~~Secret~~

~~No Foreign Dissem~~

DIRECTORATE OF
INTELLIGENCE

Intelligence Report

Chile: US Copper Investments Under Fire

~~Secret~~

14 July 1969
No. 1872/69

313

Approved For Release 1999/09/07 : CIA-RDP71T00730R000200040009-8

Background Use Only/Controlled Dissem

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

Approved For Release 1999/09/07 : CIA-RDP71T00730R000200040009-8

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
14 July 1969

INTELLIGENCE REPORT

Chile: US Copper Investments Under Fire

Summary

Although the agreement between the Chilean Government and Anaconda providing for progressive nationalization of the company's Chilean properties, with compensation, may prevent an early crisis involving the US Government, the future status of the US copper investments remains clouded. President Frei may be able during his remaining 16 months in office to block the more drastic nationalization measures favored by some Chilean congressmen. His forthcoming negotiations with Kennecott and Cerro (the other US copper companies in Chile) could fail, however. The left could win the 1970 presidential election and subsequently demand renegotiation of the new copper agreements or institute immediate, full nationalization. Even if the agreements survive, compensation payments may not be sustained when--almost inevitably--Chile runs short of foreign exchange.

During four decades preceding Frei's election in 1964, Chile's intervention in and financial benefits from the large US-owned copper mines (known as the Gran Mineria) increased greatly. Under Frei's "Chileanization" program, the government obtained partial ownership of some properties and the promise of company investments sufficient to almost double production and triple refining capacity. In exchange,

Note: This report was produced solely by CIA. It was prepared by the Office of Current Intelligence and the Office of Economic Research and coordinated with the Office of National Estimates and the Clandestine Service.

it guaranteed tax stability at improved rates for 20 years. Because of high world copper prices, both Chile and the companies have had large revenues since the final decrees were signed in early 1967. Moreover, the expansion program has moved ahead rapidly. This year, however, high company profits combined with political factors to intensify the ever-present pressures for nationalization.

Frei had proposed his "Chileanization" program during the 1964 presidential campaign as an alternative to the Marxist candidate's nationalization scheme. Kennecott and Anaconda, the two main producers, reacted differently to Frei's proposals because their Chilean properties differed in importance to them. Since 1938, Kennecott had invested relatively little in its Teniente mine, which by the early 1960s accounted for one third or less of the company's copper output and roughly 10 percent of its net income. Because Teniente's production had increased little for years, Kennecott's tax rates remained very high, averaging more than 80 percent between 1960 and 1966. Kennecott therefore decided to sell 51 percent of its stock to the Chilean Government at a reasonably good price in exchange for substantially reduced tax rates and a promise of tax stability. Moreover, it was not required to put "new" money of its own into Chile but merely to lend to the joint company the government's payments for its equity.

Despite an increasingly difficult political environment from the 1930s on, Anaconda continued to invest in its two Chilean properties--the Chuquicamata mine, possibly the most valuable in the world, and the Salvador mine. Their combined book value of about $500 million in 1960 composed about two thirds of the company's net fixed assets. Moreover, Anaconda's Chilean holdings accounted for about 70 percent of its copper production and a similar share of its profits. Because it feared that loss of control over these properties would put it in a bad business position in the United States, Anaconda agreed to invest about $225 million in its Chilean properties in exchange for only a minor improvement in its tax rates and retention of full control in its existing operations. It also agreed to sell to the Chilean Government for a nominal price a 25-percent interest in a new mine it is developing.

Since the signing of the copper agreements, Chile's gains from the industry have been greater than anticipated. The government had expected the tax concessions to reduce its revenues from copper for a few years, but unexpectedly high world prices made production so profitable that tax receipts increased in 1967. A further increase in 1968 was secured through a forced loan from the copper companies. The Gran Mineria investment program has moved ahead quickly. Despite a late start, as much as $400 million--or nearly two thirds of the scheduled total--may have been invested by mid-1969. These investments have about offset the increased after-tax earnings of the copper companies, so that there has been little net repatriation of funds.

Higher prices and (to a far lesser extent) tax concessions brought net company profits to record levels averaging about $115 million in 1967-68, compared with $93 million in 1966 and about $45 million in 1964 and 1965. Although the government's share of gross profits fell from an average of 68 percent in 1960-66 to 63 percent in the first year under the agreements, the share returned to 67 percent in 1968 because of the forced loan (which has been reimposed in 1969). The proportion of total Gran Mineria revenues spent in Chile for taxes, labor costs, and domestic purchases of goods and services for operating purposes and for the investment program probably is at an all-time high.

Despite rapid progress under the investment program and high Chilean earnings, pressures for nationalization--never far below the surface--were strengthened. Several factors were responsible: the government's perennial financial difficulties, the results of the congressional elections last March, maneuvering for advantage in the Presidential election to be held in September 1970, and Peru's expropriation of the IPC. Moreover, the large company profits resulting from high copper prices were widely viewed in Chile as windfalls that were not anticipated when the agreements were signed and to which the government had a moral right. The nationalization of US copper holdings thus had wide popular appeal, and few politicians wanted to be left behind in the race to achieve this end, whatever the cost.

Political pressures on the Frei government to nationalize the copper companies (particularly Anaconda) became intense. Two bills calling for expropriation were introduced in Congress, and a third bill was drafted by elements of Frei's Christian Democratic Party--all providing little or no compensation. Consequently Frei sought a revision of the earlier agreements with Anaconda, hoping to head off radical Congressional moves without suffering political losses.

During the negotiations with Anaconda, the Chilean Government insisted on obtaining majority control of the company's Chilean properties. In the hope of retaining control, Anaconda offered a new tax arrangement that would give Chile higher revenues, under current conditions, than the government's tax proposal. On 26 June, President Frei and Anaconda announced agreement along the following lines:

--Chile will acquire majority ownership (51 percent) of the Anaconda properties on 1 January 1970 and will begin buying the remaining equity no later than 1981.

--Compensation for the 51-percent interest will be based on the book value of the properties and will be paid in bonds redeemable in dollars over 12 years with interest at six percent. A more flexible formula will be used to compensate Anaconda for the remaining 49 percent.

--Although Chile will have the controlling interest in the two new companies that will take over ownership of the mines, Anaconda will operate the mines for at least three years under a service contract.

--Anaconda's profits on its reduced equity will be subject to higher, progressive tax rates whenever copper prices exceed 40 cents a pound.

The agreement is unfavorable to Anaconda, involving a decline of more than 60 percent in its net profits from the Chuquicamata and Salvador mines at 1968 prices and rates of production. The company had little choice, however, because the most probable alternative was immediate expropriation. Also, the company had failed to put its coverage under the US investment guaranty program. If the new investments increase the mines' production as expected, and if the Chilean Government pays compensation as scheduled, however, the company can still expect substantial earnings and even larger repatriation of funds--possibly on the order of $100 million annually in the early 1970s if the price of copper were about 50 cents a pound. The agreement and the compensation payments could fall victim to political or economic developments, such as Congressional action for immediate nationalization (unless successfully vetoed by Frei), the coming to power of a leftist administration in late 1970, or one of Chile's endemic foreign exchange crises. Even if the agreement is not changed, it seems unlikely that Chile will allow large-scale repatriation of funds over a long term.

The government is committed to negotiate similar agreements with Kennecott and Cerro. Kennecott's profits would be cut by only about 30 percent, since 51 percent of the properties was sold to the government in 1967. Its bargaining position is stronger than Anaconda's because most of its assets are outside Chile and because it is covered under the US investment guaranty program. Negotiations with Cerro promise to be complicated because the Export-Import Bank and Japanese interests also are involved in the financing of its new mine.

