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**Foreign
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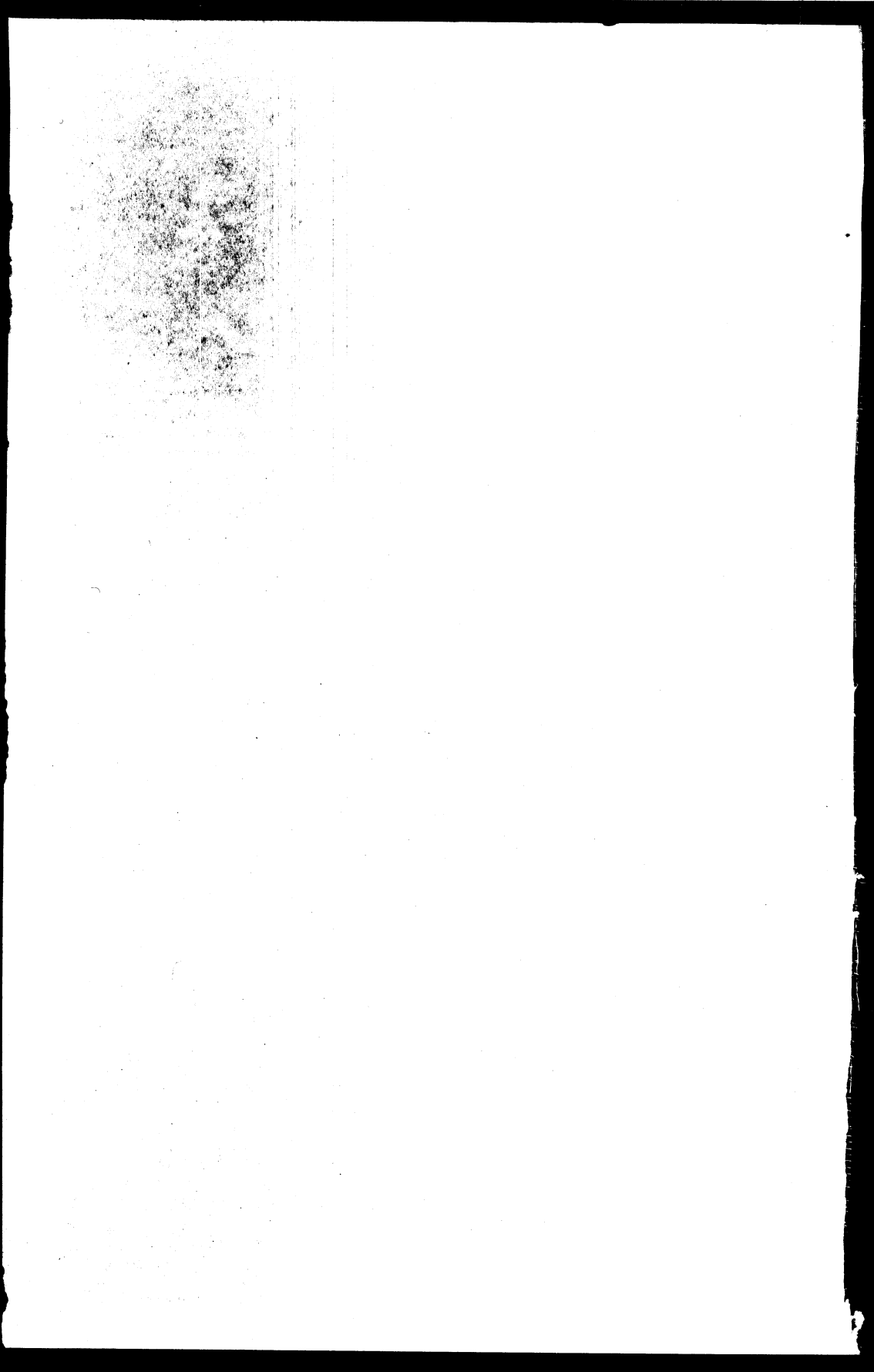


1942

Volume VI

**THE AMERICAN
REPUBLICS**

**Department of State
Washington**



Foreign Relations
of the
United States

Diplomatic Papers

1942

(In Seven Volumes)

Volume VI

The American Republics



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PREFACE

The principles which guide the compilation and editing of *Foreign Relations* are stated in Department of State Regulation 1350 of June 15, 1961, a revision of the order approved on March 26, 1925, by Mr. Frank B. Kellogg, then Secretary of State. The text of the current regulation is printed below:

1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

1351 *Scope of Documentation*

The publication *Foreign Relations of the United States, Diplomatic Papers*, constitutes the official record of the foreign policy of the United States. These volumes include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions within the range of the Department of State's responsibilities, together with appropriate materials concerning the facts which contributed to the formulation of policies. When further material is needed to supplement the documentation in the Department's files for a proper understanding of the relevant policies of the United States, such papers should be obtained from other Government agencies.

1352 *Editorial Preparation*

The basic documentary diplomatic record to be printed in *Foreign Relations of the United States, Diplomatic Papers*, shall be edited by the Historical Office, Bureau of Public Affairs of the Department of State. The editing of the record shall be guided by the principles of historical objectivity. There shall be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing shall be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

- a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
- b. To condense the record and avoid repetition of needless details.
- c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
- d. To avoid giving needless offense to other nationalities or individuals.
- e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternatives presented to the Department before the decision was made.

1353 *Clearance*

To obtain appropriate clearances of material to be published in *Foreign Relations of the United States, Diplomatic Papers*, the Historical Office shall:

- a. Refer to the appropriate policy offices of the Department and of other agencies of the Government such papers as appear to require policy clearance.
- b. Refer to the appropriate foreign governments requests for permission to print as part of the diplomatic correspondence of the United States those previously unpublished documents which were originated by the foreign governments.

The responsibilities of the Historical Office, Bureau of Public Affairs, for the preparation of this *Foreign Relations* volume were entrusted, under the general supervision of the Director of the Office, William M. Franklin, to the Foreign Relations Division under the direction of the Chief of that Division (Editor of *Foreign Relations*), E. R. Perkins. The compilers of *Foreign Relations*, 1942, Volume VI, The American Republics were N. O. Sappington and Almon R. Wright.

The Division of Publishing Services is responsible with respect to *Foreign Relations* for the editing of copy, proofreading, and preparation of indexes. Under the general direction of the Chief of the Division, Jerome H. Perlmutter, the editorial functions mentioned above are performed by the Foreign Relations Editing Branch in charge of Elizabeth A. Vary, Chief, and Ouida J. Ward, Assistant Chief.

For 1942, the arrangement of volumes is as follows: Volume I, General, the British Commonwealth, the Far East; Volume II, Europe; Volume III, Europe; Volume IV, The Near East and Africa; Volume V, The American Republics; Volume VI, The American Republics. The *Foreign Relations* series for 1942 also includes the unnumbered volume on 1942, China, previously published.

E. R. PERKINS
Editor of Foreign Relations

OCTOBER 1, 1962.

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CHILE

EFFORTS TO SECURE COOPERATION BETWEEN THE UNITED STATES AND CHILE ON CERTAIN MEASURES FOR HEMISPHERE DEFENSE¹

740.0011 Pacific War/1654 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 15, 1942—7 p. m.

[Received January 16—3:51 a. m.]

84. The Japanese Minister² made an appointment with the Minister of Defense³ and Chilean officers for his so-called Naval Attaché, a junior lieutenant who is supposed to have come from United States via the east coast of South America. Commanders-in-chief Navy and Army were present and six other Chilean officers. Japanese officer asserted that the United States Navy was now vastly inferior and expressed optimism in victory. He promised destruction of the Panama Canal and sinking of all ships carrying contraband by the Japanese submarines, intimated friendship and support by Japan for Chile. He also stressed strategic importance of Easter Island. It seems probable that similar talks were given in other key South American countries on the eve of Conference at Rio.⁴ The Naval Attaché of this Embassy believes that the talk had some effect since recent news of American military actions has not been favorable.

Repeated to Rio de Janeiro.

BOWERS

825.248/246 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 20, 1942.

[Received January 21—1:58 a. m.]

117. The following telegram has been sent to Rio de Janeiro.

January 20, 10 p. m. For Welles.⁵ Your January 19, 1 p. m.,⁶ could only be finally decoded due to garbles after I had already had a talk

¹ For previous correspondence, see *Foreign Relations*, 1941, vol. VI. See also section on the negotiation for a Lend-Lease agreement between the United States and Chile, *ibid.*

² Keyoshi Yamagata.

³ Jaque Juvenal Hernández.

