

No. 13947

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**UNITED STATES OF AMERICA  
and  
CHILE**

**Memorandum of Understanding regarding the consolidation and rescheduling of certain Chilean debts owed to, guaranteed or insured by the United States Government and its agencies (with Agreed Note between Belgium, Canada, Chile, Denmark, France, the Federal Republic of Germany, Japan, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom of Great Britain and Northern Ireland and the United States of America regarding the consolidation of Chilean debts dated at Paris on 25 March 1974). Signed at Washington on 17 June 1974**

*Authentic text of the Memorandum of Understanding: English.*

*Authentic text of the Agreed Notes: French.*

*Registered by the United States of America on 7 May 1975.*

# MEMORANDUM OF UNDERSTANDING<sup>1</sup> REGARDING THE CONSOLIDATION AND RESCHEDULING OF CERTAIN CHILEAN DEBTS OWED TO, GUARANTEED OR INSURED BY THE UNITED STATES GOVERNMENT AND ITS AGENCIES

## APPLICATION OF MEMORANDUM OF UNDERSTANDING

1. This Memorandum of Understanding provides the basis for the consolidation and rescheduling of certain Chilean debts owed to, guaranteed or insured by the United States Government and its agencies, in accordance with the Memorandum of Agreement Regarding the Consolidation of Chilean Debts signed in Paris on March 25, 1974. A formal rescheduling agreement setting out the specific terms of consolidation and rescheduling shall be entered into promptly between the Governments of the United States of America and of Chile and shall be implemented by separate formal bilateral agreements between the Government of Chile and the Agency for International Development,<sup>2</sup> the Export—Import Bank of the United States, the Overseas Private Investment Corporation and the United States Government with respect to P.L. 480 Agreements.<sup>3</sup>

## DEFINITIONS

2. For purposes of this Memorandum of Understanding:

(a) The term “original agreements” shall refer to agreements (except for the rescheduling agreements implementing the Memorandum of Agreement Regarding the Consolidation of Chilean Debts of April 19, 1972)<sup>4</sup> concluded between the Government of the United States of America, its agencies or nationals, and the Government of Chile, its agencies or nationals, which shall be listed in the formal agreements based on this Memorandum referred to in paragraph 1.

(b) The term “consolidated debt” shall refer to 80 percent of the sum of all principal and interest payments falling due from Jan. 1, 1973 through December 31, 1974, in accordance with the “original agreements.”

(c) The term “non-consolidated debt” shall refer to 20% of the sum of all principal and interest payments falling due from January 1, 1973 through December 31, 1974, in accordance with the “original agreements.”

(d) The term “consolidation period” shall refer to the period from January 1, 1973 through December 31, 1974.

## TERMS AND CONDITIONS OF PAYMENT

3. The Government of Chile agrees to repay the consolidated debt in accordance with the following terms and conditions:

(a) The consolidated debt shall be repaid in 14 equal semi-annual installments on due dates of January 1 and July 1 of each year, beginning on January 1, 1977, and ending on July 1, 1983;

(b) Interest shall accrue at the rate of 6% per annum beginning on May 15, 1974 or on due dates under the original agreements, whichever is later, on the outstand-

<sup>1</sup> Came into force on 17 June 1974, the date of signature, with retroactive effect from 15 May 1974, in accordance with paragraph 16.

<sup>2</sup> See p. 99 of this volume.

<sup>3</sup> See p. 117 of this volume.

<sup>4</sup> See p. 34 of this volume.

ing balance of the consolidated debt payable as specified in the formal agreements.

4. The Government of Chile agrees to repay the non-consolidated debt according to the following schedule:

- (a) Approximately 25% in 1974, with the first installment due on May 15, 1974;
- (b) Approximately 25% in 1975;
- (c) The balance in 1976.

5. The Government of Chile agrees to pay interest on the outstanding balance of the consolidated and non-consolidated debt accruing at a rate of 6% per annum from the due dates under the original agreements to May 15, 1974, as specified in the formal agreements.

6. Notwithstanding any other provision of this Memorandum, the Government of Chile agrees to repay in two semi-annual installments, with the first payment on May 15, 1974, the sum of all principal and interest payments due and unpaid on debt rescheduled under the 1965 rescheduling of debts with Chile. These installments shall include interest at 6% per annum accrued from the due dates to May 15, 1974, as specified in the formal agreements.

