

MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT: Chile - Possible Sale of Copper to the Soviet
Orbit

REFERENCE: Memorandum to the DD/P from Chief, WH, 20 Nov. 1957
(with attachments)

1. This is in response to your inquiry of 25 December 1957 regarding possible copper sales in Chile.

2. Detailed investigation of recent developments in the Soviet effort to procure base copper wire from Chile indicates that there is little probability of such sale. Chile does not have the fabricating efficiency to compete price-wise with principal producers in Western Europe who are permitted by present COMSEC regulations to export wire of the subject specifications.

3. Several of the courses of action outlined in the a/c memorandum seem rather severe even were there some considerable probability of consummation of the proposed shipment. They seem to indicate lack of awareness of Soviet trading practices.

4. A detailed comment on various aspects of the proposal is attached at Tab A.

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Enclosure:
Tab A.

Distribution:
Orig. and 1 - Addressee
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CHILE - POSSIBLE SALE OF COPPER TO THE SOVIET UNION

According to the latest information from our Embassy in Santiago, it seems to be certain that there is no hope of concluding a sale now. This refers to the recent negotiations in Paris between a representative of the Chilean Copper Department and Soviet representatives concerning the sale of 15,000 metric tons per year of Chilean bare copper wire less than six millimeters in diameter.

The negotiations apparently broke down because the Russians tried to arrange payment by a commodity exchange, while the Chileans demanded payment either in sterling or dollars. Although it has been impossible to reach an agreement in this particular case, it seems reasonable to assume that the USSR will eventually resume, or other East-Soviet Bloc countries may institute, procurement efforts for Chilean copper wire in substantial quantities.

Bare copper wire of six millimeters or less was removed from the international embargo list and put under surveillance in August 1954. This action was opposed in COMCON by the United States, and about a year later it began a series of attempts to replace the item under embargo. These have been multilateral and bilateral, and are still in progress, with virtually no success to date.

Chile's policy of withholding strategic materials, in particular Chilean copper, has closely followed the export policy of the United States and other COMCON countries throughout the post-war period. Although various trade missions of East-Soviet Bloc countries to Chile probably have discussed copper deals, no firm agreements have been reached and no copper shipments of any significance are known to have been made by Chile directly to the Bloc since the 1940's.

It should be noted that Chile's fidelity to the export controls of the United States has coincided until the last year or so with a tight world-wide copper supply situation. Copper supplies began to build up and world prices started to decline in 1956. These trends were so accelerated in 1957 that some producers voluntarily cut back production at least 10 percent. Nonetheless, output of copper has continued to exceed demand. As the copper supplies of the Free World producers, the largest next to the United States being Chile, continued to increase, greater efforts in expanding old markets and developing new markets are to be expected.

Copper wire must be manufactured from electrolytic-grade copper. This is accessible to Chile at a 10 percent discount from Inco and Kennecott, the two US companies which produce about 30 percent of

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the Chilean total, in the order of 30,000 metric tons annually. The quantity of copper wire available for sale by Chile will be limited to this tonnage, less 5,000 tons for domestic requirements. Thus, a maximum of 15,000 tons per year in the form of wire would be available to the Bloc. The wire-drawing facilities in Chile are adequate to make probably twice this quantity.

Since the electrolytic-grade copper is sold to Chile at only a 10 percent discount, it is questionable whether Chilean bare copper wire could compete favorably with UK wire in European markets. The greater transportation costs would absorb part of the discount. Moreover, the Chileans are not known to be expert wire-drawers. They probably are higher cost producers than the United Kingdom and other western European countries. And Chile would certainly want to make a profit on any such transaction.

On the other hand, while it is anticipated that the pressure on Chile to sell copper to the Bloc will increase, there is no corresponding pressure on the Bloc to buy copper from Chile. To date, the Bloc has been able to purchase as much copper as desired from other sources, mainly the United Kingdom and West Germany.

OSI estimates that the Bloc will continue to buy copper from Free world countries for at least several more years. With copper stocks building up in the Free World, however, the trade terms will become increasingly favorable to the Bloc. Whereas, only two years ago the Bloc was compelled to pay hard currency for its copper imports, and frequently buy at premium prices, the prospects of the Bloc obtaining more favorable terms of sale, such as barter deals, are improving.

In view of these conditions, it appears that the possibilities of Chile and bloc-soviet Bloc countries discussing copper deals periodically over the next several years are strong. Also, in view of its chronic shortage of copper, the Bloc may be expected to continue searching for copper supplies on the most favorable terms.

Furthermore, political factors are certainly involved. Although Chilean copper wire may not be able to compete price-wise with other copper wire (e.g., wire made from cheaper African copper) in the world market, it is quite understandable that the Bloc would like to conclude a deal with Chile in further implementation of its economic penetration policy.

With respect to the course of action proposed in Attachment C, the comments of this office are as follows:

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a. Soviet "political takeover by economic means" not very likely in this case, which would amount for only about three percent of Chile's annual copper exports. It should be noted that such a "bulk purchase" contract is neither a new nor an exceptional phenomenon in Soviet trade practice. Similar deals have been consummated with other Free World countries apparently for purely commercial considerations to meet specific Soviet needs, viz., Cuban sugar, Australian wool, Canadian wheat, Malayan rubber, etc.

b. Since the Chileans were insisting on sterling or dollar settlement, the citing of examples of Soviet non-payment are not relevant. In any event, the USSR has a reasonably good record for reliability in trade transactions. Few Free World countries are without some failures to live up to their trade agreements. The example of Soviet cement is not a particularly good one. The cement was shipped on schedule and made in accordance with Burmese specifications. It rotted on the docks at Bangkok because transport and storage facilities were not available.

c. While there are examples of malfunctioning and inadequacies of Soviet equipment sold to underdeveloped countries, for the most part, recipients have been supplied at its high quality.

d. Our intelligence information indicates not a single example of a clear-cut case of Soviet "specialists" being anything other than just that; certainly no specific evidence of these "specialists" being members of the Soviet espionage system or participants in political warfare, or otherwise engaged in "meddling in national affairs" of other countries.

It seems, therefore, that the proposed courses of action would not be convincing and would therefore not be practicable. In their place, it might be suggested to the Department of State that it approach the Government of Chile directly and outline the situation somewhat as follows:

a. The anti-Soviet Bloc is chronically and critically short of copper.

b. Shipments of bare copper wire tend to frustrate the embargo of other copper against the Bloc.

c. Imports of copper in any form from the Free World contribute directly to the military capability of the Bloc.

d. The profit accruing to Chile from copper wire deals with the Bloc is, at best, very small.

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