⁴ For correspondence concerning the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942, see vol. V, pp. 6 ff.

⁵ Under Secretary of State Sumner Welles was attending the Third Meeting of Foreign Ministers of the American Republics at Rio de Janeiro as the representative of the United States.

⁶ Not printed.

today with the Acting Minister for Foreign Affairs Señor del Pedregal on the subject of the signing of the Metals Reserve contract.⁸

Del Pedregal used this occasion to say to me with the appearance of the greatest feeling that if Chile had military equipment she would not only be willing to break relations but would go to war with the Axis. He said that the Army had ammunition for about 15 minutes of fighting and no planes or anti-aircraft guns. He said that the Japanese Minister assured him that if Chile maintained its neutral position she would not be attacked by Japan. He agreed with the objection that this assurance from an Axis nation meant nothing and said that Japan would attack to suit her convenience. However, he said that if it restrained Japan from attacking one ship that was clear gain in Chile's present defenseless position. He went on to say that the people of Chile were all for solidarity of action and for fulfilling their obligations but as [*that?*] they were not prepared for sudden action against the Axis unless some dramatic incident occurred to wake them up. He deplored this attitude but [said] that it was general throughout Chile.

The only thing I can see to break this attitude for Chile is to have you after consultation with our War and Navy Departments give categorical assurances to Rossetti⁹ and through me to the Chilean Government that the United States is prepared instantly to send down sufficient reconnaissance planes and fighters to ensure protection for the vulnerable strategic coast points of Chile notably the oil deposit at San Antonio, copper power plants at Coya and Tocopilla, et cetera. Airplanes and personnel sent might be ostensible addition to the training equipment of the United States Air Mission in Chile and also to the three navy flying boats now visiting Valparaiso; if it is possible to couple with assurances of the instant despatch of minimum need of defense equipment the firm opinion of our Navy and Army authorities that for some time to come Japan will be incapable of anything except a hit and run aerial attack or submarine activity against Chile this would help. On this basis I would try to persuade the Vice President¹⁰ and the Acting Minister for Foreign Affairs to revise their instructions to Rossetti.

I will endeavor within the next few weeks to furnish you and the Department with a statement of the minimum defense equipment required. To us it appears very evident that it is a matter of air and navy defense rather than equipment for land fighting.

Repeated to Department.

BOWERS

⁸ For correspondence on the acquisition of strategic materials by the United States from Chile, see pp. 47 ff.

⁹ Juan B. Rossetti, Chilean Minister for Foreign Affairs.

¹⁰ Gerónimo Méndez Arancibia exercised the presidential office as Vice President after the resignation of President Pedro Aguirre Cerda and became Acting President after his death.

825.248/225½ : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 20, 1942—10 p. m.

[Received January 21—4: 16 a. m.]

118. The following telegram has been sent to Rio de Janeiro.

January 20, 11 p. m. For the Under Secretary. Supplementing my telegram of today, (paraphrase), repeated to the Department under No. 117, January 20, 10 p. m. Colonel Niergarth, Chief of Military Air Mission here, in a report to General Miles,¹¹ sent to the Department by air today said, in substance, the following with regard to Chilean defense needs:

Whenever mentioning the electric plants at Tocopilla, Coya and Barquitos powering the Chilean copper production which we so urgently need, Niergarth said if these important objectives along some 800 miles of Chilean coast down to Pall (aviation gas tanks) could have an off shore patrol 500 miles to sea he believes a surprise attack could be avoided. He personally thinks that Japan when it suits her convenience would make a hit and run aerial attack against these points which at present could be done with impunity. After the attack the United States would be able to find planes for an off shore patrol, so why not make an effort and provide them before the attack. The Axis will, he believes, not launch a major attack on the United States before trying to get control of our outposts of which Chile is one. Therefore, the majority of our combat planes should be in the outposts. He recommends that under Lend Lease¹² or any other device at least twelve 2-engine long range reconnaissance land planes be turned over to Chile for off shore patrol duty.

I am not in a position to give an estimate as to minimum naval assistance required by Chile at this juncture.

As stated in my telegram under reference it does not appear at present to be a matter of land fighting equipment but a prompt answer should be given to the Chilean Chief of Staff's¹³ estimate of needed materials transmitted in the Department's strictly confidential instruction 964 of December 31.¹⁴ That estimate included 102 twenty millimeter anti-aircraft guns and 48 thirty-seven millimeter anti-aircraft guns with ammunition and trucks for the larger size. Actually of course no such number would be needed to protect the few strategic coast points.

BOWERS

¹¹ Brig. Gen. Sherman Miles, Assistant Chief of Staff.

¹² Act approved March 11, 1941; 55 Stat. 31.

¹³ Gen. Oscar Escudero.

¹⁴ Not printed.

825.248/220 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 21, 1942—2 a. m.

[Received 4:20 a. m.]

120. The following telegram has been sent to the Under Secretary.

My telegram No. 118, January 20, 11 p. m. The following is the revised estimate of the United States Air Mission here of the minimum number of planes and anti-aircraft guns needed to make a possibly successful showing against surprise air attack from the Japanese on the strategic points along an 800 mile Chilean coastal stretch: 12 long range bombing reconnaissance planes. Preferably 36 but at least 24 interceptor pursuit planes. Forty-two 20-millimeter anti-aircraft guns and twenty-one 37-millimeter anti-aircraft. It would be necessary to have full American combat and maintenance crews at least for the first few weeks.

Could you promise immediate arrival of such equipment?

BOWERS

825.248/220 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, January 21, 1942—10 p. m.

80. Your 118, January 22 [20], 10 p. m. and 120, January 21, 2 a. m. Following consideration of this question today the following matériel will be made available for delivery to the Chilean Government provided that Government signs a lend lease agreement:

1. From the War Department:

- (a) About 15 airplanes of the advanced trainer type with U. S. Army crews to train Chilean personnel;
- (b) The 25 scout cars included in the list of lend lease munitions requested by Chile;
- (c) The 134, 81-mm mortars included in the lend lease list of munitions requested by Chile;
- (d) The 4,000 rounds of 155-mm Howitzer ammunition included in the list of lend lease munitions desired by Chile;
- (e) Approximately 300 motor vehicles of various types included in the list of lend lease munitions desired by Chile;
- (f) Items (b), (c), (d) and (e) can be dispatched at once;
- (g) Ammunition to be furnished by increments.

2. From the Navy Department:

- (a) 3 Stearman training planes (for which the Chileans have stated they are willing to pay cash);
- (b) 2 Observation Scout OS2U-3;
- (c) Cement, oil and gasoline as may be requested.

You are instructed not to take any action with respect to this list until you receive specific instructions from Mr. Welles.

HULL

825.248/223 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 22, 1942—9 p. m.

[Received January 23—7:27 a. m.]

136. I must respectfully submit that the material listed in the Department's No. 80, January 21, 10 p. m. is not responsive to my telegrams referred to therein. The Chilean Air Force and Army would be delighted to get this training and other equipment, of course, but it in no way meets the immediate danger of a Japanese hit-and-run air attack. If you could give assurances of the immediate (repeat immediate) delivery of the material specified in my No. 120 of January 21, 2 a. m. I believe it would decisively clinch full Chilean cooperation. The view here is Japan will not wait until Chile actually breaks off relations. One airplane could now wipe out the Potrerillos Power Plant, utterly unprotected by combat planes or anti-aircraft guns, thus stopping production for months of an important source of our supply of copper.

Our Air Corps Command has apparently not been able to grasp the military and political significance of South America and particularly the utter vulnerability of Chile. If something should happen now to Chile in her present defenseless situation it is going to throw our whole policy out of gear and our relations will be adversely affected for a very long time to come since it will be said that we urged Chile to take a step which it felt was unwise. My impression is that the allocation authority of the Air Corps Command apparently still thinks we are back in 1940 when they were shipping everything to England. I think it will be found that there are bomber and pursuit units in the interior of the United States for which no combat use is anticipated in the near future.

I believe the matter should be taken up directly with General Arnold¹⁵ in all its seriousness, its political ramifications, and special [apparent omission.]

BOWERS

825.248/223

*The Secretary of State to President Roosevelt*¹⁶

WASHINGTON, January 24, 1942.

MY DEAR MR. PRESIDENT: You will recall several recent telegrams from Ambassador Bowers urging that certain military and naval matériel immediately be made available to Chile in order to put it in a position to repel the aggression from Japan it appears so much to

¹⁵ Gen. Henry H. Arnold, Chief of the Army Air Forces.¹⁶ Returned by President Roosevelt with the notation: "OK",

fear. The War and Navy Departments reviewed their supply situation and authorized me to send a telegram setting forth a list of matériel which could be made available either immediately or in the near future. Mr. Bowers has now sent a message indicating his opinion that the list is entirely inadequate and urging further reconsideration of the situation. It does not seem to me that Mr. Bowers appreciates the exceedingly heavy demands which are now being made on our war production or that the War and Navy Departments, at your direction, made a real effort to furnish to Chile whatever they could spare.

