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ABSTRACT

The Copper Policy of the Chilean Junta

The large-scale copper mines nationalized by the Allende government in 1971 have not been returned by the Chilean military regime to the U.S. multinationals that previously controlled them. Instead, they have remained in the State sector. Does this mean that the copper policy of the junta is an exception to its general free-market foreign-investment-oriented economic philosophy? This paper argues that this is not the case, and that, albeit with contradictions and anomalies resulting from the interplay of various pressure groups within the government, the copper policy of the junta retains as its basic aims those of integration with international capital and a progressive reduction in the role of the State. This thesis is substantiated by an examination of, on the one hand, the government's approach to investment in the copper sector, particularly the limitations placed on the expansion of State enterprises, the policy of concessions to foreign capital, and the policy on further processing and downstream integration; and, on the other, the government's position towards international institutions and initiatives that might express collective Third World self-reliance--such as the Intergovernmental Council of Copper Exporting Countries (CIPEC) and UNCTAD.

THE COPPER POLICY OF THE CHILEAN JUNTA

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Introduction

At first sight, the copper policy of the Chilean military government would seem to be an exception to its general economic philosophy. Even though the latter favors full integration into the world capitalist economy, regards the inflow of direct foreign investment as highly desirable, and denies the State any role in the accumulation process, the junta has not returned the large-scale copper mines nationalized by the Allende government in 1971 to the U.S. multinationals that controlled them until that date, and, on the contrary, has allowed the mines to remain in the State sector. Is this an instance in which, perhaps because of strategic considerations weighing especially heavily with the military, the free-market doctrine of their civilian advisers has been put aside?

This paper argues that this is not the case. It maintains that, albeit with contradictions and anomalies due to the interplay of various pressure groups within the regime, the copper policy of the junta retains as its basic aims those of integration with international capital and a progressive reduction in the role of the State. This proposition will be substantiated by examining, on the one hand, the government's approach to investment in the copper sector, notably the limitations set to the expansion of State enterprises, the attitude toward foreign capital, and the policy on further processing and downstream integration; and on the other, the government's position vis-à-vis international institutions and initiatives that might be regarded as expressing collective Third World self-reliance, such as the Intergovernmental Council of Copper Exporting Countries (CIPEC) and UNCTAD, and the proposals on price stabilization and price support that have emerged within them.

I. The Junta's Policies and Capital Accumulation in the Copper Sector

Shortly after the September 1973 coup, the new military rulers of Chile announced their intention to settle the compensation issue with the American companies. This was, of course, far from surprising, considering that the new regime placed itself firmly within the sphere of influence of the United States and international capital. Unexpectedly, however, the process seems to have been less than easy, and to have involved some hard bargaining on the part of the Chilean negotiators. The result was an agreed compensation which--although greatly in excess of what, in the most favorable interpretation of the 1971 nationalization, the companies could have hoped for--nevertheless fell short of the stated claims of the companies. The exception was the case of Cerro, the smallest of the three expropriated corporations, which was on the verge of an agreement with the Allende government on payment of compensation. In that case, the company's agreement with the military was sufficiently more favorable to the company, covering practically all of its claims, than the agreement negotiated with Allende. In the case of Anaconda, the military agreed to pay the full depreciated book value of the assets without any deduction for excess profits. This, coupled with other features of the agreement, such as the high proportion of cash payment, brought it close to full satisfaction of Anaconda's total expectations, although it fell short of the figure announced by the company in 1972 as the value of write-offs and insurance claims. It was in the Kennecott case that the discrepancy between the settlement and company expectations was most clear. In effect, the Kennecott settlement amounted to approximately half of the figure put forward by the company in 1971 as the minimum acceptable, although it was considerably more than the company would have received according to the nationalization of 1971 even in the absence of excess-profits deduction. The agreement with Kennecott took a full three months longer to be completed than the Anaconda settlement--which may be an indication of the difficulties involved in gaining the company's acceptance of the terms.[1]

