

RD062C

DECONTROL

Chile Project (#S199900030) *Good*
U.S. Department of State
Release Excise Deny
Declassify: In Part In Full
Exemption(s) _____

~~LIMITED OFFICIAL USE~~
UNCLASSIFIED

SUBJECT: Church Subcommittee Hearings on Multinational Corporations - March 28, 1973

John Hennessy

Hennessy began with a prepared statement (copy attached).

Asked if ITT had asked Treasury to support a cut-off of loans to Chile, Hennessy made clear in his reply that contacts were primarily to get information, that the major ITT thrust was to provide its side of the story, and its opinion clearly was that Chile had made itself ineligible for loans.

Regarding pre-election contacts Hennessy said that they dealt primarily with other ITT problems (Ecuador, Peru), and to the best of his recollection not with Chile. Questioned, Hennessy said he was not aware of the substance of the meeting between Connally and Geneen.

Church asked when the decision was made to terminate assistance to Chile. Hennessy pointed out that U.S. bilateral aid had already been phasing down, and that with respect to the IFI's the final decision was up to the board. He pointed out that when a new government takes office with significantly different policies, it is normal to take a look before pushing forward with new loans.

Church cited the 1972 CIAP review of Chile to contest the idea of Chile's lack of creditworthiness, but Hennessy pointed out that the high growth rate mentioned by the CIAP came at the high cost of squandering the substantial foreign reserves, a money supply increase of 114 percent, and a huge fiscal deficit.

Hennessy agreed with Church's resume that the IFI's cut off credit to Chile on economic-performance grounds and not because of the GOC's nationalization policies, adding that this was the first consideration, so the others were never reached. Hennessy quoted MacNamara's October

~~LIMITED OFFICIAL USE~~
UNCLASSIFIED

1972 statement to this effect.

Asked by Percy what the USG is doing regarding Chile's two repudiations of debt, Hennessy reviewed the Paris Club negotiations and agreement, and the series of bilateral discussions held since then.

Case asked Hennessy if he had participated in USG discussions about making things tough economically for Chile. Hennessy said there were many discussions, that USG had a large stake, that frankly there was very little the USG could do to make another country meet its obligations, that the introduction of the copper legislation had raised questions and doubts, but that in January 1971, we decided to give Chile the benefit of the doubt and supported two IDB loans. He added that Treasury was subsequently criticized for this by two House committees.

Asked

/ for his views on whether the many reports of efforts to block Allende had helped him politically, Hennessy deferred to the Department for political judgment but allowed that in our meetings with Chilean representatives over the past year it has been clear that the "ITT case" had made it more difficult to reach an overall solution.

Case pressed at length about whether Hennessy himself had ever given instructions to US executive directors in the IFI's to go slow on loans to Chile. Hennessy's response was essentially that he and others had conveyed Treasury's opinion that Chile was not eligible but that the banks themselves then decided whether they agree or not.

After confirming with Hennessy that it was USG policy to extend no credit to Chile because Chile was not credit-worthy, Church asked why a \$10 million loan to the Chilean military had been extended by the USG in 1972. Hennessy noted the amount was small, suggested the credit may have been part of an ongoing program, but acknowledged "some inconsistency". Asked about Treasury's involvement in the decision, Hennessy said Treasury had been asked about the credit aspect and had raised questions. He then mentioned the alternative of a cut-off, and reiterated that the amount was modest.

Case expressed interest in whether some other course than clamping down on Chile would have helped. Hennessy said he thought we had leaned over backwards, particularly in view of US domestic and congressional pressures. He described our attitude as passive and entirely proper, stating we held out our hand and have kept it out. He noted this policy has been criticized "from both sides".

George Clark and Ray Lillicotch, FNCB

After reading prepared statements (copies attached), the FNCB representatives under questioning stated that they had received no approaches from any USG agency, or plans to cut back on credits or in any other way sow economic distress in Chile, that they were unaware of any such plans, that attempts to influence political developments in foreign countries are inappropriate for US corporations, and that such attempts are rare.

Lillicotch (former FNCB rep in Santiago), after confirming that he was a regular attendee at Korry's monthly meetings with US businessmen, was asked what Korry's advice had been in the meeting just after the popular election. Lillicotch replied that it was to remain neutral and take no unilateral action, and added that Korry was very much against any company taking action against the government.

Clark made the point (also see statement) that FNCB actually extended new credits to the GOC in the fall of 1970. Church said that FNCB's four principles (see statement) should be framed and sent to Geneva.

James Green, Manufacturers Hanover Trust

Under questioning, Green declared no solicitations had been made by anyone at all for campaign contributions or participation in any plan of economic pressure or anything else to block Allende, that the only contact with ITT bore on a loan made in 1967 directly (through a Chilean bank) to Chiltelco, that efforts by US companies to block Allende would have been improper, etc.

Green discussed the increase in MHT's lines of credit to Chile in the fall of 1970, noted that at election time MHT had written to "most of its correspondents" saying it intended to carry on business as usual, and explained that disappearance of the lines since

then has been gradual, based entirely on banking principles in view of the rapidly deteriorating economic and financial situation and resulting entirely from MHT's own judgment.

William Ogden, Chase Manhattan Bank

Under questioning, Ogden stated that he was never approached by the USG or ITT regarding campaign contributions or economic-problems plans, that his bank would have rejected any such approach, that his bank does not gather reports like the Hendrix-Berrellez memos, that it is inappropriate for US companies to get into local politics, that it is rare for MNC's to get into local politics, that uncompensated expropriation and changes in the rule of the game discourage private capital, that the Chilean economy was in good shape in 1969 but Chase began to phase down its lines there in late 1969 because of its concerns over Chile's long-term capacities to repay its debt-obligations, but in the interim had increased its short-term ("trade loans") financing.

William Foster, formerly Ralston-Purina

Under questioning Foster said that he had been invited by Merriam to attend the ad hoc committee meetings, that he had gone to one, reported on it to headquarters and been told not to go back, that the reasons were partly that it might interfere with RP's negotiations with the GOC and partly because the nature of the meeting had been inconsistent with the direction in which RP wanted to go, that the meeting had not discussed efforts to produce economic chaos in Chile but rather to get the Department to improve on its inadequately weak response to the Chilean situation, and that he knew of no concerted plan to cause economic disruption in Chile.

Miles Cortez, IBM

Under questioning Cortez acknowledged that his telephone log showed two September 1970 conversations with Guilfoyle, but denied that the calls formed the basis of any reference in the ITT documents. He said he recalled no inquiry about a plan to sow economic chaos, that Guilfoyle never proposed such a plan to him, that he (Cortez) had

not suggested that he would like to stop Allende, and that as far as he knew IBM's policy was one of absolute non-intervention.

Enno Hobbing, Council of the Americas

Hobbing acknowledged that he had been visited in the September 4-October 24 period by Gregorio Amunategui who is close to Alessandri, stated that Amunategui had not to his knowledge solicited funds for Alessandri or asked what US companies might be approached in that regard, and said he believed that the ITT document's reference to Amunategui's suggestion to "holdback" was a reflection of his strict constitutionalism. He confirmed that he had worked for the CIA, that his work for the agency ended in November 1954, that the Council had formulated some guidelines for the conduct of US companies in Latin America, and that a company offer of funds to the CIA for use on behalf of a candidate does not fall within those guidelines.

Note: A copy of Church's release on the Broe testimony is also attached.

ARA/BC:LGirdler:gcw
3/28/73