There is submitted for your consideration a suggested telegram to Mr. Bowers.¹⁸ If it meets with your approval I will see that it is dispatched at once.

There are attached hereto copies of the messages between Ambassador Bowers and the Department pertinent to your consideration of this matter.

Faithfully yours,

CORDELL HULL

825.248/223 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, January 26, 1942—5 p. m.

98. From the President.

"I have given the most careful personal consideration to the Chilean military and naval situation as described in your various communications to the Secretary of State. I fully appreciate the necessity for doing everything possible to enable Chile to resist attack from any of the Axis countries. Considerations both of hemisphere defense and of the importance to our own war effort of Chilean strategic materials make this obvious.

The materials listed in the telegram transmitted to you on January 21 by the Department of State were made available at my orders after consultation with General Marshall.¹⁹ You appreciate, I am confident, that the demand for war matériel for actual war use is very great, not only by our own Army and Navy but by the nations now fighting with us day and night. Production is increasing rapidly, however, and more materials will be forwarded to Chile just as soon as they become available.

It would be inexcusable to disregard the possibility of a Japanese hit-and-run attack on Chile. On the other hand, it would be equally inexcusable to suppose that any Japanese plan for such an attack

¹⁸ *Infra.*

¹⁹ Gen. George C. Marshall, Chief of Staff, United States Army.

would be in any way affected by the particular state of Chile's diplomatic or other relations with Japan at the time. Therefore, I hope that the 'full Chilean cooperation' mentioned in your telegram 136²⁰ will be immediately forthcoming, since it will be a most valuable contribution to the placing of both our countries in the best possible position to meet all eventualities. Signed Franklin D. Roosevelt"
HULL

810.20 Defense/1951 : Telegram

The Secretary of State to the American Delegate to the Third Meeting of Foreign Ministers of the American Republics (Welles)

WASHINGTON, January 26, 1942—8 p. m.²¹

79. For the Under Secretary. Your 52, January 25, 1 p. m.²² You are authorized to sign a document in the following sense:

"Meeting together, the Minister for Foreign Affairs of Chile, Dr. Juan B. Rossetti, and the Under Secretary of State of the United States of America, Mr. Sumner Welles, have considered the requirements of continental defense, and particularly the requirements of Chile to defend its long coastline in view of the situation created by the fact that the United States has been the victim of an aggression by a non-American state, that ten of the American Republics are at war with the Axis powers, and that the Meeting of Foreign Ministers at Rio has agreed to a resolution recommending that all the American Republics sever their relations with the Axis.

In view of the circumstances set forth by Minister Rossetti, the Under Secretary of State, Mr. Welles, declared that, in accord with unequivocal assurances to go to the assistance of any nation of the Western Hemisphere which has been the victim of non-American aggression, the United States, in the event of an attack by a non-American country against Chile, will take immediate steps to send naval, air and land forces to repulse this aggression. In the meantime, precautionary defense measures have been taken to render as unlikely as possible attack upon the coastline of Chile. The War and Navy Departments would welcome further opportunity to discuss amplification and implementation of the conversations previously held with the appropriate officers of the Chilean Government."

The President, who was consulted with respect to your telegram, thought that you should point out to Rossetti that the United States has undertaken and expects to carry forward, with the assistance of the other American republics concerned, the defense of a seaboard on the Pacific of 10,000 miles; that since we do not have enough ships to locate

²⁰ January 22, 9 p. m., p. 5.

²¹ This message apparently was sent to Santiago on February 10.

²² Vol. v, p. 39.

them for patrol duty immediately off the coast of each country, they are being located in such areas as to derive the maximum utility; and that in the execution of our assurances of support, which have been made to all countries on the same basis, due account will, of course, be given to the special geographical situation, the importance of the country as a source of the production of strategic materials, and any other special factors. The President has made it very clear, however, that Chile cannot anticipate any preference over any other American republic in the protection we can afford, which, as stated above, will take into account all pertinent considerations.

The Navy Department suggests that you should also further remind the Chilean Foreign Minister that this Government expects Chile will make all possible military efforts herself to defend her territory and offshore waters and will protect friendly shipping near the Chilean coast.

As Rossetti undoubtedly understands, until Chile signs a lend-lease agreement no deliveries of war materials can be made.

HULL

810.20 Defense/1990

Memorandum by Mr. LaVerne Baldwin of the Division of the American Republics

[WASHINGTON,] January 29, 1942.

STRAITS OF MAGELLAN

In conversation with the Chilean Ambassador²³ on January 26, mention was made that Rossetti had not signed an agreement with Argentina on the Straits of Magellan, during his visit to Buenos Aires, and I stated, in a questioning tone, that probably Rossetti would continue the matter when passing through Buenos Aires en route home.

The Ambassador did not confirm that the agreement would then be completed, but said that he did not feel that fortification of these Straits was very important, for ships could go around Cape Horn with only one day's travel additional required to that via the Straits of Magellan. The use of the Straits, he said, was necessary in the days of sailing ships, but modern powered vessels could easily round the Horn without danger.

²³ Rodolfo Michels.

825.24/312 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, February 4, 1942—7 p. m.

[Received 8:45 p. m.]

208. See War Department's telegram no. 68, January 31 to Military Attaché here.²⁴

Have just had a talk with Rossetti who urged that any war material to be sent should arrive coincident with reopening of Congress last week in February to consider Rio resolution for breaking relations with Axis Powers. Properly publicized here this should help remove opposition to ratification. Rossetti said however that if any American military personnel accompanies material this fact should be carefully handled and it should be emphasized that they were merely coming for temporary training purposes.

BOWERS

825.24/315a : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, February 4, 1942—8 p. m.

138. Your 118, January 22 [20], 10 p. m., and subsequent telegrams and your despatch 2443, January 19, transmitting Colonel Niergarth's report.²⁵

This Government has been giving careful consideration to the problem of cooperating with the Chilean Government in the cause of hemisphere defense by affording additional protection to certain important localities in Chile, and is pleased to state that if the Chilean Government should so request in writing, stating that it has learned of the availability of this material and of its utility for coast defense purposes, the War Department is prepared to ship to Chile about February 15 for delivery to the Chilean Government 4 batteries (16 guns) of 155-millimeter cannon with 300 rounds of ammunition per gun. It is believed that they would be most advantageously set up at Antofagasta, Tocopilla, Barquitos, and San Antonio.

Each battery of guns will be accompanied by a detachment of approximately 300 men which is the number of men assigned to operate these batteries in the United States. The efficient and maximum handling of these guns requires an integrated military setup. For each battery there are battery headquarters, gun squads, ammunition squads, searchlight platoon, medical detachment, fire control detail

²⁴ Not printed; in this telegram the War Department indicated its consideration of sending four batteries to Chile.

²⁵ Despatch No. 2443 not printed; Niergarth reported on the vulnerability of Chilean ports and power plants (825.24/225).

including isolated observation posts, a communications squad, a maintenance squad, et cetera. In other words, the proper operation of these guns is a highly technical and complex military operation necessitating the careful coordination and integration of a number of separate military functions. The United States detachments will go prepared to give immediately full instruction in all aspects of the operation of the guns. They will carry with them, in addition to the 300 rounds of ammunition per gun, sufficient ammunition for the training of Chilean detachments. The War Department suggests that the Chilean Military will fully appreciate the necessity of sending along detachments of approximately 300 men for the proper handling of these guns.

In addition to training the Chilean personnel, the duty of these detachments will be to emplace the guns and to render such protection as is possible until the Chilean forces are sufficiently trained to assume this duty. The American detachments will be withdrawn whenever the Chilean Government considers its own forces sufficiently well trained to take over.

The Commander of these troops is Colonel Sackville whose headquarters would be at Santiago. The regimental headquarters organization consists of 18 officers and 177 men which the War Department would like to have located at Santiago. They would be placed under the supervision of the United States Military Mission to Chile. The War Department, however, recommends that in order to facilitate Colonel Sackville's task, he be appointed Military Attaché during the period of his stay in Chile. The salaries and other expenses of these troops would be met by the War Department. Other administrative matters will be communicated to you later when necessary.