Even more unexpected, however, was the fact that at that point there was no suggestion that the mines should be returned to foreign control. The reasons for this departure from the junta's general policy are probably complex, including, on the one hand, the general sentiment favorable to the nationalization among Chileans of all social sectors and political persuasions, as expressed in the unanimous vote in Congress in 1971, and the need of the new government to resort to nationalistic legitimation symbols; and, on the other, the strategic value of copper in terms of national security as perceived by the military. It is also possible that the companies themselves were not interested in coming back through reinstatement at that stage. The fact is that it was not until two years after the coup that the question of privatizing the large copper mines was seriously raised by civilian sectors close to the junta, and then only to be rejected categorically by the authorities responsible for the copper sector.[2]

The organization of the copper sector, however, was modified in an important way by the military regime. While, under Allende, the Copper Corporation of Chile (CODELCO) was responsible for both the running of the nationalized mines and the formulation of policy, the military decided to separate management functions from policy formulation, monitoring, and control; the former remained the responsibility of CODELCO, while a new agency--the Chilean Copper Commission--was set up to take charge of the latter. This introduced a line of differentiation of interests among the actors within the State sector, in that CODELCO became the expression of the State presence in copper production, although expected to operate as a profit-making organization. By contrast, the Commission was defined as overseer of the whole industry--including both State and private enterprises--and therefore is charged with monitoring and controlling the performance of CODELCO itself. As will be discussed below, this differentiation helps to explain some of the inconsistencies in the junta's copper policies.

Investment in the State Sector. The profit-making performance of CODELCO has on the whole been impressive, because of a combination of increased levels of production--in turn due to increased labor discipline and the overcoming of technical difficulties associated with the expansion plans of 1967-1969--and of greatly reduced costs of production resulting from the contraction of real wages.[3] Thus, profits for the period 1976-1979 averaged US$ 381.0m per year, or about 27 percent over invested capital (Table 1). CODELCO, therefore, has had enough of a surplus to expand investment and operations.

Within the present structure of decision-making in the copper sector, however, CODELCO is in no position to take decisions by itself in connection with investment and expansion programmes. The annual investment budget of the Corporation is decided by the Ministry of Finance on the basis of proposals made by CODELCO and in consultation with the Copper Commission. While CODELCO authorities--notably Colonel Gaston Frez, who heads the Corporation--have consistently pressed for authorization to carry out expansion programmes, the government economic team's view is that the State should not expand in an area in which private foreign capital might be attracted; as a result, the authorized investment for the same period 1976-1979 has averaged US$ 130 m a year, enough only to maintain existing levels of production in the face of declining ore grades (estimates indicate that because of the decline a massive investment of US$ 1.8b would be required to increase production by 25 percent[4]). The State copper enterprises are thus effectively prevented from expanding their operations even though they generate enough surplus to do so.

TABLE 1

CORPORACION DEL COBRE DE CHILE: PROFITS AND INVESTMENT, 1976-79

	1976	1977	1978	1979
Net profits (millions US $)	372.2	343.8	341.0	467.3
Profits as a percentage of invested capital	26.3	25.6	25.4	30.4
Gross investment (millions US $)	100.0	100.0	150.0	170.0

SOURCES: Annual Statements of Accounts, Chilean Copper Corporation; F. Buttazzoni, "Copper Production in Chile" (mimeo, CODELCO, September 1977).

The Junta's Policy Toward Foreign Investment. In contrast to the restrictive policy on State investment, the junta's line has been one of encouraging the inflow of foreign capital into the copper sector. This is in keeping with its general policy toward foreign investment, and finds its most general expression in the Statute of Foreign Investment (Decree-Law 600 of 1974, amended by Decree-Law 1748 of 1977). The Statute contains a series of clauses offering extremely generous inducements to foreign capital, among them: (a) a guarantee that the rate of taxation of 49.5 percent of gross profits cannot be changed for the first ten years of the life of the investment; (b) a guarantee that there will be no restrictions on the repatriation of profits, and that repatriation will be at the most favorable exchange rate; (c) a system of accelerated depreciation that can make possible the depreciation of equipment, machinery, and installations in three years; and (d) the investors' right to deduct from profits any losses incurred in a period up to five years prior to the year in question. As one analyst has noted, the combined operation of the two latter clauses may result in the company not paying any taxes for the first 8 years, since the accelerated depreciation in the first years will probably lead to losses that will then be deducted from subsequent profits.[5]