Under the new agreement with Anaconda, Chile will not only receive larger earning from copper but can also probably count on completion of the current copper investment program. Moreover, Chile has gained time to prepare for eventual operation of the mines itself, although even a sudden expropriation need not create severe economic difficulties.

The Setting

1. In recent months the Frei administration has pressed for fundamental changes in its two-year-old agreements with the US copper companies that might enable it to sidestep the prompt, outright expropriation that probably is favored by most Chileans and a majority in the Congress. Agreement on the long-term nationalization of Anaconda's two established mines was announced on 26 June, and basic changes are likely in the status of the other two US copper companies in Chile. Although a new era clearly has arrived for the US copper investments, which are the mainstay of the economy and one of the largest US investments in Latin America, many problems remain to be resolved.

2. The copper industry accounts for about three fourths of Chile's export earnings, one sixth of the government's revenues, nine percent of gross domestic product, and five percent of the industrial labor force. More than 80 percent of copper production comes from the following three large mines, known as the Gran Mineria:

--the Chuquicamata mine, wholly owned by the Anaconda Company through its subsidiary, the Chile Exploration Company


Anaconda's Chuquicamata Mine

--the Salvador mine, wholly owned by Anaconda through another subsidiary, the Andes Copper Mining Company

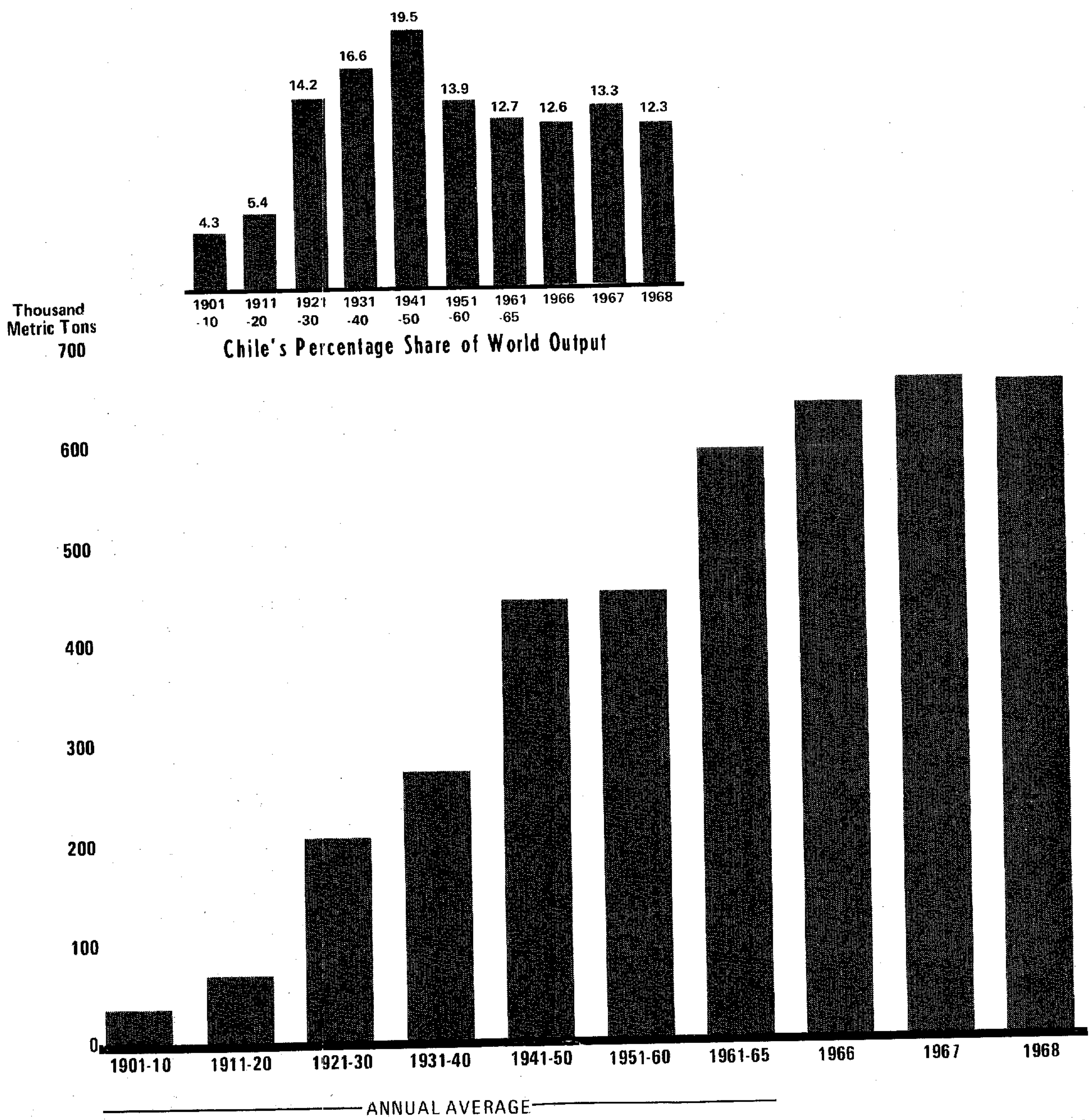
--the Teniente mine, which until 1967 was wholly owned by the Kennecott Copper Corporation through its subsidiary, the Braden Copper Company, but is now a joint venture with the Chilean Government under the name El Teniente Mining Company.

3. Chile's annual copper output of 660,000 metric tons constitutes 12 percent of world production and makes Chile the world's third largest producer. About 60 percent of Chile's copper is refined domestically. The Gran Mineria complex has all of Chile's refining capacity except for two government-owned smelters and an electrolytic refinery completed by the government with West German assistance in 1966. Under the current expansion program, which involves investment of $620 million by the Gran Mineria and $130 million by small- and medium-sized mines, the Chilean Government hopes to raise output to 1.2 million metric tons annually and almost to triple refining capacity by 1972. Completion of the program would make Chile the largest copper exporting nation in the world by the early 1970s, even though other major exporters also are expanding operations.

4. Chile gets a large cut of the Gran Mineria's profits and benefits in other important ways. The government's share of the profits has ranged from 63 to 74 percent in recent years. In addition, the Gran Mineria at present spends some $200 million annually for domestic goods and services required in operations. Moreover, more than half of the materials and equipment and most of the construction and technical services required for the investment program are to be bought in Chile. By the end of 1968, these purchases already had reached $150 million and were providing a badly needed impetus to some other industries.

5. Both Chile and the copper companies have benefited greatly from rising copper prices in recent years. Until 1966 the average price Chile received for its copper moved in line with US prices, ranging from 29 to 32 cents per pound during 1959-64 and then rising to 35 cents in 1965. Because of booming demand, world copper prices rose sharply in 1966 and have since remained high. US prices, however, were controlled, and rose only slowly. Consequently, Chile began to sell its copper on the basis of prices on the free London Metal Exchange, and the f.o.b. export prices of the Gran Mineria rose from about 35 cents in January 1966 to 59 cents in April and 67 cents in May.

CHILE: Trends in Copper Output



95457 7-69

Chilean Returns From the Gran Mineria Before Frei's Election

6. During the four decades preceding Frei's election in 1964, the returned value* to Chile from the copper companies' operations increased enormously as a result of growing taxation, foreign exchange controls, and marketing regulations, as well as social legislation that boosted labor costs throughout industry. At the beginning of this period copper exports amounted to some $45 million, but the returned value for Chile was relatively small. Taxes were low, employment was limited by the capital-intensive nature of the industry, and it was economically advantageous for the copper companies to import most of their needed materials and equipment. Returned value rose from 38 percent of the value of production in 1925 to 45 percent in 1931, suffered a setback during the world depression, and then soared from 36 percent in 1938 to 94 percent in 1953**. Chile's copper production continued to climb during the period up through World War II, and its share in total world copper output rose from 14 percent in the 1920s to a peak of 21 percent in 1948. High taxes and production costs and excessive government intervention in the industry made it increasingly difficult to compete in the world market, however, and during the Korean War boom Chile's share of world production declined sharply. By 1953, Chilean copper made up only 13 percent of world output, a share that has in general merely been maintained during the past 15 years (see the chart, "Trends in Copper Output").