Please place this matter personally and confidentially before President-elect Ríos and ascertain his views as to whether he wishes this offer to be made formally to the Chilean Government at this time. If his reply is affirmative, you will state that the early signing of the basic lend-lease agreement by the Chilean Government would greatly facilitate the delivery of the material, should the Chilean Government desire to acquire it under the provisions of the Lend-Lease Act. Otherwise it would be necessary to follow a less convenient procedure and one which would be less advantageous from the Chilean point of view.

Please also ascertain Ríos' views regarding the location of the headquarters battery.

825.248/220 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, February 4, 1942—10 p. m.

139. Department's 80, January 21, 10 p. m. Please inform the Chilean Government at the earliest opportunity that the Government of the United States will be glad in the interest of hemisphere defense to make available 15 AT-6 advanced training planes, together with a pilot and co-pilot for each plane who would remain for the purpose of giving such instruction to the Chilean troops as may seem desirable. These planes are effective combat aircraft for oversea missions as each carries three .30 caliber machine guns and four 100 pound bombs. The ammunition would be forwarded by ship. The Under Secretary of State discussed this matter with the Chilean representatives at Rio de Janeiro.

The planes are now in the United States and can leave for Chile about February 20. Deliveries can be made at Arica, Antofagasta or Santiago. The War Department requests to be informed as to which of these places the planes should be sent.

With reference to the payment for these aircraft, you may state that if the Chilean Government should desire to include them among the equipment which that Government may be planning to acquire under the provisions of the Lease-Lend Act, the signing of the basic agreement would greatly facilitate the delivery of these planes. Otherwise it would be necessary to follow a less convenient procedure.

During their stay in Chile the crews of these planes would be under the supervision of the United States Military Aviation Mission until the equipment is transferred to trained Chilean crews.

Please request an early reply to this offer owing to the urgent demands for planes of this type.

HULL

825.24/318 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, February 6, 1942—9 p. m.

[Received February 7—1:31 a. m.]

220. Reference Department's No. 138 of February 4, 8 p. m. and No. 139 of February 4, 10 p. m. and confirming telephone conversations with Bonsal.²⁸

It was impossible to see Rossetti until 6:30 this afternoon. At first he expressed enthusiasm over the project and said he would endeavor to give the Embassy a definite answer by tomorrow afternoon. Re-

²⁸ Philip W. Bonsal, Chief of the Division of the American Republics.

flecting however upon the large number according to Chilean military standards, of the training crews accompanying the batteries, he expressed concern and said it would be impossible for him to answer before noon Monday February 9 although he realized that the matter was urgent.

One cause of delay is the visit of the Panamanian Foreign Minister whom Rossetti is accompanying to Valparaiso tomorrow. He stressed the vital necessity of keeping the project confidential here and by inference in Washington.

He also asked whether a part of the crews could be in civilian clothes. While he avoided giving a definite answer to the proposal his final [statement?] was "have confidence".

Rossetti said that he had no intention of submitting the proposal to Ríos at this time and indicated very clearly he thought it would be impudent to do so. He said he wanted to be able to tell him at the proper time "we are armed".

In regard to the ratification of the proposal for the breaking of relations, he said that the present Government would push this through on their own before Ríos assumes office and while they would not make it public, stated ratification would have his tacit approval.

We are seeing Rossetti again this evening.

BOWERS

825.248/239 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, February 12, 1942—10 p. m.

[Received February 13—2:05 a. m.]

253. Following a meeting of a Chilean Council of Defense which lasted most of the day Rossetti said to us that the Government of Chile accepted all the stipulations made in the offer of planes and batteries with the exception of the number of officers and men accompanying the batteries which could not exceed 100. He insisted that the Chilean Army and Navy had assured him that its personnel were fully competent to set up and operate the batteries without outside assistance. Ten instructors per battery would be ample. However, as a special concession to our point of view they would take 100. He says that Chile needed the batteries and was fully aware of the danger of her position and in fact tomorrow would raise the size of the Eleventh Army from 12,000 to 50,000 and would fortify 30 vulnerable points on the coast. They would accept the location of the four batteries we had proposed but would appreciate a fifth battery to protect coal mines at Lota. All points mentioned in Department's instructions in this matter in addition to other technical arguments suggested by our advisors were used

but Rossetti insisted that, however foolish it might be, it was impossible in view of Chilean psychology at this time to permit any except extremely limited number of foreign military advisors to enter upon Chilean soil. He insisted that material from Germany and the Chilean battleship purchased from England had been taken over and set in operation by the Chilean personnel.

He said that the Government was still planning to call a special session of Congress for the end of the month or the very first days of March but that he could not and would not ask for ratification of the resolution rupture of relations without this material.

He pleaded that the United States furnish the material and asked us to have confidence in the Chilean Army and in the Chilean Government. He said if it were a question of lack of belief in the ability of the Chilean Army to put the batteries immediately into operation, to let it try with one battery—and 25 American instructors—and he was certain the trial would prove his contentions. He said he was sending a personal message immediately to Welles.

After seeing Rossetti we saw General Escudero who expressed understanding of our point of view but said that in view of the unpreparedness of Chilean public opinion the despatch of a large detachment might imperil ratification of the resolution for rupture of relations. He remarked that had Ríos been actually in office that the Government might have been able to accept a larger detachment but that as President elect, he thought, Ríos would be unwilling to attempt to reverse the decision.

BOWERS

825.248/239 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, February 13, 1942—4 p. m.

169. Your 253, February 12, 10 p. m. The War Department has reluctantly agreed to send the four batteries to Chile, accompanied by 100 enlisted men. In addition, it will be necessary for administrative and other reasons to assign two officers to each battery, making a grand total of 108 officers and men.

The Department is aware of the various considerations which have induced the Chilean Government to take the stand it has taken with regard to the number of men. It must be stated that, as a result of the decision now taken by our War Department at the request of the Chilean Government, the batteries during the first few months after their arrival in Chile will be of considerably less value for defense purposes than if they had been manned from the start by experienced personnel. The Chilean Government has, therefore, incurred an extremely grave responsibility under all the circumstances. Please make

this entirely repeat entirely clear to the Foreign Minister, preferably in writing.

At the present time only four batteries are available for Chile. The possibility at a later date of providing a fifth battery for Lota will be borne in mind.

Arrangements are being expedited to send the batteries forward and it is hoped that they may arrive early in March.²⁷

Administrative details, as well as the nature of the preparations which should be made by the Chilean Army, will be telegraphed to you urgently. These preparations will include extensive assistance in unloading and placing the guns.

You will, of course, impress upon the Chilean authorities, both civil and military, the extreme importance of secrecy as to the dates and other details of the contemplated movement.

HULL

740.0011 Pacific War/1900 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, February 14, 1942—1 p. m.

[Received 8:20 p. m.]

266. For the Under Secretary. From a most reliable source I was informed today that the Japanese Minister called on Señor Rossetti and told him that Japan planned sending a convoyed flotilla to Chile for the purpose of purchasing copper, nitrate and manganese at good prices. Señor Rossetti informed the Minister that all Chile's raw materials had already been sold to the United States. The Minister then said that they would bring much needed merchandise from Japan to sell to Chile and the Foreign Minister told him that Chile lacked exchange. When the Japanese Minister said that credits could be arranged Señor Rossetti said it would not be convenient. The Japanese Minister asked what impression would be made here by a Japanese attack on Panama. The Foreign Minister told him that Chile would probably declare war immediately on Japan. The Japanese Minister stated that Japan considered Panama as United States territory. The Foreign Minister said that Chileans did not. The Japanese Minister asked what would happen if Japan sank Peruvian merchantmen. The Foreign Minister said it would make a very bad impression here as would the sinking of any American boats or attack on any American soil. The Japanese Minister admitted that there were Japanese submarines operating in these waters.

²⁷ For establishment of the batteries, see Stetson Conn and Byron Fairchild, *The Framework of Hemisphere Defense*, in the series *United States Army in World War II: The Western Hemisphere* (Washington, Government Printing Office, 1960), pp. 202-203.

He concluded by saying that the Japanese campaign in the Orient would be completed by April including the occupation of Australia and that after that time Japan intended resuming her trade with South America. The Foreign Minister was deeply impressed with the conversation of the Japanese Minister.

BOWERS

740.0011 Pacific War/1900 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, February 15, 1942—1 p. m.

176. From the Under Secretary. Your 266, February 14, 1 p. m. I am fully aware of the kind of impression this sort of pressure tactics from the Japanese make upon Rossetti.

You may state to Rossetti confidentially but officially that the statement that Japanese submarines are operating in Western Hemisphere waters south of the Panama Canal was an absolute falsehood. The assertions contained in the penultimate sentence of your telegram are typically boastful Japanese allegations which I believe will be fully disproved in a relatively short time.