7. The Government of Chile agrees to make payment of interest at 6 percent per annum accrued from May 15, 1974 or the due dates under the original agreements, whichever is later, on the outstanding balance of the debt referred to in Paragraph 4, as specified in the formal agreements. The Government of Chile also agrees to make payment at 6% per annum accrued from May 15, 1974, on the outstanding balance of the amounts referred to in Paragraphs 5 and 6, as specified in the formal agreements.

8. With respect to the Overseas Private Investment Corporation, the provisions applying to the Consolidated debt shall also apply to 80% of the sum of principal and interest payments falling due from October 1, 1971 through December 31, 1972, in accordance with the agreements evidencing loans by the Bank of America to Petroquímica Dow S.A. and Industrias de Celulosa Arauco, S.A. with respect to which payment will be made by the Overseas Private Investment Corporation on or about June 30, 1974.

9. With respect to the Overseas Private Investment Corporation, the provisions applying to the non-consolidated debt shall also apply to 20% of the sum of principal and interest payments falling due from October 1, 1971 through December 31, 1972, in accordance with the agreements evidencing loans by the Bank of America to Petroquímica Dow S.A. and Industrias de Celulosa Arauco, S.A. with respect to which payment will be made by the Overseas Private Investment Corporation on or about June 30, 1974.

10. The Government of Chile has paid \$14,900,645.83 on May 15, 1974, distributed as follows: Export-Import Bank \$12 million, Overseas Private Investment Corporation \$1,226,443.63, Agency for International Development \$1.4 million, Department of Agriculture \$274,203.20. Such payments will be applied to the amounts scheduled for payment on May 15, 1974, under the formal agreements and shall be subject to adjustment in conformity with such formal agreements, as specified therein.

#### GENERAL PROVISIONS

11. The Government of Chile agrees to grant the Government of the United States of America and its agencies treatment no less favorable than that which may

be accorded to any other creditor country for the consolidation of comparable debts.

12. The provisions of paragraph 11 of this Memorandum shall not be applicable to creditor countries where claims in respect of principal and interest on comparable debts during the consolidation period constitute less than \$1 million.

13. The Government of the United States and the Government of Chile agree that the interest rate provided in this Memorandum may be reviewed and appropriately revised if the interest rates provided in other agreements between the Government of Chile and creditor countries relating to the consolidation of comparable debts are significantly higher or lower than the rate provided for in this Memorandum. In any revision resulting from this review, the United States shall have the option of exercising the right to require an increase in the interest rate provided for in this Memorandum, up to the weighted average of interest rates resulting from agreements between the Government of Chile and other creditors on comparable debts.

14. The Government of Chile agrees to guarantee the free transferability of payments relating to the credits covered by this Memorandum.

15. The Government of Chile reaffirms the commitments made by the Chilean delegation in Article 4 of the Memorandum of Agreement Regarding Consolidation of Chilean Debts of March 1974, and will carry out direct negotiations under subparagraph B of that Article for the purpose of reaching an agreement on just compensation.

16. The provisions of this Memorandum shall be effective as of May 15, 1974.

DONE at Washington in duplicate this 17th day of June, 1974.

For the Government of the United States of America:

[Signed — Signé]<sup>1</sup>

[Signed — Signé]<sup>2</sup>

For the Government of Chile:

[Signed — Signé]<sup>3</sup>

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<sup>1</sup> Signed by Sidney Weintraub — Signé par Sidney Weintraub.

<sup>2</sup> Signed by Richard F. Larsen — Signé par Richard F. Larsen.

<sup>3</sup> Signed by W. Heitmann — Signé par W. Heitmann.

[TRANSLATION<sup>1</sup> — TRADUCTION<sup>2</sup>]

## AGREED NOTE REGARDING THE CONSOLIDATION OF CHILEAN DEBTS

1. Representatives of the Governments of Belgium, Canada, Denmark, the Federal Republic of Germany, France, Japan, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States of America (hereinafter called 'the participating countries'), met in Paris on 21, 22 and 23 February and 25 March 1974 to consider with representatives of the Government of Chile the request of that Government for the alleviation of Chile's external debt service, taking into account Chile's balance of payments prospects over the next few years. Representatives of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development bank and the Organisation for Economic Co-operation and Development attended the meeting. Norway was also represented by an observer.

2. The Chilean representatives outlined the economic and financial programme of their Government and the Standby Agreement which it had reached with the International Monetary Fund, in accordance with the wishes expressed by the above-mentioned countries at earlier meetings, and which involves precise undertakings both as to the strengthening of its internal finances and as to the control of its external debt, and the return to a policy of flexible, unified and realistic exchange rates.