**Returned value is a concept employed by the Chilean authorities to measure the economy's benefits from the Gran Mineria. It consists of direct taxes, other taxes and duties, and the companies' purchases of domestic goods and services on current account. Gross returned value also includes purchases of domestic goods and services for investment purposes. Value not returned to Chile consists of net company profits, capital depreciation (that is, repatriated investment), and imports of goods and services.*

***For further details on this period, see the Appendix.*

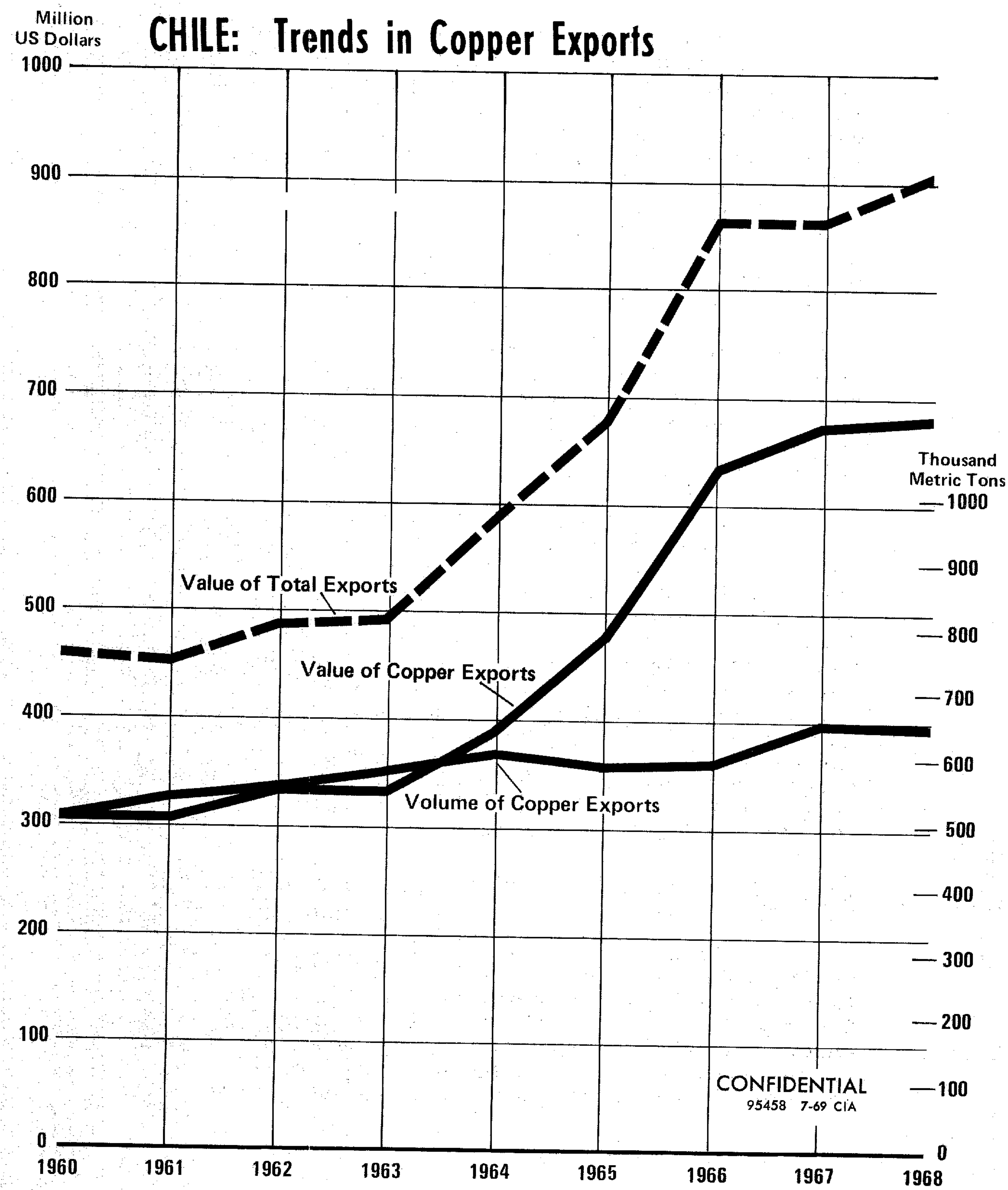
7. By the early 1950s, it was apparent that the copper industry was almost bankrupt. The "New Deal" copper law of May 1955 replaced the cumbersome and counterproductive array of taxes, surtaxes, and extraordinary taxes with a unified system that restored production incentives. The law provided for a basic tax of 50 percent on profits and a surtax that would start at 25 percent and decline progressively as the company increased production above the 1949-53 level. Moreover, special deductions were permitted for new investments in electrolytic refineries and other preferred projects, and profits from new mines producing over 25,000 tons annually were exempt from the surtax. Anaconda responded by investing about $110 million in the new Salvador mine and $50 million in expansion of the Chuquicamata mine during 1956-60. Kennecott's investment expenditures at Teniente continued to be small, however, totaling about $15 million for the five-year period.

8. The favorable atmosphere evaporated in the early 1960s as political attacks on the companies resumed. In late 1961, as a means of financing government wage increases, Congress imposed two surtaxes, totaling 13 percent, on profits. Thereafter, Congressmen introduced various bills detrimental to the copper companies which, although not passed, shook investor confidence. The companies made it clear that their proposed $325-million expansion program was contingent on a government guarantee of no further increases in taxes or controls. As political tensions rose, it became apparent that major new legislation and investment decisions would have to await the outcome of the 1964 election.

Frei's Program of "Chileanization" and Investment Expansion

9. Frei proposed his "Chileanization" program during the 1964 presidential campaign as an alternative to the Marxist candidate's nationalization scheme. Shortly after assuming office in November 1964, Frei announced that the appropriate agreements had been signed with Kennecott, Anaconda, and Cerro. The agreements called for large new company investments

CHILE: Trends in Copper Exports



Approved For Release 1999/09/07 : CIA-RDP71T00730R000200040009-8

in copper production and refining, government acquisition of a controlling interest and greater policy influence in Kennecott's Teniente property, and government ownership of 25 percent of two new mines to be opened by Anaconda and Cerro. In return the companies were to benefit from reduced and nondiscriminatory tax rates that would be maintained for 20 years.

10. Legislation to implement the agreements was not completed until April 1966, after a long and tortuous journey through Congress, where it was attacked by the left, received lukewarm support from the right, and created splits within Frei's Christian Democratic Party. The government's Copper Corporation then began negotiating the details of five separate, complicated agreements. The first investment decree (the legal document culminating the negotiations) was signed on 9 December 1966 with the Compania Minera Andina, a firm jointly owned by Cerro Corporation and the Chilean Government. Decrees authorizing expansion of Anaconda's existing operations and its joint venture with the government in developing a new mine--Exotica--were signed on 23 December 1966 and 10 February 1967, respectively. Signature of the decree concerning the Teniente joint venture was delayed until 13 April 1967, reportedly because of disagreements concerning Braden's management contract.

11. The agreements with Anaconda and Kennecott differ widely, although the Chilean Government had made essentially the same offer to both. Kennecott's agreement seemed to be the most generous and conciliatory, giving the government a controlling interest in the Teniente mine for $83 million. Actually, this concession was not particularly burdensome for Kennecott, because Teniente accounted for only one third or less of the company's copper output and little more than 10 percent of its net income. The book value of the Teniente operation in early 1967, when the government acquired its interest, was only $102 million.