An examination of some of the copper investment agreements already entered into by the government shows that the regime, in practice, has granted even more generous terms. In two contracts (covering the deposits of Quebrada Blanca and Andacollo), both the period of guaranteed stable tax rate and, more importantly, the period for which losses can be subsequently deducted have been extended to 30 years.[6]

Not surprisingly, mining multinationals have shown great interest in acquiring the right to exploit copper in Chile, and as a result a wave of concessions to foreign capital for the exploration and exploitation of new deposits or expansion of existing ones has taken place. While little actual investment has materialized, the potential implications of these developments are significant. The most important single events are:

(a) the purchase by Exxon Corporation of a medium-size copper mine near Santiago (La Disputada de las Condes), previously owned by the State. The mine produced about 40,000 metric tons of copper in 1977 and has reserves estimated at 100 m tons. The government agency which held 87 percent of the equity announced in October 1977 that it would open a tender for the sale of its shares, and proceeded to open the tender on December 20, 1977. There was only one bid, and agreement was reached on December 27. The price paid by Exxon for the shares was US$ 107m. In addition, it offered to purchase the 13 percent of the equity held by private owners for a total price of about US$ 23 m more. Finally, it agreed to take over the outstanding debt of the company, estimated at about US$ 45 m. The total cost to Exxon, therefore, was about US$ 175m.

It has been estimated that the value of the deposits alone (i.e., excluding installations and equipment) is on the order of

US$ 220m.[7] Exxon plans to invest up to US$ 1.2b to expand production to 200,000 tons per year, thus making La Disputada the third largest copper mining operation in the country.[8]

(b) the acquisition by Anaconda of the mining rights to the Los Pelambres deposit in northern Chile. The price paid was US$ 20m, which is very low considering that reserves are estimated at 430m tons of copper. An investment of US$ 1.5b is contemplated, leading to a maximum potential output of about 300,000 tons within the next 5 to 6 years.[9]

(c) an agreement in principle with Noranda of Canada to form a joint venture (Noranda to hold 51 percent of the equity) to exploit the Andacollo copper deposit in northern Chile. Reserves are estimated at 310m tons and the projected output is 70,000 tons per year.[10]

These projects, as suggested, are still in their very preliminary stages, but if they materialize they will mean that international capital will within the next decade regain control over a substantial proportion of Chilean copper output, roughly equivalent to 55 percent of total current output and 65 percent of the State share.

Downstream Integration: Continuous Casting of Wire Rod. A related development is the emergence of an integration between the Chilean State copper industry and some major European copper refiners and fabricators who previously purchased raw copper. This is in response to technological trends in the copper industry, whereby the conventional rolling of copper wirebars to produce semi-manufactured products--tube, rods, and shapes--is being replaced by a continuous process in which molten copper enters the end of a mould at a uniform rate and a solid copper rod emerges simultaneously at the other end; and the concomitant economic trend toward concentration of control over continuous casting plants, due to their high investment cost and the possibility of economies of scale. Thus, in Western Europe, 11 firms controlled the whole of the installed capacity for continuous casting of rod in 1977.[11] By contrast, the conventional semi-manufacturing market is much less oligopolistic: it is estimated that in 1974 about 40 firms accounted for installed capacity equivalent to about one-half of the total world copper semi-manufacturing output.[12]

That Chile should move into continuous casting of rod in order to avoid becoming a seller in an increasingly oligopolistic market is therefore a highly plausible proposition. However, the way in which it is being done (and on this there is no difference of approach between CODELCO and other agencies) emphasizes again the Chilean government's overall aim of integration of the Chilean copper industry with international capital. Thus, by agreement with two major German refiners, a joint venture was set up in 1977 with a plant located in Emmerich, Germany for the continuous casting of copper rod utilizing Chilean copper cathodes. The policy is to try to set up a number of such plants in other European countries, thus effectively locating in the consuming countries the next stage of processing for raw Chilean copper.

II. The Junta and the Links Among Third World Copper Producers

If the preceding description of the general policy of the Chilean junta vis-à-vis international capital is correct, it is clearly to be expected that the junta should have a reticent attitude toward attempts at organizing Third World producers to confront the consuming countries in the area of marketing and prices. This, again, is indeed the case. Chile's military government has effectively withdrawn support from organizations such as the Intergovernmental Council of Copper Exporting Countries (CIPEC), particularly as a potential focus for a policy of price support; and from initiatives such as the price stabilization programme put forward by UNCTAD. On the other hand, in the pursuit of a policy of maximizing commercial advantage, it has at times helped introduce changes in the mechanisms of marketing and prices that have gone some way toward strengthening the bargaining position of the producers with respect to the consumers.