I only hope that Rossetti's replies to the Japanese Minister were as categorical as he has given you to understand.

I think it would be helpful for you on every possible occasion to reiterate in the firmest manner our determination to assist in the defense of Chile to the utmost extent necessary should any attack take place. [Welles.]

HULL

825.20/132 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, February 19, 1942—8 p. m.

197. The extreme importance of Chilean copper and of Bolivian tungsten and tin to the war effort of the United States and the associated powers indicates the necessity of taking all precautions within our power to protect the facilities for the mining and shipment of these strategic minerals. Having in mind the Department's previous instructions on this subject and your numerous despatches, you are requested nevertheless to submit a full and detailed report by air mail on preventive measures already taken, embodying all information available to the Embassy and other officials in Chile; and, in your discretion, to request the FBI agents to make a careful personal investigation of conditions at the important mines and respective ports, transport facilities, and power supplies.

Please likewise discuss the seriousness of this problem with the appropriate Chilean authorities, both from the standpoint of Chilean national economy and of continental defense.

In addition to the foregoing, please ascertain what measures of protection are being taken by the companies themselves, through additional trusted watchmen and guards, examination of personnel, etc.

Further reports on this important matter are desired at frequent intervals or when developments warrant, by telegraph when necessary.

HULL

825.20/133 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, February 28, 1942—noon.

[Received 6 : 50 p. m.]

335. Department's telegram number 197, 19th, 8 p. m.

1. The Santiago representative of Anaconda states that aside from the action of the Chilean Government in supplying additional Carabineros he has little knowledge of the precautions being taken as the mine managers have reported direct to Mr. Burr Wheeler, vice president in New York. He suggests information be obtained from Mr. Wheeler and supplemented by a visit to the mines and ports.

2. With respect to the possible delegation of FBI men I am informed by subject of your telegram No. 369, October 7, 3 p. m.,²⁸ that it probably would be necessary to assign two specialists in antisabotage work to each place for at least 2 months. Unless experienced men who know Spanish are available it is suggested this be left in abeyance.

3. A preliminary report will be submitted in the next few days.

BOWERS

825.24/395 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, March 17, 1942—9 p. m.

[Received March 18—12 : 36 a. m.]

436. For Under Secretary. Rossetti summoned me this evening to report that there is trouble at Antofagasta between General Díaz and our Colonel Sackville regarding the material sent since Sackville refuses to recognize the clear understanding that it is to be under Chilean Army and insists that he will no doubt [have?] complete control and that he will ship it back otherwise. General Díaz to my personal

²⁸ Not printed.

knowledge is an outstanding officer usually very tactful and gentlemanly. It is the clear understanding of the Chilean Government and of Cabrera that the Americans are here solely to instruct in the use of the material.

Since an incident growing out of this dispute and possible publicity would be of incalculable damage to us and of the greatest possible value to our enemies, particularly at this time, I respectfully urge that the matter be taken up at once with the War Department and appropriate instructions sent Sackville.

BOWERS

825.24/395 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, March 18, 1942—10 p. m.

306. Your 436, March 17, 9 p. m. The War Department has now sent Colonel Sackville detailed instructions by both air mail and telegraph, emphasizing the political considerations in this arrangement and the necessity for eliminating all sources of friction. The War Department, of course, assumes that in view of the instructional capacity of the United States forces, the Chilean authorities will wish to provide them with such limited administrative authority as may be necessary to supervise the setting up of the batteries and the instruction of Chilean forces in their operation. Anything beyond this authority over mechanical operations would be presumably in the realm of tactical jurisdiction. The War Department's instructions to Sackville have been summarized as follows for your information:

"Each battery will operate under the immediate administrative jurisdiction and command of the senior U. S. Army officer present at each locality. For tactical functioning, all four batteries, under the command of Colonel Sackville, will be under the general supervision of the Commander in Chief of the Chilean Army, or his duly authorized representative at each locality. In case of any difficulty relative to the tactical control or disposition of his unit, final decision will rest with the Commander in Chief of the Chilean Army."

WELLES

825.24/395 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, March 18, 1942—8 p. m.

304. With further reference to your 436, March 17, 9 p. m., it should be emphasized that, to all intents and purposes, and in spite of the nonsignature of a lend-lease agreement, this material is the

property of the Chilean Government to dispose of as it wishes. Colonel Sackville's instructions are designed with a view to insuring the most rapid possible training of Chilean units and the consequent prompt availability of the material for the defense of Chile and of the continent. Colonel Sackville will be pleased to discuss the entire situation with the Chilean authorities on this basis and his instructions can readily and promptly be modified to meet the views of the Chilean authorities.

WELLES

810.20 Defense/2293 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, March 25, 1942—2 p. m.

[Received 4:21 p. m.]

478. General Escudero last night said that neither the Ministry of Defense nor the army had been informed as to the agenda of the Inter-American Defense Board meeting on March 30 (my No. 420, March 16, 2 p. m.²⁹) and have been unable to give instructions to the delegates. He said bitterly that it had been the intention to send the Chiefs of Staff of the Chilean military services but that the Chilean Ambassador in Washington had stated that it was not contemplated that delegates be sent but rather that Military Attachés and missions present in the states should act as delegates. I am not anxious to encourage any bickering on this matter between the Chilean Armed Forces and the Ministry for Foreign Affairs but Escudero has been a good friend and any information about the agenda that I could discreetly transmit to him would be useful. I personally regret that delegates were not sent from here because as a general rule the more that go to the United States the more friends we have when they return to Chile.

BOWERS

810.20 Defense/2293 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, March 27, 1942—10 p. m.

351. Your 478, March 25, 2 p. m. Since the Inter-American Defense Board is to function as a permanent body of experts to study and recommend measures for the defense of the continent in the light of changing circumstances, rather than as a conference of limited duration, no official agenda has been issued. For your guidance and, in your discretion, for the information of appropriate Chilean officials

²⁹ Not printed.

the War Department considers that the Board will probably wish to study and formulate recommendations on such matters as the following:

Exploration of all possible contingencies involving a direct attack on the American continent and calling for joint defensive action by the American republics, with special reference to particular strategic or vulnerable areas.

The drafting of recommendations for joint war-plans to meet such contingencies by the coordinated action of the armed forces of the American republics, such plans to be developed and perfected in the light of changing circumstances so that they may at any moment be put into prompt execution.

Recommendations for the present stationing and disposition of the armed forces available to the American republics with a view to assuring the most immediate and effective execution of the appropriate war-plans in case of direct attack on the American continent.

Recommendations for adapting the communication facilities of the American republics, including airports, to the requirements of continental defense.

Recommendations for comprehensive civilian defense programs, including plans for the evacuation of civilians from war-areas, to be adopted by the American nations in accordance with their circumstances.

WELLES

825.857/26 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, April 6, 1942—6 p. m.

[Received 9 : 26 p. m.]

528. For Acting Secretary. My telegram No. 464, March 23, 8 p. m.³⁰ Saw Barros Jarpa³¹ this morning and was told that the Japanese Minister struck out the reference to the Panama Canal, and that he, Barros Jarpa, has called in the Japanese Minister to say that Chile would look upon an attack on the Canal as an attack on Chile since the economic life of Chile is dependent upon the Canal. This is also what Rossetti told me he had said to the Minister. Barros Jarpa showed me the original Japanese note pledging Japan not to interfere with Chile's commerce with the United States. This probably means Chilean commerce conveyed in Chilean ships. It probably means that submarine attacks on our own vessels may possibly be made but not on Chilean, but Japan now knows that an attack on the Canal would be considered by Chile an attack on herself.

Repeated to Panama.

BOWERS

³⁰ Not printed.

³¹ Chilean Minister for Foreign Affairs; he succeeded Rossetti in this office after the inauguration of President Juan Antonio Ríos on April 2, 1942.

740.0011 Pacific War/2503

The Secretary of State to the Ambassador in Chile (Bowers)

No. 1456

WASHINGTON, May 15, 1942.

The Secretary of State has received from a reliable source the following strictly confidential information:

The Japanese Minister at Santiago is reported to have given the President of Chile assurances that Chilean shipping will not be attacked by Japan. The President of Chile, on his part, is understood to have informed the Japanese Minister that Chile expects to maintain its neutral position despite efforts of the United States and of certain Chilean Leftist political elements to bring about a modification in Chilean policy to one of closer cooperation with the United States in its war effort.