12. At the same time, Kennecott won a sharp tax cut on the Teniente operation. Because production had increased little after the 1955 "New Deal," taxes had remained very heavy--amounting to 82 percent

of gross profits during 1964-66. Under the 1967 agreement, the effective tax rate on the company's share of the profits dropped to 44 percent, and the government began to receive 72.5 percent of Teniente's total profits in taxes and dividends.

13. Although $234 million is to be spent to expand Teniente's production capacity from 180,000 to 280,000 metric tons annually, Kennecott is investing no "new" money of its own in the venture. It is merely obligated to lend to the joint company the payments that Chile is making for its equity over a four-year period. The funds are to be repaid to Kennecott at 5.75-percent interest between 1972 and 1986. In addition, the Export-Import Bank has loaned $110 million to the operation, and Chile's Copper Corporation is to provide $40 million from government copper dividends.

14. Anaconda's response to Frei's proposals, which differed sharply from Kennecott's, was conditioned by the fact that its Chilean holdings account for about 70 percent of its copper production and a similar share of its profits. Despite the increasingly difficult political environment from the 1930s on, Anaconda had continued to invest in its Chilean holdings. The combined book value of Chile Exploration and Andes Mining reached almost $500 million in 1960, at which time it amounted to about two thirds of Anaconda's net fixed assets. Although Anaconda has been expanding output in the US and elsewhere and had been diversifying into other products, it feared that loss of control over its Chilean properties would place it in a poor business position.

Housing for Copper Workers

15. Under the decision finally reached in 1966, Anaconda retained full control of its Chuquicamata and Salvador operations but agreed to invest $126 million to expand their annual capacity from 350,000 to about 515,000 metric tons. Anaconda also agreed to invest $60 million in housing for miners at Chuquicamata and at a new mine to be developed jointly with the government. It sold a 25-percent interest in the new Exotica property for the nominal price of about $4 million and agreed to invest $43.7 million in it to develop an annual production capacity of 110,000 metric tons. The government also obtained a 49-percent equity in a joint company formed to seek and evaluate new ore bodies. Either Anaconda or the Chilean Government would have a two-thirds equity in any new development, depending upon whether the ore was located on Anaconda or state property.

16. Tax arrangements for Anaconda were changed in only two important respects: the government removed the surtaxes passed in 1961 and guaranteed that there would be no discriminatory taxes and no increase in taxes or other charges. Otherwise, the government merely raised the basic tax rate for the Chile Exploration Company from 50 to 52.5 percent and replaced the old surcharge of 25 percent with a variable surcharge of 33 percent based on 1955 production. Under the new arrangements, the tax rate for the Chuquicamata mine was 58 percent at the 1967 level of production, compared with a 62-percent average during 1960-66. The tax rate for Anaconda's other subsidiary, Andes Mining, remained at 50 percent--the preferential rate allowed for the new mines under the 1955 "New Deal."

17. The Chilean Government probably would not have profited more had Anaconda decided on an arrangement like Kennecott's. It would have had to pay $300-350 million over four years for a 51-percent interest in Anaconda's mines, and Anaconda could have loaned these payments to the joint company in lieu of bringing in about $225 million in new funds. Moreover, a different profit-sharing plan would have been required because a 72.5/27.5-percent split such as was arranged with Kennecott as an incentive to Chileanize would have reduced net profits for Anaconda.

SECRET
No Foreign Dissem/Background Use Only
Controlled Dissem

TABLE 1

CHILE: PROVISIONS OF THE COPPER INVESTMENT AGREEMENTS OF 1966-67

Date Signed	Company	Mine	Ownership	New Investment Expenditure and Financing (Million US $)	Capacity (Thousand Metric Tons) Previous	Capacity (Thousand Metric Tons) New	Scheduled Completion Date a/	Previous Tax Rate	New Tax Rate
23 Dec 1966	Chile Exploration Co.	Chuquicamata	100% Anaconda	174.0 (including 60 for housing; all Anaconda-financed)	270	355 b/	1970	61.9 c/ (1960-66 average)	57.8 c/ (1967)
23 Dec 1966	Andes Copper Mining Co.	El Salvador	100% Anaconda	11.8 (all Anaconda-financed)	80	110	1971	50.0	50.0
10 Feb 1967	Compania Minera Exotica	Exotica	75% Anaconda 25% Chilean government	43.7 (Anaconda-financed except for small contribution by Chile)	0	110	1971	–	55.375 d/
13 Apr 1967	Sociedad Minera El Teniente	El Teniente	51% Chilean government 49% Kennecott (through Braden Copper)	233.6 (83 from Kennecott, 110 from Export-Import Bank, 40 from Chilean Copper Corporation)	180	280	1971	82 e/ (1964-66 average)	72.5 e/
9 Dec 1966 (renegotiated in Sep 1968)	Compania Minera Andina	Rio Blanco	70% Cerro 30% Chilean government	157.0 (43.4 from Cerro, 14.6 from Chilean Copper Corporation, 56 from Export-Import Bank, 36 from Japanese interests, 7 from other sources)	0	75	1972	–	55.375 d/

a. Conservative estimate of first full production year at new capacity
b. Additional capacity of 30,000 metric tons is planned for 1972.
c. Previous taxes consisted of a basic rate of 50.0 percent plus a sliding-scale surcharge of 25 percent or less based on the growth of production above the 1948-53 average plus surtaxes totaling 13 percent after 1961. New taxes consist of a basic rate of 52.5 percent plus a 33-percent sliding scale surcharge based on the growth of production above the 1955 level (339 million pounds). When production reaches 678 million pounds, the tax rate is a flat 52.5 percent.
d. The Chilean government receives 15 percent of gross profit as tax plus 25 percent of net profits as dividends plus 30 percent of Anaconda's or Cerro's net profits as tax.
e. Previous tax arrangements (but not the effective rates) were the same as for the Chile Exploration Co. (see footnote c). The Chilean government now receives 20 percent of gross profits as tax plus 51 percent of net profits as dividends plus 30 percent of Kennecott's net profits as tax.

19. Since the signing of the copper agreements, both Chile's and the companies' gains from the industry have been greater than expected, mainly because of the continued rise in the copper export price. The balance of payments has improved as a result of the increased export earnings and a higher level of foreign investment under the copper expansion program. Government revenues from copper did not decline even temporarily because high prices offset reduced tax rates. Net company profits have increased markedly.

20. After a late start, the investment program has moved ahead quickly. By the end of 1968, $275 million already had been invested under the $620 million Gran Mineria program. Of this amount the Anaconda subsidiaries had invested $121 million (52 percent of their planned program), Kennecott and the Chilean Government $91 million (39 percent of the program), and Cerro $64

Effects of the Copper Agreements

18. The investment agreement in 1966 with Cerro Corporation was the culmination of more than a decade of negotiations, the company having acquired its option on the Rio Blanco copper deposit in 1955. The original agreement gave the Chilean Government a 25-percent interest in the company and authorized an investment of $89 million to develop an annual production capacity of 59,000 metric tons of copper concentrate. Cerro agreed to invest $22.5 million, the Chilean Government $7.5 million, and Export-Import Bank $35 million. The remaining $24 million was provided by a group of Japanese smelters, which are to receive a large share of the mine's production when it comes into operation in 1971. Unforeseen engineering problems and sharply rising labor and material costs forced refinancing of the project in September 1968. Total costs now are estimated at $157 million, with Cerro providing an additional $21 million, the Chilean Government $7 million, Export-Import Bank $21 million, and the group of Japanese smelters and other sources $19 million. The Chilean Government exacted an additional 5-percent interest and other concessions from Cerro in return for authorization to refinance the project. (Details of the government's investment agreements with all members of the Gran Mineria are presented in Table 1.)

