

U.S. Allegedly Broke Law

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Dealings in Chilean currency by the U.S. embassy during the presidency of Salvador Allende appear to have violated Chilean law despite the recent statement of a top State Department official to the contrary.

Harry W. Shlaudeman, recently nominated to become assistant secretary of state for Latin American affairs, said a week ago that the currency dealings were legal because Chilean escudos were brought in at black market rates from neighboring Argentina.

However, records of the International Monetary Fund show that Chile prohibited import of its own currency—precisely to avoid such transactions—less than a year after Allende took office in November, 1970.

Asked to comment yesterday, Shlaudeman first said that he did not remember the Chilean restriction. Later he said that the embassy took the position that the regulation did not apply to diplomats.

An IMF expert said, however, that such restrictions apply to all without distinction.

The currency dealings became an issue when opponents of Shlaudeman's nomination charged last week that top embassy personnel encouraged black market transactions during the 1969-73, when Shlaudeman was deputy chief of mission in Santiago.



HARRY W. SHLAUDEMAN
... says dealings were legal

A U.S. regulation prohibits employees abroad from speculating in foreign exchange. It also forbids "transactions in exchange rates differing from local legally available rates, except where duly authorized in advance."

Shlaudeman acknowledged that the embassy had organized such exchanges after advance authorization and that he himself had taken advantage of the favorable rates.

Under Allende, the rate for exchanging escudos into dollars was kept artificially low. On occasions, the black market rate was 10 times more favorable.

Shlaudeman said that em-

bassy importing of cheap escudos was done to prevent economic losses for staff members forced to exchange at the legal rate, and to avoid their turning to illegal transactions in Chile. He said State Department inspectors visiting Chile were aware of the arrangements and did not question them.

However, regulations published Oct. 30, 1971, by the Chilean government placed prohibitive restrictions on import of escudos, according to 1972 IMF Annual Report on Exchange Restrictions. The rules were publicized and posted at the Santiago airport.

Embassy dealings in escudos brought from Argentina began before the election of Allende, at a time when the spread between official and black market rates was not so large—and when the practice did not violate Chilean law.

However, the volume of such dealings appears to have grown rapidly after Allende's election. Shlaudeman estimated that \$1 million was involved annually. About 100 employees were on the embassy staff.

One explanation for the increase is the wider spread between the official and illegal rates.

U.S. officials and others resident in Chile at the time point out that other embassies also dealt in the black market.

Congressional investigations indicate that much of the \$8 million in secret Central Intelligence Agency expenditures in Chile during the Allende period were funneled into the black market. Shlaudeman's critics charge that the embassy's own exchange dealings were also aimed at disruption of the economy under Allende.

Intelligence community sources indicate that not only the CIA but also Cuban and Soviet intelligence services were taking advantage of the black market to multiply the impact of their spending.

Shlaudeman's nomination to the top State Department post for Latin America is before the Senate Foreign Relations Committee, which is expected to vote on it Tuesday.