The President of Chile is also reported to have stated in this conversation that he is opposed to sending a special representative of the Chilean Government to Washington because he believes this might tend to place Chile in the position of a vassal state. It is also understood that the President of Chile informed the Japanese Minister that Chile and Argentina had agreed upon a concerted plan of future action at the time of the recent visit to Chile of the Argentine Minister of Foreign Affairs.³² The Japanese Minister is reported to have expressed to the President of Chile the hope that Chile and Argentina would exert their combined efforts for the maintenance of peace in South America.

740.0011 European War 1939/21679: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, May 19, 1942—2 p. m.

[Received 6:35 p. m.]

764. For Under Secretary. Had more than an hour's conversation, a very frank one, with President Ríos and Barros Jarpa alone at the President's private house at 10 last night. Result will be sent as soon as observations of Barros Jarpa on what I said are received.

Most important was the reply to the stated fact that Congress has not ratified the agreements of Rio. The answer is that Foreign Affairs and all matters of this sort is the exclusive prerogative of the President and that this regime opposed the submission to Congress because its submission would have been a recognition of the right of that body to interfere with [its] prerogative. Barros Jarpa said that the agreement is ratified by the President's action in sending representatives to conferences provided for by the agreements at Rio and Montevideo.

³² Enrique Ruiz Guíñazú.

He said too that should the President decide to break diplomatic relations it is not his duty or his intention to consult Congress on the matter at all as this is exclusively his prerogative. In other words the position is taken that the agreements of Rio have been accepted by the Chilean Government in accordance with the constitution here. This, I recall, was the position of Aguirre Cerda 2 years ago on another matter. I am convinced that the position now assumed is sound.

BOWERS

740.0011 European War 1939/23175

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] May 25, 1942.

The Chilean Ambassador called to see me this morning at his request.

I took occasion to mention to the Ambassador my regret that the Chilean Government had never as yet given any public official expression of thanks to the United States for the four batteries we had sent to Chile at the time when Chile was in great need of them.³³ I said it seemed to me that a dignified public statement of this character made by the Chilean Government would cut the ground from under the feet of the German propagandists who were assiduously spreading rumors to the effect that the United States had undertaken military intervention in Chile against the Chilean Government. I added that I was also informed that Axis propagandists in Chile were now trying to create trouble between Peru and Chile, alleging that the United States had sent a large number of American troops into Peru and that this had been done in order to bring military pressure to bear upon Chile through Peru. I said that, as the Ambassador knew, this sort of propaganda was so fantastic as to create amazement in the minds of intelligent people, and that I wondered if some opportunity could not be taken by the Chilean Government to emphasize its close and friendly ties with Peru in order that everyone in the two countries might realize that stories of this character emanated solely from Axis propagandists.

I said that in my judgment one of the foremost developments in inter-American relations of the past decade had been the creation of a very close and friendly relationship between Chile and Peru notwithstanding their difficulties of earlier times, and that I felt sure that any reaffirmation of these ties would be welcomed by public opinion throughout the Hemisphere.

³³ The Chilean Minister for Foreign Affairs expressed his Government's appreciation in a note of June 15 to Ambassador Bowers (825.348/3).

I concluded by saying that, as the Ambassador well knew, the only forces which the United States had in Peru were a couple of hundred men sent as contractors to man the batteries which had been turned over to Peru at the same time as the other four batteries to Chile. I made it clear that of course we could not publicly discuss military arrangements of this character under present conditions, but I did feel that if rumors of the kind I had mentioned were allowed to continue unchecked, suspicions might perhaps be sown in the minds of the less-educated part of the peoples of the two neighboring countries which might result in harm under present conditions.

S[UMNER] W[ELLES]

740.0011 European War 1939/21968 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, June 2, 1942—9 p. m.

[Received June 3—2: 43 a. m.]

885. For Secretary and Under Secretary.

1. Am informed that *La Hora*, a leading paper, organ of Radical Party, will come out this week forcefully for the breaking of relations and that probably on Thursday Schnake³⁵ will issue a powerful declaration for breaking relations.

2. Graham³⁶ who sees Ministers of Finance and Commerce³⁷ in connection with Metals Reserve matters³⁸ was asked by these two and in behalf of the Minister of Fomento, Schnake and Minister of Interior,³⁹ to say to me that they favor breaking relations and are willing to use the sinking of the Chilean ship as the reason and they claim they would like, for the purpose of bringing in that part of public opinion which while pro-American doubts the wisdom of breaking relations, to have an agreement in principle on the following: (1) they would like an increase in copper price, a reasonable increase, and a reasonable guarantee from Santiago for a minimum fixed tonnage and minimum fixed price for a reasonable period after the war; (2) a reasonable increase in the price of Metals Reserve purchases as in the case of tin in Bolivia, and a reasonable assurance of the continuance of this Metals Reserve market for a reasonable period after the war; (3) a reasonable increase in the price of nitrate and iodine and guarantees regarding the market and price for a reasonable period after the war emergency; (4) reasonable guarantees to the effect that synthetic ammonia plants now being erected under the defense pro-

³⁵ Oscar Schnake, Chilean Minister of Public Works and Improvement.

³⁶ Horace R. Graham, representative of the Metals Reserve Company.

³⁷ Benjamin Matte and Pedro Alvarez Suárez, respectively.

³⁸ For negotiations concerning the acquisition of strategic materials by the United States from Chile, see pp. 47 ff.

³⁹ Raúl Morales Beltrami.

gram will not be used after the war to cut the throat of the nitrate industry of Chile; (5) a loan of X millions of dollars, but something that might approximate \$100,000,000 to do the following things:

(a) Approximately \$48,000,000 so that the Chilean Government can carry out the scheme by the Minister of Interior to liquidate the arrangement made with electric company to take over all their holdings to solve problem of locomotion in Santiago and vicinity.

(b) \$21,000,000 to carry out electrification of state railroads and thus solve combustion problem of coal and oil.

(c) The remaining X millions to be spent by Government partly on public works, partly on its armed forces and partly for the material to be bought in United States so as to keep small industry alive in Chile.

They say they realize this may seem like bargaining, but that they assume some agreements will be made by us, and apparently they ask only an agreement in principle before acting. This does not come from Barros Jarpa nor, as I understand, is it known to him. The propositions have been submitted to me indirectly, unofficially and personally for transmission. While Barros Jarpa has been much more favorable to breaking recently he is looked upon as the stumbling block by these Ministers. This is all very confidential, of course.

3. Have been informed by same source that President Ríos is ready to go along with these Ministers and break relations but he makes this stipulation, "Under no circumstances would the active or reserve forces of Chile be requested or required to do active service outside their own territory or the national islands".

I had sent the above by letter, but in view of the rapidity of movement here now conclude it best to get it to the Department at once.

BOWERS

740.0011 European War 1939/21968 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, June 6, 1942—6 p. m.

649. Your 885, June 2, 9 p. m. From the time of the attack of Japan against the United States it has been our position that the logic of the commitments of the American Republics regarding inter-American solidarity and collaboration in the face of attack by non-American powers required the severance of diplomatic relations between the American Republics and the aggressor powers. This is not a subject for bargaining. We believe it to be at least as much in the interest of Chile as in the interest of the other countries that Chile sever diplomatic relations. We believe and hope that as Chile begins fully to comprehend the broad implications of its own situation in relation to the solidarity of the Western Hemisphere it will sever diplomatic relations.

Obviously it is only fair to those countries which have severed diplomatic relations and thereby taken a positive and affirmative step for the security of the hemisphere to afford them all possible assistance. We are prepared to render such assistance within the limits of existing circumstances to Chile should it sever diplomatic relations. We cannot discuss this assistance until after we know what Chile's policy is to be. We assume that we will definitively ascertain what plans the Chilean Government has for a clearer definition of its international policy from the Foreign Minister when he is in Washington.

I feel certain that you will appreciate that this is the only sound procedure to follow at this juncture.

HULL

740.0011 European War 1939/22198 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, JUNE 11, 1942—5 p. m.

[Received June 12—9:40 a. m.]

953. For Secretary and Under Secretary. At 4 this afternoon saw the President at his request and Barros Jarpa was present. The substance of your telegram 649, June 6, 2 [6] p. m., was given to Graham who acted as emissary between Finance Minister and me, and Graham told that Minister that a reply had been received by me which clearly outlined our position but that in view of possible misinterpretations he thought it should be received from me and in the regular diplomatic manner. Clearly the Finance Minister so informed the President. Hence my summons. He began by saying he was making the proposition of the Finance Minister official. I gave him the substance of the reply. He seemed shocked and distressed that his Government should have been put in the position of bargaining since he had determined on a policy in keeping with common dignity, and he asked me to disabuse your minds of the idea that he had any such thought. He said the Finance Minister has his special problems and in seeking a solution inadvertently perhaps tied up two things in such a way as to create a bad impression. Whether he resented the fact that the Finance Minister had unwittingly injected himself into a field not his, or Barros Jarpa gave such a twist to his comments I am not quite certain.