Chile, CIPEC, and Copper Marketing.[13] CIPEC was created in 1967 upon the initiative of Presidents Frei of Chile and Kaunda of Zambia, with an original membership that also included Peru and Zaire. Its purpose was to coordinate the copper policies of the four governments in order to achieve some control over markets and prices. After 1975, membership was expanded to include Indonesia as a full member and Australia, Mauritania, Papua New Guinea, and Yugoslavia as associate members.

In its first years, the organization concentrated essentially on producing studies of the world copper market, and on consolidating itself administratively and technically. By 1970, a combination of factors (including the emergence of nationalistic trends in Chile, Peru, and Zambia, the dramatic drop in copper prices that took place in the second half of 1970, and the general process of consolidation of the organization) raised for the first time the possibility of joint intervention in the market to push prices up. While nothing came of the discussions held in 1970--basically because of Zairian reluctance--the newly inaugurated government of Allende in Chile began to take an increasingly active role in trying to promote joint actions and closer coordination of policies.

Interestingly, the military government did not substantially change this line at first, and as at the same time a nationalistic reaction was taking place in Zaire, CIPEC in November 1974 embarked in its first, and until now only, attempt to influence prices by agreeing on a 10 percent production cutback. This cutback was originally scheduled to last for 6 months, but was later extended to April 1975 and increased to 15 percent. Chile's agreement to the cutback was no doubt helped by the fact that the government was already planning to shut down the smallest of the large-scale mines (Exotica) for technical reasons; Exotica's output was roughly 10 percent of Chile's total production.

The move is generally credited with having had a modest impact on the market--i.e., it probably prevented the price from declining further. On the other hand, it seems clear that the original target was not sufficiently high, that it was not fully implemented by all countries, and, most importantly, that it expressed a political situation in CIPEC countries which was not to last. In 1975 the Chilean government began to take an increasingly hostile line toward unilateral action by the producers, as the economic model aiming at attracting foreign capital began to consolidate. This process coincided with a decision to shift responsibility for relations with CIPEC from CODELCO to the Copper Commission. A similar move away from nationalistic attitudes was taking place in Zaire, following difficulties in implementing the so-called Munich Agreement whereby a State agency replaced the Belgian Société Générale de Minerais as the agent in charge of marketing Zairian copper. These factors resulted in a policy reversal introduced in CIPEC's Conference of Ministers, held in Lima in December 1975, when the possibility of unilateral action by CIPEC was effectively abandoned in favor of trying to reach agreement with the consumers to stabilize the price of copper through the operation of a jointly administered and financed buffer stock. As at the same time UNCTAD was putting forward proposals for an Integrated Commodity Programme, the arena for discussion of the world copper market mechanism effectively ceased to be CIPEC and moved towards UNCTAD.

Chile's reticence toward CIPEC was also expressed in attempts to introduce structural and administrative changes in the organization. After the difficulties in reaching agreement on joint action in the early 1970s, it became increasingly clear that, if such agreement were to be pursued in earnest, it would require a more activist role on the part of CIPEC's Secretariat, until then operating solely as an informational unit of a technical and neutral character. A 1971 Executive Committee report stressed that the Secretariat, and in particular the Executive Director, should undertake a promotional and lobbying role, broadly patterned after the model of the Economic Commission for Latin America under Raúl Prebisch. In 1976, by contrast, the Chilean government introduced a proposal to change the charter of the organization in order to emphasize once again the purely informational and technical character of the Secretariat. The head of the Secretariat was to be downgraded by being made directly responsible to the Executive Committee; the latter, in turn, was given additional powers, a more permanent membership, and a more regular schedule of meetings. Chile also supported the recommendations contained in a review of the external structure of the organization carried out by external consultants, which suggested among other things that all executive posts should be filled through open international competition ruled by normal business recruitment criteria--a further downgrading of the political role of the Secretariat.

