

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

ACTION
July 1, 1975

MEMORANDUM FOR: GENERAL SCOWCROFT
FROM: STEPHEN LOW *SL*
SUBJECT: Disarray in Chile Policy

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During the last year and a half we have done what we could to support the Chilean Government in its attempts to get its economy under control and defend itself against the possibility of Peruvian aggression from the North. At the same time we have made clear to the GOC the problems which are created for us by the continuing reports and criticism of denial of human rights there. The President and Secretary have both expressed to Chilean Government representatives U.S. support and sympathy for its efforts to rebuild the nation. We made a major, successful effort with our European allies to get a new Chilean debt rescheduling approved by the Paris Club. We have a large PL 480 program and have urged the IBRD to support loan projects. We have promised to sell military spare parts as soon as possible.

There is strong criticism of this policy from the Congress and from within the U.S. Government. Human rights advocates in both Houses forced us to interrupt military sales and credit. A number of officers in the Embassy at Santiago have written a dissent to the CASP submission which was considered in a pre-IG meeting at State. Their dissent, which was strongly supported by the Policy Planning office in ARA, called for cutting off all economic and military assistance to Chile until the human rights situation improved. All other agencies supported the Ambassador's recommendation, which called for continued support, together with the stepped-up representations on human rights.

One of the main elements of U.S. assistance to Chile was to be a Housing Guarantee loan of \$55 million. The loan had been approved by the Inter-Agency Chile Coordinating Committee and Development Loan Committee. It had been announced to the Congress, which had

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By *WJ* NARA, Date 8/27/96



no objection, and to the Chileans, who were enthusiastic about it. At the last minute, a few days before the end of the fiscal year, a decision was taken, without consultation, by ARA to reduce that loan to \$30 million, with the possibility left open of making up the difference during the second half of the year. The Chileans have not been informed, but other government agencies are intensely annoyed.

On military sales, we had held off until July first, as a result of Paragraph 25 of the Foreign Assistance Act, which restricted FMS transactions with Chile. The CRA contained no such restriction or implication of one, though a number of Senators (Kennedy, Brooke, McClellan) are under the impression that it continues to apply. However, the lawyers, State as well as Defense, are agreed that the restriction lapsed with the Act. The Senators' failure to understand this does not create any legal obstacle. ISA is addressing a memo to Secretary Schlesinger asking his approval to proceed with \$5 million already approved by HAK (and the President) made up of naval spares, sidewinders and a substitution of F-5B Trainers for F-5E Fighters. It also plans to write the Secretary concerning a remaining nearly \$50 million of valid contractual obligations signed with the Chileans but suspended because of Paragraph 25. Carl Maw apparently believes that he has an understanding with Defense that it will not authorize sales to Chile without checking back with him. My understanding was that Defense could go ahead on its \$5 million previously authorized by State (and us) if there was nothing in the CRA to prohibit it. ARA wants a hold put on everything, including the \$5 million, until the matter can be reconsidered.

Chilean President Pinochet called in our Ambassador on Monday to protest the run-around being given his representative in Washington in terms of arms sales. He also expressed his continuing preoccupation with the threat from Peru now that the installations have been completed for the Soviet tanks and other military equipment 150 miles from the Chilean border.

The Chileans will be very upset when they learn of the substantial reduction in the Housing Guarantee loan. If we now authorize the \$5 million military sales, the signals being transmitted to them will indeed be confused. If we don't, the signals will be clear, but do they conform to the policy the Secretary wants to follow?



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Treasury is annoyed at the Housing Guarantee decision which it considers a departure from agreed policy. It wants guidance on what it should do in response to questions it is getting from New York on a \$200 million commercial loan being floated there, and on how to handle pressure to urge the IBRD to process more loan projects. All agree that the Chilean economy is in real trouble as a result of the steady decline in the copper price. An indication that the U.S. is withdrawing its economic support could dry up sources of external capital and precipitate an economic crisis.

In order to straighten this out, there may be some point to holding an SRG, which would give other agencies an opportunity to express their views and clarify guidelines for future policy.

RECOMMENDATION

That you discuss this with the Secretary and schedule an SRG on the subject soon.

Approve Disapprove

Clint Granger *CG* concurs.

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