SECRET
No Foreign Dissem/Background Use Only
Controlled Dissem

Table 2

Chile: Finances of the Large Copper Companies

1964-68

Million US$

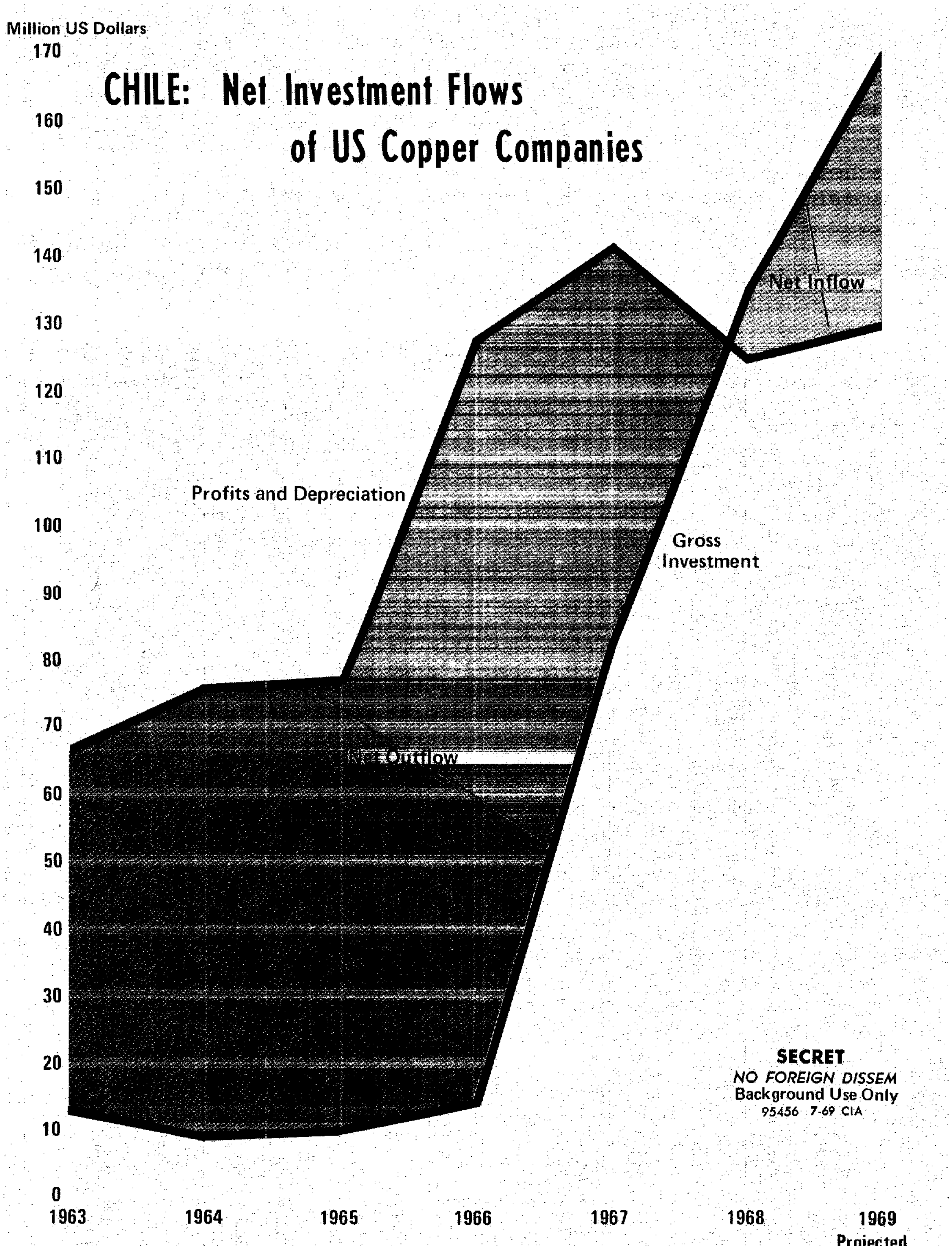
	Before "Chileanization" 1964	1965	1966	After "Chileanization" 1967	1968
Value of sales					
Chile Exploration (Anaconda) (Chuquicamata Mine)	193.8	215.9	281.3	298.5	316.7
(Anaconda) Andes Mining (Salvador mine)	51.5	63.5	75.1	85.2	100.0
Kennecott, through Braden (Teniente mine)	113.4	117.0	170.7	196.5	179.1
Total	358.7	396.4	527.1	580.2	595.8
Production costs					
Chile Exploration	105.9	115.0	121.9	125.9	143.8
Andes Mining	49.2	56.5	56.5	47.3	50.8
Kennecott	52.0	55.7	55.5	73.0	81.2
Total	207.1	227.2	233.9	246.2	275.8
Gross profits					
Chile Exploration	87.9	100.9	159.4	172.6	172.9
Andes Mining	2.3	7.0	18.6	37.9	49.2
Kennecott	61.4	61.3	115.2	123.5	97.9
Total	151.6	169.2	293.2	334.0	320.0
Chilean government's taxes and dividends					
Chile Exploration	53.6	68.8	97.8	99.7	112.1 a/
Andes Mining	1.4	3.7	9.6	18.7	26.6 a/
Kennecott	48.5	52.8	93.1	91.8	76.5 a/
Total	103.5	125.3	200.5	210.2	215.2 a/
Net company profits					
Chile Exploration	34.3	32.1	61.6	72.9	60.8
Andes Mining	0.9	3.3	9.0	19.2	22.6
Kennecott	12.9	8.5	22.1	31.7	21.4
Total	48.1	43.9	92.7	123.8	104.8
Chilean government's percentage share of gross profits					
Chile Exploration	61.0	68.2	61.4	57.8	64.8 a/
Andes Mining	60.9	52.9	51.6	49.3	54.1 a/
Kennecott	79.0	86.1	80.8	74.3	78.1 a/
Total	68.3	74.0	68.4	62.9	67.2 a/

a. Including a forced loan to the Chilean government equal to 13 percent of taxes in 1967. The total of $20.9 million was distributed as follows: Chile Exploration, $13.0 million; Andes Mining, $2.4 million; and Kennecott, $5.5 million.

million (41 percent of the program). The Gran Mineria companies may have invested as much as $400 million by mid-1969, or nearly two thirds of the scheduled total. In his speech to Congress on 21 May, President Frei indicated that all Gran Mineria projects are ahead of schedule and that several targets--for example, an increase in electrolytic refining capacity from 196,000 to 578,000 tons--already had been achieved. Of the $136 million in investment scheduled for small- and medium-sized mines, however, only $9 million had been committed by the end of 1968.

21. Chile has benefited both from a sharply increased capital inflow under the investment program and from a reduced outflow of capital repatriation by the Gran Mineria. Although much of the incoming capital has financed imports of equipment, a substantial portion of it has gone for purchases of domestic goods and services. The continued high level of world copper prices has boosted export earnings, even though strikes and other operating difficulties have reduced Gran Mineria production and the total volume of copper output has changed little. Higher Chilean export prices and some drawing down of inventories raised copper earnings by $70 million in 1967 and almost $30 million in 1968 (see the chart, "Trends in Copper Exports").

22. Although the government had expected the tax concessions to reduce its copper revenues for a few years (and its share of gross company profits did decline from 68 percent in 1966 to 63 percent in 1967), the continued rise in copper earnings resulted in a 5-percent increase in government revenues the first year (see Table 2). At the same time, net company profits increased by 34 percent. Had the same profit-sharing arrangements prevailed in 1967 as in 1966, both government revenues and net company profits would have risen by about 14 percent. Because rising production costs reduced gross profits, government copper revenues should have dropped by about $15 million in 1968. Instead, a forced loan from the copper companies equal to 13 percent of their 1967 taxes brought a further increase in these revenues. Net company profits declined by 15 percent but remained above their 1966 level.



