideration of factors surrounding Cuba's exclusion from the inter-American dialogue. The Peruvian Foreign Minister had said earlier that the Cuba question should be re-examined but only within the OAS context and the Prime Minister added that Peru would not resume relations until Cuba ceased exporting revolutions. Our Ambassador believes that Peru would, in fact, vote to withdraw sanctions. The Bolivian Foreign Ministry has privately told us Bolivia will not propose any change in OAS policy,

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but our Embassy warns that "Third World" advocates in the Government will be working for a "liberalization" of Bolivia's position on Cuba.

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Enclosure 2

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Draft Circular Telegram to all ARA Chiefs of Mission

As part of USG consultation with selected Latin American governments on Chile to assure their understanding and to promote their sharing of our concern over Chile, we wish you to brief your diplomatic contacts on covert and overt information which supports this objective. We have been informed by CAS Hqs that it periodically prepares intelligence items for its LA stations for use with carefully selected contacts in support of above objective. CAS Hqs has informed its station chiefs that suitable items will be discussed with you so that you may consider passing them to selected contacts whom it would be useful to influence. The selection and dissemination of CAS material to such contacts should be closely coordinated with the CAS.

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Status Report on U.S. Stance on IDB Lending to Chile

The U.S. Executive Director of the Inter-American Development Bank understands that he will remain uninstructed until further notice on pending loans to Chile. As the loans for Chile are from the Fund for Special Operations, where an affirmative vote by the U.S. is required for loan approval, this will effectively bar approval of the loans until the SRG decides otherwise.

The Ad Hoc Working Group will submit to the next meeting of the Senior Review Group a report on the status within the IDB of Chilean loan requests, and any pertinent recommendations.

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Status Report on Restrictions on IBRD Lending to Chile

There are three approved IBRD loans to Chile for which disbursements have not been made. On two of these--a $1.5 million loan for education through CORFO and a $7 million loan to the Ministry of Education--the conditions precedent to disbursement have been met. On the third--a $10.8 million loan to the Ministry of Public Works for road construction--a legal opinion called for by the loan agreement has not yet been received but is expected in December.

These three loans, which were approved by the Executive Directors and for which loan agreements were signed before the Chilean elections, are beyond recall.

There is currently a further loan-project for Chile under active preparation within the IBRD. It amounts to $21 million and would finance continuation of a livestock improvement loan begun in 1963. The purpose of the program is to provide loans to farmers for pasture improvement and for acquisition of machinery, fencing and buildings. An IBRD staff team is scheduled to visit Chile in December to work out details of the loan. If satisfied with the results of the trip, a recommendation of a loan committee to make the $21 million loan could be expected to come before the Executive Directors in January or February.

A second and important purpose of the December IBRD staff visit to Chile is to discuss with the new government a bank staff report on Chile completed last August. The report identifies economic policy issues confronting Chile and recommends a series of policies which the staff regard as consistent with Chile's achieving a satisfactory rate of sustained growth. Unless the staff is satisfied that the Allende government's policies are to be consonant with the

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report's essential recommendations, the IBRD, using its own normal criteria, would restrict lending to Chile. The staff report and the Bank's evaluation of the Chilean response to it are thus of critical importance.

By agreement between the Acting Assistant Secretary of State for Inter-American Affairs and the U.S. Executive Director of the IBRD, the Department of State is preparing for the Executive Director specific orientation questions concerning areas where Chilean performance and policies may be most vulnerable with respect to future IBRD financing. The Executive Director will routinely and discreetly convey these questions to Bank staff members concerned so as to insure adequate attention to them by the team visiting Chile and by other staff elements within the Bank, but without the hand of the U.S. Government showing in the process.

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Status Report on Discussions with
Export-Import Bank on Discontinuation of New Credits
and Guarantees

Assistant Secretary Meyer and Export-Import Bank President Kearns have discussed this matter. Mr. Kearns is ready to cooperate fully but has requested specific guidance on appropriate cutoff points. The definition of "new credits and guarantees" is made difficult by the variety of Bank credit and guarantee instruments and the revolving nature of much of the Bank's business. Additional complicating factors are the possible risk to existing Export-Import Bank exposure in Chile, potential damage done to the interests of U.S. nationals by the termination of certain Bank activities, and the publicity which would inevitably be generated by most specific Bank actions in this area.

These various elements are being urgently sorted out by Department of State and Bank officers. As soon as this process is completed, a further report, with concrete recommendations, will be made to the SRG.

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U.S. Scientific Projects in Chile

DISCUSSION:

A radio astronomy observatory is being constructed at Cerro Tololo in southern Chile by a non-profit U.S. corporation under contract with the National Science Foundation. Approximately $20 million has already been spent, with an additional $2 million projected over the next two or three years before completion. The project has a written agreement with the University of Chile, and is covered by a Chilean law (which also applies to the Soviet observatory near Santiago). Allende told the U.S. manager that he wants the project to continue.

Some of our research activities in the Antarctic involve the use of Chilean territory for transit (including port calls) and/or staging. In addition, the Research Vessel Hero spends most of the year in Chile, sailing to the Antarctic during the "summer" season. Chile is customarily invited to send a representative (or more) on all such flights and cruises, as are occasionally other countries as well. The Antarctic Treaty calls for cooperation in scientific research, and cooperation among the various signatories has in fact been very good.

It is, of course, possible that either or both of these projects could at some point become the objects of politically motivated attack ending in demands for their termination or expulsion. Up to now, however, they have not been political issues of any import, nor does their purely scientific and unclassified nature lend itself to political exploitation. Similarly, their continued operation is not susceptible to interpretation as support for an Allende government.

We believe that while these scientific programs involve Chilean participation, they are clearly of benefit and interest principally to the U.S. Furthermore, their relocation would be difficult (in terms of finding suitable alternative sites) and costly in terms of both money and time lost.

RECOMMENDATION:

The Cerro Tololo observatory project and the Antarctic research activities should proceed in a routine way with the clear understanding that the agencies involved in these projects will maintain close consultation with the Office of Andean and Pacific Affairs.