The President, backed by Barros Jarpa, said that his Government is following a very clearly defined path against the Nazis and their activities; that he had informed the Congressional Committee investigating the Nazis that all the facilities and facts in possession of Government are at its disposal; that he himself had just reprimanded a judge who in a case involving our enemies had seemed too lenient; and he gave the impression that he knows that the present activities of the Government lead directly and logically to the breaking of relations.

I emphasized in Barros Jarpa's presence the importance we attach to the latter's early visit to Washington; that President Roosevelt, Hull and Welles expect excellent results; and that he absolutely must go as soon as possible. Barros Jarpa replied that he had just wired the Chilean Ambassador in Uruguay for exact information as to time of Minister's arrival here; and he certainly left no doubt that he is going.

I think the conversation was most helpful since without my initiative I was given the opportunity of impressing on the President the wish of the United States that Chile should break relations; and the importance we attach to the forthcoming visit of Barros Jarpa. On leaving the President reiterated an earnest request that I disabuse your mind of the feeling that he sanction[ed] any bargaining or knew that any proposition like bargaining was being submitted to us. It is quite possible that the Finance Minister told him of the propositions of an economic nature he had made without indicating that the breaking of relations was to be the consideration. Both President and Minister were very cordial.

BOWERS

825.24/493 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, June 12, 1942—6 p. m.

673. Your despatch 3384, May 22.⁴⁰ The Department wishes you to take every suitable opportunity to stress to the Chilean authorities the importance of placing the batteries in a condition of maximum efficiency without delay. Both this matériel and the personnel attached to it were furnished at considerable sacrifice in view of other urgent demands. Please inform the Department of any steps which you may take in this matter to which the War and Navy Departments attach the very greatest importance.

HULL

740.0011 European War 1939/22299 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, June 17, 1942—3 p. m.

[Received 11 : 07 p. m.]

989. For the Under Secretary. Last night at a dinner Barros Jarpa amazed me by asking if I thought a recognition of Russia, which he said had already been accorded when Chile's representative in the League voted the admission of Russia, would be additional proof of

⁴⁰ Not printed.

Chile's adherence to cause of the democracies. I countered by asking his opinion as to the effect in Chile. His reply that he does not care about that is in striking contrast to his insistence on the sacredness of public opinion on breaking relations. This is additional proof of his determination to prevent a breaking of relations if possible and is inexplicable to me. He said if we forced a break in relations there will be a bitter reaction against the United States, and I finished the sentence with, "from the Chilean Nazis who love us now". He admitted that contents of your telegram 649, June 6, 2 [6] p. m. covered in my telegram 953, June 11, 5 p. m. gives him the impression we are pressing hard and the Brazilian Ambassador told me Barros Jarpa had spoken to him about it. The Minister commented on the inability to get certain planes or more Import-Export Bank credits as evidence that we are getting hard on Chile.

Meanwhile, the Liberal Minister of Finance, Matte, says he and his group will win the fight for breaking relations and Barros Jarpa admits majority of Ministers favor it. Also I was told last night by Luis Subercaseaux⁴¹ that Gustavo Ross,⁴² now here, is militantly pro-ally. Am about persuaded that explanation of Barros Jarpa's attitude is that he and possibly Ríos planned to create a rightist government thus repudiating the parties that elected Ríos and the conservatives and liberals as a whole are against breaking relations.

There is some hope of Barros Jarpa yet in view of his undoubted hostility to Nazis and Japs and should the enemy be caught in some specific act there is a chance he would seize upon it as a pretext and thus break without compromising his prestige.

In the presence of Chileans Cruchaga⁴³ said to me last night, "I am for the United States".

BOWERS

*The Ambassador in Chile (Bowers) to President Roosevelt*⁴⁴

SANTIAGO, July 18, 1942.

DEAR MR. PRESIDENT: I have just written Welles recalling President Ríos statement to me that when relations with the Axis are broken there may be some trouble, which he did not appear to think would be serious, but in the event of such trouble he would "like to think that he would have the support of the United States". I have suggested to Welles for his consideration whether it would not be helpful were I authorized to say to the President that in the event

⁴¹ Chilean Ambassador to Peru.

⁴² Onetime Minister of the Treasury and Presidential candidate.

⁴³ Presumably Miguel Cruchaga, reportedly regarded in December 1941 as a possible choice for Minister for Foreign Affairs.

⁴⁴ Copy obtained from the Franklin D. Roosevelt Library, Hyde Park, N. Y.

of trouble due to the breaking of relations he could count on our support.⁴⁵

It would seem inevitable anyway since any trouble due to this reason would be on the part of the Nazis, and we can hardly permit them to take over power in Chile in any event. I suspect that Welles will discuss the matter with you.

With warmest regards,
Sincerely,

CLAUDE G. BOWERS

825.00/1729

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] July 27, 1942.

The Chilean Ambassador called this morning to see the Secretary of State at the latter's request.

After preliminary courtesies, Secretary Hull asked the Ambassador what impressions he brought back with him from his recent visit to Santiago. The Ambassador replied that his impressions were entirely favorable and that he could assure this Government that more than 75 percent of the people of Chile were completely in sympathy with the United States and with the cause of the United Nations. He said that of course in Chile they had Nazi sympathizers, but he added that that situation existed in many other countries, including the United States. He said that the chief difficulty was the fact that people were generally afraid of a Nazi attack upon Chile in the event that Chile broke relations with the Axis powers or took some overt step against the Axis powers. Secretary Hull said that he fully recognized the friendly disposition of the Chilean Government and the Chilean people and that he had long been aware of the fine quality of so many leaders of public opinion in Chile.

The Ambassador stated that the President of Chile had charged him to say to this Government that Chile had absolutely no understanding of any character with the Argentine Government and that Chile was completely free to determine for herself, without the knowledge of Argentina, the foreign policy which she would pursue. He stated further that the President of Chile desired him to state that the Government of Chile would cooperate fully with the United States and would take such action as in the judgment of the United States was required in the vital interests of the United States and in the interest of hemispheric defense. The Ambassador added that of

⁴⁵ For an exchange of communications on this subject between representatives of Chile and the United States at the Third Meeting of the Foreign Ministers of the American Republics, see telegrams No. 52, January 25, 1 p. m., vol. v, p. 39, and No. 79, January 26, 8 p. m., *ante*, p. 7.

course there were various problems which Chile had to solve and which the President of Chile desired this Government to bear in mind in the event that Chile changed her present foreign policy and severed relations with the Axis powers.

S[UMNER] W[ELLES]

825.24/583

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] July 27, 1942.

The Chilean Ambassador called to see me this morning at his request.

The Ambassador came to my office after the conclusion of his interview with Secretary Hull and gave me the following information.

The Ambassador stated that he had seen the President of Chile at the insistent request of the latter the moment he arrived in Santiago. The President, he said, could not have been more affectionate or more demonstrative, and stated to the Ambassador that the latter possessed his full confidence and support. He said that at this conference a good many senators and deputies were present and he consequently did not have the opportunity of discussing confidentially various questions with the President. He stated that on the following day he saw the President again. The Ambassador said that he found that the President was very greatly misinformed, not only with regard to public opinion and the views of the Government of the United States, but also with regard to the world situation in general. He said that this applied equally to the members of the Cabinet. The Ambassador said that in this conversation and in subsequent conversations with the President he had explained in detail and very frankly to President Ríos the precise position and views of the Government of the United States. He said that he had told the President that no one who knew what the United States was doing and no one who was following the world situation from Washington could have the slightest doubt as to the ultimate outcome. The victory of the United States, he said, was inevitable. He had told the President that it might be three years or five years longer before the end of the war came about, but that there was no question as to who would attain the ultimate victory. For that reason, he said, he had told the President that a continued delay on the part of Chile in severing relations with the Axis powers and thus removing a source of grave danger to the United States and the other American Republics would inevitably increase antagonism in the United States against Chile, with very serious detriment to the latter country.