The proposals, therefore, while depriving the organization of the possibility of dynamic leadership from the Secretariat, did introduce a basis for continuous negotiation that could be taken advantage of by a government determined to provide a lead. This appealed to the Peruvian government, which went along with the proposal, though suggesting the amendment that the head of the Secretariat be a national of a member country. Chile at first rejected the amendment, but was won over when the first turn in the post--for two years--was offered to a Chilean. The proposed modifications were thus adopted in 1977. Chile's distrust of initiatives within CIPEC did not change, however. When, following the frustration of the first two Preparatory Meetings on copper after UNCTAD V and the drop in prices in late 1977, the December meeting of the CIPEC Conference of Ministers in Jakarta discussed the possibility of a second production cutback, Chile excluded itself from the initiative. (This, incidentally, did not prevent Peru, Zaire, and Zambia from adopting it in March 1978. The May invasion of the Shaba province by Katangese forces, which raised the price of copper, made implementation unnecessary.)

The Military Government and UNCTAD'S Integrated Commodity Programme. As suggested above, the Chilean government at the end of 1975 appeared to favor the setting up of joint producer/consumer discussions on the stabilization of copper prices through buffer stocks. At UNCTAD IV in Nairobi in May 1976, an Integrated Commodity Programme was proposed and adopted, a central element of which was precisely the introduction of international agreements to stabilize commodity prices through buffer stocks, with a Common Fund providing financial support. The Programme covered 18 commodities, copper included. Resolution 93(IV) of UNCTAD IV set a timetable of preparatory meetings aimed at laying the groundwork for the convening of negotiating conferences for agreements on each of the commodities. The first preparatory meeting on copper took place in November 1976, at which time the idea of setting up a buffer stock to stabilize copper prices was rejected with various degrees of vehemence by the developed countries, who argued that not enough is known about the operation of the world market to be able to intervene successfully. They suggested instead the creation of a consultative body of producers and consumers with a view to improving the quality of statistical data on the copper industry world-wide and of facilitating exchange and dissemination. The rationale was that since instability is due to imbalances in supply and demand, a better-anticipated knowledge of those factors would allow producers to adjust their behaviour accordingly and reduce short-term fluctuations. In the medium run, the body could produce sufficient information to organize, if necessary, an intervention through buffer stocks with a minimum of uncertainty. This position was essentially regarded by the underdeveloped countries as a dilatory tactic, and with Peru as their spokesman, they pressed for the convening of a conference to negotiate a copper agreement. A compromise solution--involving the creation of a joint consultative body, one of whose tasks would be the study of stabilization schemes with a view to convening a negotiating conference--failed because of disagreement over whether the body should be part of UNCTAD, as urged by the Third World, or autonomous as the developed countries advocated.[14] The result, therefore, has been impasse. And this, of course, is not surprising. At the root of the divergences between developed and underdeveloped countries on this issue, there lies a more fundamental difference concerning the very meaning of the notion of a New International Economic Order. For a large number of underdeveloped countries, the New Order is aimed at changing the structure of political-economic power in the global arena so as to give the Third World more participation in decisions concerning world trade and finance. Producer-consumer buffer stock arrangements are thus seen as a means by which commodity producers would acquire some degree of control over the pricing of their exports; objections to such arrangements by some developed countries, who stress the need to avoid interference with the "free operation of market forces," are in reality addressed to the question: Who controls the pricing mechanisms?

In this politicized discussion, the Chilean government, represented by its Permanent Delegation in Geneva, broke ranks with the other underdeveloped producers and supported the view of the consuming countries and of other developed copper producers, such as Australia and Canada. CODELCO has gone along with this position, since its profit-maximizing orientation has led it to decide to take advantage of Chile's lower costs of production in order to expand its sales, even at the expense of depressing the international price.

