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Augusto Pinochet (also known as "Daniel Lopez") in Santiago in '82

HISTORY

General Pinochet's Car Bomb & BHP's Deal in Chile

How Henry Kissinger, General Pinochet and a small group of bankers in London turned Chile into the world's largest copper producer. "The time to buy straw hats is in winter."

On Embassy Row in Washington, an explosion ripped through the underside of a large, sky-blue Chevrolet just after 9.30 in the seized power by shelling the presidential palace only three weeks after being promoted to Commander-in-Chief of the army. Ruthless, than making a full-faith commitment to investment in the country", and Chile's newspapers started printing cartoons of a kangaroo in a morning. It was 1976 and inside was Chile's former foreign minister, Orlando Letelier. He died almost immediately, his lower body blown off.

Letelier, 44, had been one of the key figures in Chile's decision in 1970 to nationalize its copper mines, undoing decades of American investment. The move was a “serious infraction to international practice”, America had warned, putting Chile under sanctions.

Letelier and Chile's Marxist president of the time, Salvador Allende, were close friends, and Letelier had been charged with defending the policy of “Chilenization”. But after food shortages, strikes and a coup, Allende had allegedly shot himself with an AK-47 and Letelier fled to the US, where he was posturing as a leader-in-exile. Now both men were dead.

America was outraged by the car bomb, which went off less than a mile from the White House. But decommissioned papers show that its intelligence services were at least complicit.

Henry Kissinger, America's Secretary of State, who had little time for what he called “human rightsy” criticism, was aware of a plan by Chile's secret police to hit targets on US soil. Kissinger had honed the art of traffic light diplomacy, using ambiguous language to flash red and green signals at anti-communist governments, intelligence and crafty, he had violently ended Chile's Marxist experiment, breaking 150 years of Chilean democracy, but the day after his coup, Chile's supermarkets were full of food.

Pinochet's 17-year dictatorship remains bitterly divisive: obsessed with pristine military uniforms, he kept the country in a state of emergency, rounded-up political opponents and 'disappeared' thousands of people. Dissidents were routinely thrown out of helicopters, bodies dumped in disused mines.

Pinochet also used arms deals to embezzle funds, stuffing money into US bank accounts under a fake name, “Daniel Lopez”. But he assuaged foreign interests with free-market reforms: Chile dropped tariffs, banned unions and stabilised its currency, promoting a new breed of monetarism that was only later taken up by Margaret Thatcher in Britain and Ronald Reagan in the US. Pinochet privatised Chile's pension pot, foreign banks moved in and exports and the stock market boomed.

From fisheries to wine and timber, Pinochet privatised almost every industry, yet he kept hold of Chile's copper mines, using them to tighten his grip on power: the military was guaranteed 10 per cent of all copper revenue.

As a concession to big cowboy hat, its pouch stuffed with dollars and contracts.

The huge new mine came into production in 1990, $300m below budget (thanks to a favourable power agreement). It was also given a fixed 20-year tax deal and the right to funnel revenue into an offshore account. After two rapid expansions, Escondida was the biggest copper mine on the planet.

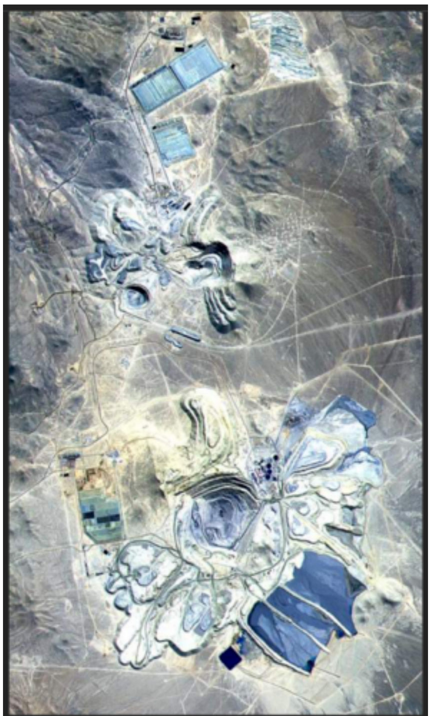
But Pinochet had tripped himself up by rewriting the constitution, triggering a plebiscite on his position as president. He was under mounting international pressure to resume elections and the vote went against him. Having earmarked himself a lifetime seat in the senate, Pinochet reluctantly stepped down two years later, just as Escondida came into production.

His legacy remains visible: by handing-out licenses and tax agreements, Pinochet turned Chile into the world's dominant copper producer. Chile's output tripled during the 1990s, leaping ahead of the US. After nearly two decades in abeyance, his political opponents beefed-up Chile's unions, but its state-owned mines now account for an ever-shrinking share of production.

Henry Kissinger meanwhile watched Chile's remarkable transformation from “the seventh floor” (codename for his office in Washington). As to who killed Letelier, Kissinger has remained encouraging drastic action, without committing to a position, keeping the US one step removed.

"I understand the problem... We understand you must establish authority... There are things that have to be done," Kissinger had told a group of military leaders in private meetings in Santiago.

Among them was General Augusto Pinochet, Chile's hardline dictator, who had



BHP's Escondida, the world's largest copper mine (photographed by Nasa)

business, Pinochet redrafted the constitution, opening-up the country to exploration: private companies could build whatever they found. American multinationals, including General Electric and Getty Oil, moved back in, punching drill-holes into copper porphyries that ran in a straight line across the Atacama desert.

The biggest was Escondida: with half a billion tonnes grading 2.16 per cent copper, it was the largest copper orebody ever discovered, but investors were nervous about fronting the $1bn build cost. They were less frightened of Pinochet than the socialists he had shelled out of office: "The Allende years" and "the memories of the appropriation", according to one geologist, "were still uncomfortably close."

Escondida was bundled in with a portfolio of coking coal mines and sold on to Australian mining group BHP, launching the company onto the world stage. Prices were depressed, but chairman Sir James McNeill justified the $2.4bn deal, then the largest in Australia's history: "The time to buy straw hats is in winter."

Advised by banks in London, BHP structured an ingenious financing package: it sold stakes in Escondida to rival Rio Tinto, Japanese trading group Mitsubishi and the IFC, a Washington-based offshoot of the World Bank, before selling forward the

typically cryptic. "I knew him, I liked him personally."

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concentrate to refineries in Finland, Germany and Japan, which funded construction with government-backed loans. The risk (and ownership) was spread well beyond BHP's board, and multiple governments were given an interest in Escondida's success.

BHP was accused of “mortgaging the mine's future” for political reasons, “rather

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