Approved For Release 1999/09/07 : CIA-RDP71T00730R000200040009-8

23. The more favorable tax rates guaranteed under the copper agreements have been far less important than high copper prices in boosting net company profits. These profits were about $93 million in 1966 (before Chileanization) and reached an average of about $115 million in 1967-68, compared with about $45 million in 1964 and 1965. The rate of return on net company assets probably has averaged about 20 percent during the past three years compared with an average of less than 10 percent during the preceding decade, when copper prices were lower. Chile's share of the Gran Mineria's gross profits (that is, profits before taxes) fell from an average of 68 percent in 1960-66 to 63 percent in 1967 but recovered to 67 percent in 1968 because of the forced loan, which has been reimposed in 1969. Although the government's share from El Teniente continues to be lower than it was when the mine was wholly owned by Kennecott, the tax rates on Anaconda's subsidiaries are now higher than before the copper agreements.

24. Returned value to the Chilean economy from taxes, labor costs, and domestic purchases of goods probably represents a larger share of Gran Mineria revenues now than in 1966. Counting domestic purchases for the investment program, the rate of returned value may be at an all-time high. Moreover, because investments have increased sharply under the copper agreements, net repatriation of funds by the US copper companies has been minimal despite record-high profits. Prior to 1967 new investment was smaller than depreciation allowances, and the foreign exchange loss to Chile on investment income outflow was substantial. This net outflow was reduced sharply as the expansion program got under way in 1967, and by 1968 the estimated inflow on new investment exceeded total funds available for repatriation from profits and depreciation. If the copper program continued unchanged in 1969, the net capital inflow on company investment would be sizable (see the chart, "Net Investment Flows of US Copper Companies").

The New-Drive for Nationalization of Copper

25. By May 1969, high copper prices, the government's perennial financial difficulties, the results of the congressional elections last March, maneuvering for advantage in the Presidential elections to be held in September 1970, and Peru's nationalization of the IPC had combined to make some form of radical action on the copper issue politically unavoidable. To forestall congressional passage of a bill expropriating the companies' properties outright, Frei presented Anaconda and Kennecott with his proposals for basic revisions in the copper agreements before the legislature reconvened. The Frei administration impressed upon the companies that rapid acquiescence in its demands for the major share of the "excess profits" being earned under prevailing high prices was needed to avoid early nationalization of their properties. At the same time, it informed Anaconda officials that partial Chilean ownership of the Chuquicamata and Salvador mining operations would be essential. Subsequent meetings indicated that a controlling interest (51 percent) was the minimum goal.

26. Frei's State of the Nation speech to Congress on 21 May was an appeal for popular support of his "Chileanization" policy as the "formula that will enable us to arrive at full ownership [of copper]... [without] exposing the country to unnecessary risks" involved in the nationalization schemes of various political parties. Frei's appeal for the country to follow a road of enlightened self-interest, while providing an alternative to immediate expropriation, offered little basis for long-term planning by the US copper companies in Chile. He made it clear that he preferred revision of the copper agreements to immediate nationalization as a short-term measure that would be the most beneficial to the country and could lead eventually to full ownership. He stated that "operation of the mines requires a human and technological capability and a volume of financing capital which the country does not have at the present time but which it can acquire rapidly through the process of Chileanization that the government is implementing and that it wants to complete."

27. The negotiations between Anaconda and the Frei administration, which began in early June, took place against a backdrop of mounting nationalization pressures. Two expropriation bills tabled in Congress contained compensation arrangements under which Anaconda would receive little or nothing. A third bill, promising little more by way of compensation, was drawn up by elements of Frei's Christian Democratic Party but was not submitted, pending the conclusion of the negotiations with Anaconda. During the negotiations, Anaconda took a flexible position on the "excess profits" tax issue in the hope of retaining a controlling interest in its properties. In fact, it offered a tax arrangement that, under existing conditions, would yield even higher returns than the administration's proposal. The Frei administration stood firm, however, in its demand for majority control in the company as the minimum concession required to fend off expropriation legislation.

28. On 26 June, Frei announced that agreement had been reached on the "negotiated and progressive nationalization" of Anaconda's Chuquicamata and Salvador mines. The agreement provides that Chile will begin to receive 51 percent of the mines' gross profits on 1 September 1969 and will purchase a 51-percent equity on 1 January 1970 in two new Chilean mining companies, to which Anaconda will transfer its subsidiaries' assets and liabilities. Anaconda will continue to operate the mines for at least three years under a management contract. Chile has agreed to pay the book value of the 51-percent interest, which was set at $197 million as of the end of 1968 and is to be brought up to date in bonds that will be redeemed in semiannual installments over a period of 12 years or less, beginning 1 January 1970. Payment is to be in dollars, with tax-free interest at 6 percent. The new agreement also provides for gradual Chilean purchase of the remaining 49 percent beginning some time between 1 January 1973 and the end of 1981, but in no case before three fifths of the purchase price of the initial 51-percent interest has been paid. The purchase price for the 49-percent interest will be obtained by applying a factor that declines from 8 in 1973 to 6 in 1977 (and thereafter) to the average annual

net earnings of the mines from the beginning of 1970 to the date of purchase.

29. Effective 1 June 1969, the new agreement with Anaconda also allows Chile to participate directly in "excess profits" arising from copper prices of over 40 cents per pound. Chile's share of the excess increases progressively from 54 percent of revenues arising from the first cent beyond a 40-cent price to 62 percent for the tenth cent and 70 percent for each additional cent. Anaconda's share of these revenues remains subject to the same basic tax rates as its other gross profits. If this tax provision is not applied to the other Gran Mineria companies by the end of 1970, the amounts collected from Anaconda are to be refunded by adding them to the purchase price for Chile's initial controlling interest.

30. The agreement with Anaconda gives the Frei government nearly everything it wanted and thus reflects a substantial retreat by the company from its initial proposals. Bargaining from a very weak position, the company was able only to stave off full immediate nationalization, secure what appears to be a relatively low price for its properties, and buy time to bolster its copper resources elsewhere. A key factor in the company's acceptance of Chile's demands was its failure last December to put into force its authorized US investment guaranty against expropriation.*

** Under guaranty agreements for expropriation, investors have an active coverage of a certain value, which represents the protection in force and requires an annual premium payment of 0.5 percent. In addition, investors have a stand-by coverage, any part of which can be made active on any anniversary date of the agreement and for which an annual premium of 0.1 percent is paid in the meantime. Anaconda has $269 million in stand-by coverage but only a negligible amount of active coverage.*

31. The initial transfer of a 51-percent interest to Chile and the new tax arrangements will substantially reduce Anaconda's net profits from the Chuquicamata and Salvador mines. The government would receive almost 85 percent of the gross profits of the two mines under the price, cost, and production conditions prevailing in 1968, and Anaconda's net earnings from operations in Chile would be only about $35 million annually instead of the $98 million ($83 million after the forced loan) that actually was earned in 1968. Moreover, Frei has stressed that the investment expansion program will be continued under the new agreement, and the company presumably will be forced to provide a share of the capital, under the threat of immediate expropriation. Anaconda almost certainly will put no more new money into Chile than it has to, however. At current production levels, its repatriation of funds could reach $30 million-$40 million from profits, management fees, and the excess depreciation over new investment. If the company receives payments on the government's purchase of its holdings and is permitted to remit them, the outflow of funds would be much higher--especially after completion of the expansion program.