3. The representatives of the participating countries agreed to recommend that their governments or appropriate governmental institutions make available to the Chilean Government debt relief equivalent to 80% of instalments of principal and interest on debts to those countries falling due between January 1, 1973 and December 31, 1974 in respect of:

- A. Commercial credits guaranteed by appropriate agencies or governments of participating countries pursuant to contracts entered into on or before December 31, 1973 under which payments are due over a period of more than one year.
- B. Loans by governments or government agencies concluded on or before 31 December 1973 for which the repayment period is less than 40 years but excluding loans granted in connection with a previous debt consolidation.

The procedures for making available this debt relief will be determined under bilateral agreements to be concluded between each of the participating countries and the Chilean Government in accordance with the following principles:

- a) The debt relief provided for in the bilateral agreements will be made available to the Chilean Government in 1974 in proportion to the payments already due or falling due during the period defined above as such payments are made.
- b) In view of the fact that in 1974 Chile was due to settle 20% of the principal and interest of the maturities falling due in 1973 as well as in 1974, this settlement will be made in three tranches: 5% in 1974, 5% in 1975 and 10% in 1976.
- c) That part of the instalments which Chile will continue to pay in accordance with original contractual schedules may at the choice of each participating country, be allocated in whole or in part to interest payments due.
- d) The rate and terms of the interest to be paid on such debt relief will be determined bilaterally between Chile and each of the participating countries.

<sup>1</sup> Translation supplied by the Government of the United States of America.

<sup>2</sup> Traduction fournie par le Gouvernement des Etats-Unis d'Amérique.

- e) Repayment by Chile of debt relief provided under the terms of this agreed note will be made in 14 equal semi-annual instalments, the first instalment payable on January 1, 1977.
- f) The Chilean Government will grant to each of the participating countries treatment which will be no less favourable than that which may be accorded to any other creditor country for the consolidation of debts of comparable terms. Latin American countries and other countries not represented at the present meeting are not excluded from the application of this provision.
- g) The provisions of the preceding paragraph do not apply to countries whose claims in respect of principal and interest payable during the period for which debt relief is granted are less than \$1 million.
- h) Each participating country will grant debt relief to Chile according to the rules established in the bilateral agreements which are to be concluded and which will make use, as appropriate, of the technique of rescheduling or refinancing.

The Chilean representatives declared that the points of principle set forth above constitute an acceptable basis for the bilateral negotiations which their Government is ready to begin immediately.

4. The Chilean delegation declared that in conformity with its policy the Chilean Government has decided:

- A. 1°) That it recognised the validity of all debts that have been contracted or guaranteed by the Chilean Government, by Chilean public entities and by Chilean mixed enterprises and private enterprises with the guarantee of the State, with private enterprises, public entities or Governmental agencies of the participating countries whatever the nature of these debts or the sector of activity concerned.
- 2°) That it will repay the debts described in paragraph A 1 as agreed by the two parties and as permitted by the balance of payments capacity of Chile. To this end negotiations will be undertaken to determine the appropriate financial arrangements.
- B. That it will carry out direct negotiations for the purpose of finding a prompt solution to the problems which may arise as regards payments of compensation between the Chilean Government and the Governments of the interested countries or their nationals.
- C. In cases of nationalisation, that it will grant just compensation in accordance with Chilean legislation and international law, as reflected in the principles of resolution 1803 of the United Nations.

5. The creditor countries call the attention of the Chilean Government to the importance which they give to this declaration in connexion with any nationalisation past or future.

6. The Chilean representatives declared that because of the policy of financial reconstruction which it is following, their Government will not seek relief of debt arising under contracts falling within the terms of this Agreed Note which were entered into after 31 December 1973, and will guarantee the free transferability of payments relating to the commercial credits and governmental loans covered by the present provisions.

7. The Chilean representatives expressed the desire of their Government for the opening of negotiations with the participating countries regarding the 1975 maturities on the debts covered by the present agreement. The representatives of the participating countries agreed to examine the problem in November 1974, and to take into account the development of the economic and financial situation of Chile.

The fulfilment of all the commitments contained in the present Agreed Note will be examined at the same time.

8. The representatives of the Government of Chile asked the representatives of the participating countries to take note of the request of their Government that they should proceed later on to an examination of the problem of the long term rephasing of Chilean debt.

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