On the other hand, as suggested above, the same commercial strategy has led CODELCO to pioneer changes in the pricing mechanism for copper in the world market. All CIPEC countries sell their copper in the world market through direct contracts with fabricating firms, mostly in Europe, Japan, and the U.S. The contracts are usually for one year and establish a total tonnage to be delivered in monthly instalments. The negotiation of the contracts takes place once a year, normally in October and November. The price paid by buyers is determined by reference to the London Metal Exchange. While particular modalities of the contracts vary, the general rule until 1978 was that the buyer was allowed to choose a known LME quotation within 24 hours of its being announced in order to price the corresponding monthly delivery, with certain restrictions. In practice, this amounted to the price of electrolytic wirebars--the standard form of refined copper sold--being slightly less than the average cash-settlement LME quotation for the month of delivery. In 1978 CIPEC producers, following CODELCO's lead, decided to change the traditional price-fixing mechanism to offer buyers an option: they could either pay the monthly average LME settlement price, or, if they wish to retain their price-fixing facilities, they have to pay a premium over and above the LME price. The cash impact of these changes is very modest; but the principle of the producers deviating from the previous mechanism is clearly being established, and as such these moves have been resisted by the consumers of copper in the advanced capitalist countries.

III. Conclusions

This paper has argued that the junta's copper policy does not depart significantly from the overall economic approach of the government, in that its objectives are the integration of the Chilean copper industry in the world capitalist economy and the reduction of the role of the State. Private foreign capital is regarded as the dynamic agent of accumulation in the copper sector, and the government's attitude toward international organizations and initiatives that may be construed as expressions of collective Third World self-reliance is reticent when not outright hostile.

This overall approach, however, has some internal contradictions, resulting essentially from the early decision to retain in the State sector the large-scale copper mines nationalized by the Allende government in 1971. As a result, the government groups associated with the Chilean Copper Corporation--which is responsible for the management of the nationalized sector--have resisted the policy of restricting the expansion of the State sector, although they have been unable to make their view prevail. There is no conflict, however, in the approach toward the international market; CODELCO's policy is to attempt to take maximum commercial advantage of its low cost of production, and it is therefore not interested in pursuing initiatives on price stabilization or support. Interestingly, along this path CODELCO has managed to put forward and implement minor changes in the relationship between producers and consumers that in the past might have been associated with the notion of commodity power and collective self-reliance, and which have entailed some degree of conflict with international capital, notably the consumers of copper.

On the whole, however, it is fair to say that the junta's policy leads to a progressive denationalization of the Chilean copper industry, both in terms of the capturing of the surplus generated and in terms of the locus of control and decision-making.

[1]C. Fortín, "Compensating the Multinationals: Chile and the United States Copper Companies," IDS Bulletin, 7:1 (April 1975), pp. 23-29.

[2]"Se Mantiene la Nacionalización de la Gran Minería del Cobre," El Cronista (Santiago), 19 November 1975.

[3]"Codelco: The Secret of Success," Copper Studies, 7 July 1978, p. 3.

[4]Latin America Commodities Report, 6 July 1979, p. 102.

[5]C. Vignolo, "Inversión Extranjera en la Minería Chilena," Análisis/Oikos, October 1978, p. 6.

[6]Ibid.

[7]E. Tironi and J. Barria, "La Disputada: De la ENAMI a la Exxon," Mensaje, 271 (August 1978), p. 495.

[8]"ENAMI and Chile's Smaller Mines: II," Copper Studies, 28 February 1979, p. 4.

[9]Latin America Commodities Report, op. cit.

[10]"CS Survey: Chile," Copper Studies, 22 October 1976, pp. 9-10; and "ENAMI and Chile's Smaller Mines: I," Copper Studies, 16 February 1978, p. 3.

[11]"Continuous Cast Rod," Copper Studies, 20 July 1973, 6 November 1973, 31 May 1974; and "Continuous Cast Rod in Western Europe," Copper Studies, 23 December 1976, pp. 4-6.

[12]C. Fortín, The Political Economy of the World Copper Industry (Third World Forum/IFDA), p. 100.

[13]This section is based on C. Fortín, "Third World Institutional Politics and Collective Self-Reliance: The Intergovernmental Council of Copper Exporting Countries," in E. Oteiza, C. Kenrick, and J.A. Zammit (eds.), Collective Self-Reliance: A Reader (Geneva: IFDA, forthcoming).

[14]See the Reports of the seven Preparatory Meetings and the seven Meetings of the Intergovernmental Group of Experts on Copper held between November 1976 and September 1979, especially the Report of the Fourth Preparatory Meeting, 17/21 July 1978 (Doc. TD/B/IPC/Copper II, 15 August 1978).