32. The Frei administration also intends to renegotiate its agreements with Kennecott and Cerro Corporation. Although there has been talk of buying out Kennecott's 49-percent interest in El Teniente, initial negotiations probably will focus on the "excess profits" issue. Kennecott probably will take a firmer stand than Anaconda on this matter but in the end may accept an arrangement similar to that negotiated with Anaconda. Kennecott can get along without the Teniente mine and will be tempted to do so if the rate of return falls much below that obtainable elsewhere. Since the company is putting no new money into Chile and the current book value of its investment is only $50 million (plus $83 million in notes of El Teniente Mining Company), however, it probably will decide that the $15 million annually that it could earn under a new arrangement similar to that agreed to by Anaconda would justify continued involvement.

Kennecott's current coverage of $85 million in US investment guaranties provides additional protection, should its remaining shares be taken over by the Chilean Government.

33. Renegotiation of the Cerro agreement probably will center on the equity issue but will also involve an attempt to raise the tax rates to be applied once the mine starts producing. Because the Export-Import Bank and a group of Japanese smelters also are involved in this investment, negotiations will be complicated. Inasmuch as Cerro already has doubled its financial commitment and reduced its equity since the original investment agreement was signed, it can be expected to take a firm stand against further deterioration in its position.

Political Pressures for Nationalization

34. The nationalization of copper is an objective widely supported by Chileans of all political colorations and from all walks of life. The current negotiations for revising the copper agreements have unified Chilean popular sentiment as have few other issues in recent years. Most Chileans are unaware of or unconcerned with the technical and economic problems resulting from nationalization. They are interested only in reducing foreign influence in the industry that dominates their economy.

35. In addressing congress on 21 May, President Frei conceded that nationalization was inevitable. He said he opposed it now because of the economic and technical difficulties it would cause. He defended, as a first step, his Chileanization program, which had been a long-time aim, and recommended "amplification" of the program to include companies that had stayed outside it. This statement was aimed specifically at Anaconda.

36. Although Frei has mobilized all the forces of his government in an attempt to work out a politically acceptable solution with the companies, he will have difficulty in obtaining

congressional agreement. Even his own Christian Democratic Party (PDC), at present under the control of a relatively moderate group, may hold out for faster acquisition of the Anaconda properties. Although congressional approval is not required for the progressive nationalization agreement, Frei may be faced with legislation requiring complete expropriation. In addition, Congress must appropriate the necessary funds.

37. The leftist parties, especially the Communists, have seized on the issue of copper nationalization as an excellent means to embarrass the Frei government. The Communist Party is in the vanguard of the movement urging nationalization immediately as opposed to Frei's seemingly more flexible approach that includes the interim stage of Chileanization. It is now in a difficult position, however, because it does not want to appear on the wrong side of a nationalistic issue.

38. The leftist parties probably will push for complete nationalization, at least of the Anaconda holdings. Frei, however, has said that he would veto nationalization legislation that did not contain provision for compensation. He certainly will fight hard to retain the executive agreement with Anaconda.

39. The conservative National Party is divided over the question of copper nationalization. Some members, fearing that the principle of government control might be extended indiscriminately to Chilean businesses, would prefer high taxes and other means of increasing the government's share in company profits.

40. On 4 June, the National Party issued a declaration entitled "The need to modify current copper contracts." This statement recalls the party's opposition to the original Chileanization legislation and emphasizes that the contracts with Kennecott and Cerro must also be renegotiated. It adds that the contracts cannot be modified by a unilateral act of the government but suggests

that if the government cannot reach agreement with the companies, expropriation with compensation is a legitimate means of dealing with the problem.

41. President Frei reportedly believes that National Party opposition is the only thing that can prevent nationalization this year. He has been trying to convince the National Party to stand fast, as he is by no means sure that he will be able to keep his Christian Democratic Party in line. The National Party might in the end decide to support Chileanization, feeling that if Jorge Alessandri is elected in 1970, he will then have a variety of options with respect to copper, and can go ahead with a nationalization plan if it seems advisable. Many National Party members are bitter at the United States, however, because it has supported Frei's agrarian reform program. Landholders claim that the government is expropriating fertile land that is being used efficiently rather than the underutilized properties at which the law allegedly was aimed. Thus, many members of the National Party believe that the US could have no valid objection to copper nationalization because it has supported similar action in the agricultural field.

42. Although the Communist Party has been in the forefront of those calling for nationalization of copper, it has not yet indicated that it favors nationalization of other foreign-owned properties in Chile. The Communists probably are counting on a confrontation between the US and Chile over copper similar to that between the US and Peru over the expropriation of the International Petroleum Company.

Implications

43. By extracting a favorable agreement from Anaconda, the Frei government probably will be able to block congressional moves during the pre-election period for immediate full nationalization with little or no compensation--moves that

would involve the US Government through the Hickenlooper amendment. Even if such steps were taken, the US Government probably would not become liable for a large claim under the investment guaranty program. Anaconda apparently hoped that it could put its guaranty coverage into force this December in view of the fact that the joint companies taking over its mines will not be organized until 1 January 1970, but there is considerable doubt that such action will be allowed.

44. Notwithstanding Chile's new agreement with Anaconda, the US copper investments in Chile probably will raise thorny problems for the parties directly involved and perhaps for the US Government as well during the next several years. Acceptance of this agreement by the Chilean Congress, though likely, is not assured. The probability of Congressional repudiation of the agreement will increase markedly following the 1970 elections--particularly if the leftists win. In their forthcoming negotiations with the Frei government, Kennecott and (to a lesser extent) Cerro will not be operating under the same constraints as Anaconda and may be obstinate if they believe that unreasonable demands are being made on their profits. They might even provoke immediate nationalization, especially if they believe that compensation for their properties would be more satisfactory under US investment guaranties than under a negotiated settlement with the Frei administration.

45. Over the longer term, repudiation of the new agreement with Anaconda, failure to make the scheduled compensation payments, or restrictions on the repatriation of Anaconda's invested capital and profits could cause trouble between Chile and the US. Although Chile is buying out Anaconda at a fairly low price and can stretch its payments for the initial 51 percent over 12 years, the required annual payments probably will amount to about $20 million plus interest, which could be as much as $15 million the first year. Payments for its equity, net profits, fees under

the management contract, and depreciation allowances might permit the company to repatriate as much as $100 million annually in the early 1970s, assuming a copper price of 50 cents per pound. Payments to Anaconda probably will have a low priority under any Chilean Government during the 1970s. If falling copper prices and rising costs cut seriously into government returns from copper or if other financial difficulties develop, default on compensation payments and limitations on repatriation of funds will be politically attractive. Even under favorable economic conditions, the government can be expected to continue spending beyond its means and be tempted to dip into funds needed for compensation.

46. Economically, compromise solutions on the order of the Anaconda agreement are beneficial to Chile. In this way, it obtains larger copper revenue and buys time for the completion of an investment program far beyond its capabilities and for the further development of managerial and marketing skills. Moreover, the country can ill afford the suspension of US aid and the outflow of private capital that would likely be the initial result of outright expropriation. Economics will not play the leading role, however, in determining Chile's handling of the copper issue over the long run. The nationalist urge to achieve full ownership of copper resources is likely to overwhelm economic considerations once the companies' investment program is completed.

47. Politically, the picture is mixed. Compromise solutions help to preserve the moderate image of the departing Frei government. They do not necessarily, however, bolster the bleak chances for another "centrist" party or coalition to assume power in 1970. The issue of "regaining our national resources" is a powerful weapon in the leftists' arsenal; fear of the turmoil caused by these leftist groups is a key source of power for the resurgent conservative forces backing Alessandri.

48. In the event of expropriation, the economic consequences for Chile need not be disastrous, at least in the short run. Chile has the technical personnel to run the industry; for many years, only a few key posts have been filled by US employees. Under anything like current world market conditions, Chile would have no major difficulties selling its copper. If the expansion program were largely completed, the industry could coast for years without having to make substantial investments. To some extent, moreover, a deterioration in economic relations with the US could be offset by closer relations with Western Europe, Japan, and (less importantly) Communist countries.

