

MEMORANDUM

NATIONAL SECURITY COUNCIL

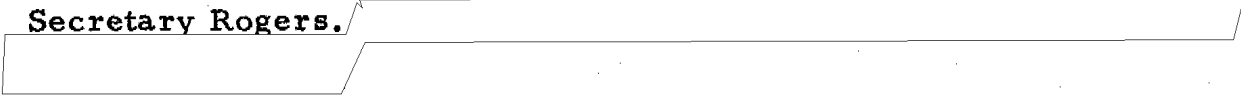
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ACTION
27 September 1971

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MEMORANDUM FOR: DR. KISSINGER
FROM: ARNOLD NACHMANOFF *ANN*
SUBJECT: Your Meeting Tomorrow with Peruvian Foreign Minister Mercado

You are scheduled to meet with Foreign Minister Mercado of Peru at 12 noon on Tuesday. I will also attend and Ashley Hewitt will stand by to interpret since the Foreign Minister speaks little English. Mercado will be accompanied by the Peruvian Ambassador Fernando Berckemeyer. They will be coming directly from a meeting with Secretary Rogers.



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Peru is a key country in South America, and an important element in our strategy in trying to isolate Chile and bring external pressures to bear tending to moderate its policies. For all their nationalism, the Peruvian military remain stoutly anti-Communist and are disturbed by events in Chile. Unfortunately, we have been prevented from developing a more cooperative relationship with Peru by a number of specific irritants to our bilateral relations (the IPC and Grace expropriations, law of the sea and fishing, etc.). These are dealt with in detail below. However, your main purpose in meeting with Mercado should be to:

- Emphasize the importance we place on good relations with Peru.
- Indicate our interest in seeing the irritants in our current relationship eliminated in a pragmatic way so that our mutual collaboration can take more concrete and active forms.

We don't know precicely what points Mercado will emphasize. However, the items listed below may come up.

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NSS, DOS Reviews Completed.

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Visit From Mrs. Velasco and the Prospects of a Visit by President Velasco: You will recall that the President had extended an invitation to President Velasco for a State visit to the U.S. this year, but he had scheduling problems and also internal political difficulties that prevented him from either accepting or refusing the invitation. Instead, he asked if the visit could be delayed, but there has been no discussion of a new date. However, Mrs. Velasco visited the U.S. in June, reciprocating Mrs. Nixon's visit to Peru.

You may wish to:

- Say that the President and Mrs. Nixon were delighted to receive Mrs. Velasco during her visit in June but were disappointed that it had not been possible for President Velasco to come to Washington for a State visit at that time.
- Feel out Mercado's thinking with regard to a possible State visit later, but avoid any commitment.

Expropriation Cases and Sugar Legislation: The International Petroleum Company (IPC) expropriation case remains at a standstill and there have been no substantive conversations since 1969. Since it is a highly emotional matter in Peru it would be extremely difficult for the present government to make overt moves in the direction of settling it. However, there have been indications that the GOP is groping for some way of getting rid of this irritant in its relations with the U.S., and we have information that IDB President Ortiz Mena has had some secret conversations with the Peruvian Finance Minister about ways of getting rid of this issue (Mercado may not be aware of this.)

The picture is brighter with respect to the W.R. Grace expropriation case. The GOP and Grace are now closer to agreement on some of the major issues and it seems possible that this case may eventually be resolved on a basis satisfactory to Grace, though some problems are still outstanding.

For the past six months we have fought a running battle with the Congress to prevent the attachment of riders to the Sugar Act designed primarily to penalize Peru because of the Grace expropriation which included sugar plantations. Our opposition was based on the conviction that the riders

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would only enrage the Peruvians, and would not be successful in resolving the Grace case or preventing further expropriations. The legislation would also have damaged our relations with other sugar producing countries. The Senate-House Conference Committee has now reported out a bill omitting the offensive riders, but this result was achieved only after extreme efforts on our part, including the threat of a Presidential veto.

You may wish to:

- Express our satisfaction that conversations between GOP officials and Grace are showing positive results and say that you hope this impediment to our collaboration will be removed shortly.
- Note that the IPC case continues to be a problem for us especially in the way it limits what we can do with our Congress in our efforts to improve relations with Peru, but indicate your awareness that the IPC case also has domestic political complications for the GOP.
- Emphasize the extreme efforts which the Administration has gone to over the last six months to limit the reduction in the Peruvian sugar quota or other amendments to sugar legislation adversely affecting Peru as an example of our concern for close working relations.

CHIREP and Relations with Communist China: The Peruvians are reportedly engaged in conversations with Communist China with a view to eventual establishment of diplomatic relations. Initially the GOP indicated that Peru would like to see both Peking and Taiwan in the United Nations, but more recently Peru has retreated to a more noncommittal position.

You may wish to:

- Explain the reasons for our position on the CHIREP issue and urge that Peru give us its support.

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Law of the Sea and Fisheries: Peru is one of the CEP (Chile, Ecuador, and Peru) which led the way in claiming national sovereignty to a limit of 200 miles off shore. In recent years it has been more moderate than Ecuador in pursuing these policies, however, and only siezed one U.S. fishing boat this year. Peru has indicated its willingness to resume quadrapartite talks with us but only if Ecuador is willing to do so. As you know, we are caught in a paradox with Ecuador arising from our inability to waive the Foreign Military Sales Act (FMS) suspension with regard to Ecuador without assurances on future tuna boat siezures, and Ecuador's unwillingness to negotiate with us while "under sanction" meaning the FMS suspension.

You may wish to:

- Say that you see hopeful signs in the fisheries dispute which leads you to believe that a practical solution might be achieved pending the 1973 Law of the Sea Conference.
- Note that we are prepared to go back to quadrapartite talks and that we are having conversations with the Ecuadoreans on this matter.

Loans and Credits: The Foreign Minister may point to the gradual improvement in our relations and to the fact that in spite of that improvement, the credit pipeline remains almost dry.

You may wish to:

- Reiterate that what we can do is very closely controlled by the Congress and the laws which it has passed, and that putting into effect our obvious desire for a more concrete collaboration with Peru depends very largely on the success of our joint efforts of removing the outstanding irritants in that relationship.

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