49. Expropriation, nevertheless, would raise some economic difficulties. Copper production costs would rise under Chilean management, and profits would decline even if copper prices remained high. If copper prices return to more normal levels, the government returns from the industry would be hit still harder. If adequate compensation were not provided, the flow of US aid to Chile (which averages more than $100 million annually) presumably would be interrupted even if the Hickenlooper amendment were not formally invoked. Aid from international organizations could slow down as well, since several of their Chilean projects are also being financed by the US Government. Private foreign investors, already discouraged by the worsening climate for private enterprise under the Frei administration, would be even more cautious about putting new money into Chile.

Annex

The First Five Decades of the Gran Mineria

Although Chile was the world's leading copper producer by the mid-19th century, its crude technology could not compete with the ore extraction and refining methods developed in the United States and Europe during the next several decades. Much of the Chilean capital that might have gone into modernizing the copper industry was channeled into nitrates, which provided a larger return and became the leading mineral resource. A number of small copper mines continued to operate in Chile, but their high costs made them extremely vulnerable to world price fluctuations.

By the turn of the century, the Chilean Government saw the need for a modern, large-scale copper industry and attempted to attract foreign investors, because the task was beyond Chile's financial and technological abilities. Although substantial domestic funds were available, particularly nitrate profits, the long lead time for copper projects discouraged Chilean participation. By 1920 large-scale copper mining was almost entirely in foreign hands, and small- and medium-sized mines accounted for only 10 percent of production.

The first major foreign investment began in 1904, when William Braden, an American entrepreneur, acquired a large mountain of ore about 100 miles southeast of Santiago. This project eventually developed into the Teniente mine, the largest underground copper mine in the world. To facilitate movement of the ore and concentrates, Braden erected aerial tramways and began work on a 46-mile railway up the side of the mountain--an engineering feat that still provides the only access to El Teniente. Braden ran short of capital, however, and control of the company was transferred first to the Guggenheim interests and finally in 1915 to the Kennecott Copper

Corporation. By 1924 the mine was producing more than 70,000 metric tons annually.

In 1911 the Guggenheim interests bought ore-bearing properties in Chile's northern desert for about $25 million. This investment was the beginning of the Chile Exploration Company and the open-pit Chuquicamata operation, which is the world's largest copper mine. Almost five years and an estimated $100 million were required to bring the mine into operation. By the second year of operation, Chuquicamata's output matched that of El Teniente, and by 1924 the mine was producing almost 100,000 metric tons annually. Chuquicamata was purchased by the Anaconda Company in 1923, when the Guggenheim interests needed capital for their nitrate ventures.

The third member of the Gran Mineria came into existence in 1916, when the Andes Mining Company was formed as a subsidiary of Anaconda to develop the Potrerillos deposits, several hundred miles southeast of Chuquicamata. Because of World War I and the subsequently depressed copper market, this ill-fated venture did not begin operations until December 1926. Production at Potrerillos reached 73,000 metric tons before its market collapsed in the 1930s. Even during the period of rapidly rising copper prices from 1939 to 1949, its profits averaged only 0.2 percent of net assets. High Chilean taxes, the low copper content of its ore, and the heavy burden of amortization of its original investment all contributed to the demise of Potrerillos. In the late 1950s the Andes Mining Company abandoned the depleted Potrerillos mine and spent more than $100 million to develop the nearby Salvador mine.

By 1924 copper exports had reached some $45 million, but there was little returned value to the Chilean economy. The foreign-owned copper industry of this period is a classic case of an enclave export sector. The laissez-faire government policies permitted very low tax rates and large profit remittances. Although wages in the copper companies were high by Chilean standards, the capital-oriented nature and technical requirements of the industry restricted employment of Chileans. Domestically produced machinery and raw materials rarely were competitive in cost or quality, moreover, and imports of needed goods were not restricted seriously.

During the next three decades Chile passed through every stage of integration between the copper export industry and the rest of the economy, short of expropriation. Increased participation in the Gran Mineria's revenues was achieved mainly through taxation, foreign exchange controls, and marketing regulations. These efforts to enlarge the returned value to the Chilean economy at times were counter-productive, resulting in stagnating production and a low rate of investment (or actual disinvestment). Equally unfortunate was the tendency to use copper revenues to finance current government expenditures and to subsidize imports and import-replacement industries at the expense of capital formation in growth industries.

The first special income tax on copper mining was introduced in 1925, following a decline in nitrate revenues. This first effort to "nationalize" the Gran Mineria's profits did not discriminate among large and small copper companies or involve high tax rates. The social laws passed by the Alessandri government had a far greater impact on the returned value from the Gran Mineria. Legislation affecting wages, working conditions, insurance, pensions, and the like increased labor costs to 78 percent of total production costs by 1929. Chile's share in the Gran Mineria's revenues consequently rose from 38 percent in 1925 to 45 percent in 1931.

The government reacted to the budget and balance-of-payments crises caused by the drop in the value of copper production from $111 million in 1929 to $11 million in 1932 by increasing the tax rate to 18 percent. It also imposed an artificially high rate of exchange on the Gran Mineria for the purchase of Chilean money to meet a specified minimum portion of local operating costs. This measure was the first in a long series of laws discriminating against the Gran Mineria and favoring import-substitution industries--laws that consequently discouraged investment in copper mining and other export industries and ultimately limited import capacity. The copper companies' profits rose after 1935, when market conditions improved, but Chile's share remained low. Investment by the copper companies was negligible during this period, because of excess capacity inherited from more prosperous years.

The period from the election of the Popular Front candidate Pedro Aguirre Cerda in 1938 through 1953 was one of steadily increasing Chilean participation in the revenues of the Gran Mineria. Returned value was expanded from 36 to 94 percent of total revenues, primarily through increasing income tax rates and numerous indirect tax mechanisms. The share of domestic purchases and labor costs in returned value fell sharply, however, because the copper companies wanted to hold down the amount of foreign exchange converted at the artificially high rate. Thus, natural integration of the Gran Mineria into the economy received a setback during this period. Despite increasingly unfavorable financial conditions, Anaconda launched a large expansion program at Chuquicamata after World War II price controls* were removed. A new sulphide plant, power plant, and numerous other installations were built during 1948-53 at a cost of more than $130 million. On the other hand, Anaconda's net investment expenditures at the almost defunct Potrerillos mine were negative, and Kennecott's new investments in El Teniente were negligible.

**An agreement between Chile and the United States in January 1942 imposed a wartime ceiling of 12 cents per pound on Chilean copper, resulting in substantial sacrifices of profits by both Chile and the copper companies.*

By the early 1950s it was apparent that the Gran Mineria was close to insolvency, and its potential as a source of economic growth had been nearly destroyed. High costs and taxes handicapped Chile in competing with other copper suppliers during the Korean War boom, causing its share of world production to drop from 21 percent in 1948 to 14 percent in 1953. The Chilean Government, nevertheless, continued to experiment with new techniques to increase its share of copper revenues. In 1952 the Chilean Congress established a virtual state monopoly on copper exports by empowering the President to set government marketing quotas up to 100 percent of the Gran Mineria's production. Moreover, the law permitted the Central Bank to pay the companies at the low US price prevailing under Korean War controls but sell at whatever price it could obtain. Purchases at this low, fixed price continued even after price controls were lifted in the United States--a practice that gave the Chilean treasury a windfall of almost $200 million. The marketing experiment ended in near catastrophe, however, when the Chilean Government found itself with large stocks of unsold copper at the end of the Korean War. The US Government bought 100,000 metric tons of Chilean reserves in 1954 under the threat of a large sale of copper to the USSR, and the marketing function was returned to the companies.