In the final conversation which he had had with the President, the President told the Ambassador specifically to state to the United States Government that Chile would be prepared to break diplomatic relations with the Axis powers should the United States Government deem this desirable. President Ríos did not wish to give for a moment the semblance of negotiating a deal with the United States, but he wished to make it clear nevertheless that unless Chile could obtain military and naval matériel which would make it possible for Chile to undertake at least a minimum of self-defense, public opinion in Chile, on account of the panic which had been created by Axis propaganda, would not support his Government in a breaking of relations with the Axis countries. President Ríos also wanted to receive some assurances that in the event that, through Japanese or German attacks, the Chilean mining industry was put out of commission and 100,000 Chilean miners thrown out of work, the Government of the United States would do what was necessary to see Chile through the economic crisis which such unemployment would create.

These two points appeared to be the only points upon which the President of Chile desired assurances. I told the Ambassador that it seemed to me that, in view of the very friendly and frank statements made to this Government, through him, by the President of Chile, the first immediate need would be to ascertain from the communications already made to us by the Chilean Government what the minimum defense requirements of Chile might be; that if it then appeared that these requirements were within limits which this country could meet, a tentative agreement be worked out between the Ambassador and myself stipulating the amounts and times of deliveries of military and naval equipment to be furnished Chile under a Lend-Lease agreement which would then be signed. I said that once such an agreement had tentatively been agreed upon, we would then be in a position to assure Chile that if Chile severed relations with the Axis powers this Government would then be prepared to sign a Lend-Lease agreement with Chile and deliver matériel to Chile under the schedules carried in such agreement. The Ambassador stated that this would be most satisfactory to his Government.

740.0011 European War 1939/24454 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, August 8, 1942—noon.

883. Refer to letter of July 30, 1942 to the Ambassador from the Under Secretary.⁴⁶

The President had a long conversation with Ambassador Michels on August 5. In this conversation the Ambassador communicated

⁴⁶ Not printed.

very much the same message from President Ríos as that which the Ambassador had previously communicated to the Department.

In response to the Ambassador's remarks the President said that he was going to speak very frankly on account of his great friendship for Chile and the Chilean people. At the present moment Chile was placed in a false light throughout the Americas and was regarded generally as following the same line and policy as that pursued by Argentina. The President knew, of course, that this was not the case but the fact was that public opinion throughout the Americas thought that this was so. The President did not believe with a view to the future the Chilean people would wish to have this misapprehension continued.

The President then stated that he was not thinking only of the United States but he was thinking also of the safety of all of the countries of the Americas. Under present conditions there was no way in which the Chilean Government, so long as Axis diplomatic and consular establishments continued to function in Chile, could prevent the sending of information by those establishments covering such vitally important matters as the movement of ships and other intelligence directly related to the war effort of the American nations. The President knew that such information was reaching Japan and Germany directly from Chile. It might be, the President added, that in certain cases this information was received through Spain but he felt that a grave danger to the Western Hemisphere arose from the information sent by the Axis diplomats themselves. The President then stated bluntly that he did not desire that Chile should enter the war but he did urgently desire that Chile break diplomatic relations with the Axis powers.

The President then discussed the defense problem of Chile. He did not foresee any danger to Chile other than that which might result from an isolated bombardment of the Chilean coast undertaken by some Japanese submarine which would make the effort for propaganda purposes. Such an attack would create little danger. In any event, the batteries furnished Chile by the United States made it possible for Chile to defend her most exposed ports from any such attack as this. The President then explained what the United States was doing in patrolling the Atlantic coast in order to ascertain the whereabouts of German submarines. The bulk of this patrol work was being undertaken by small planes which did not generally have a flying range of more than two or three hundred miles. The results obtained from this patrol service had been outstandingly successful. The President assured the Ambassador that were Chile to break diplomatic relations, the United States, under the schedules now being prepared for a lend-lease agreement, can furnish at least fifty to one

hundred planes of the same character as those being used for patrolling the Atlantic seaboard of the United States.

This report with regard to the President's conversation is being furnished you for your strictly personal information. You will kindly not indicate knowledge of what took place at this conversation except to President Ríos in the event he should on his own initiative bring up the matter. Under no conditions furnish any written document with respect to this conversation.

HULL

*President Roosevelt to the Ambassador in Chile (Bowers)*⁴⁷

WASHINGTON, August 11, 1942.

DEAR CLAUDE: I appreciated receiving your interesting letter of July 18, referring to your conversation with President Ríos.

Please take an early opportunity to inform President Ríos that, if Chile should be attacked by an Axis power or if real trouble should be created in Chile by Axis nationals or by elements instigated and dominated by Axis agents after Chile has broken relations with the Axis, President Ríos may of course count on the support of the United States to the extent that the Chilean Government may request such support and to the full extent of the ability of the United States.

I am sure that the President and the people of Chile are fully aware of the tremendous forces of aggression that have been loosed in the world and yet are convinced that there is no doubt concerning the ultimate victory of the United Nations.

Sincerely yours,

FRANKLIN D. ROOSEVELT

825.248/294

Memorandum by the Chief of the Division of the American Republics (Bonsal) to the Adviser on Political Relations (Duggan)

[WASHINGTON,] August 14, 1942.

MR. DUGGAN: The Chilean Ambassador telephoned me on the afternoon of August 13 to say that he was having some difficulty reconciling the number of planes included in the list handed him by Mr. Welles, with the statements made to him by the President and by Mr. Welles. After discussing the matter with you and examining the list, I informed the Ambassador that the situation was as follows:

Forty planes on the War Department list as in process of delivery.
Twenty-two planes on the War Department list for future delivery.

⁴⁷ Copy obtained from the Franklin D. Roosevelt Library, Hyde Park, N. Y.

Fifteen planes on the Navy Department list as in the process of delivery.

Two planes on the Navy Department list for delivery before the end of 1942.

Eighteen planes on the Navy Department list for delivery prior to June 30, 1943. That should make a total of ninety-seven.

I stated that in addition to these ninety-seven planes the President and Mr. Welles had mentioned fifty planes for patrolling activities. I said that these planes were not included in the list handed to the Ambassador and that we had not yet been informed exactly as to the type and specifications thereof.

This afternoon Señor Rodríguez of the Chilean Embassy, in the Ambassador's absence, asked me whether we had yet received any further information regarding these fifty planes. I replied in the negative.

If you will let me know whether these planes are to be supplied by the War or Navy Departments, I will be glad to take the question up directly with those Departments for the purpose of clarifying this matter.

PHILIP W. BONSAI

740.0011 European War 1939/24201

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] September 1, 1942.

The Chilean Ambassador called to see me this afternoon at my request.

I told the Ambassador that to my great regret I was becoming uneasy with regard to certain indications which I had recently received regarding the basic question of Chile's foreign policy. I said that when the Ambassador had recently returned from his exceedingly helpful and useful visit to Santiago the Ambassador by direction of the President of Chile had stated to the President and the Secretary of State and to myself that President Ríos desired the Government of the United States to know that if President Roosevelt felt it necessary for the security of the United States and for the defense of the Western Hemisphere, Chile was prepared to go to "any lengths including a rupture of diplomatic relations with the Axis powers". In reply to this statement the President had said to the Ambassador that the Government of the United States did in fact believe that a rupture of relations with the Axis powers by Chile was imperatively required for the security of the United States and for the defense of the Western Hemisphere. This message had been transmitted by the Ambassador to the President of Chile. The President had invited President Ríos to

visit Washington and President Ríos had officially accepted the invitation.

Since that time I had received information which led me to believe that the Government of Chile had no present intention of breaking relations with the Axis powers and no indication whatever had been given that this rupture of relations would be undertaken before the visit of President Ríos to Washington.

Speaking, I said, primarily in the interest of close and friendly relations between Chile and the United States, but also with due regard for the position of Chile and for the dignity of the Chilean Government, I could not refrain from emphasizing to the Ambassador my belief that the rupture of relations with the Axis powers as definitely promised by the President of Chile should take place prior to the visit to Washington of President Ríos. I said I was sure the Ambassador would agree that if the President of Chile visited Washington and subsequently broke relations with the Axis powers, the argument would be advanced by Axis propagandists and by opponents of the Chilean Government that this step had been taken as a result of pressure brought to bear upon him by the United States Government or even the argument might be advanced that undue and illicit influence of one kind or another had had its part in such decision. More than that, I said, this would be the first occasion in the history of our two countries when a President of Chile had visited the United States. I felt it in the highest degree important that the reception accorded President Ríos by the people of the United States should be in the highest degree enthusiastic and sincere and that I knew the Ambassador would understand that if the President of Chile visited the United States while Chile still maintained relations with the Axis powers, public opinion in the United States would not be nearly so enthusiastic nor favorable as if Chile had taken this step prior to the President's visit.

I said I could not help but feel that these questions were of such fundamental importance that the Ambassador himself would wish to emphasize them to President Ríos. I said I felt that the Ambassador's personal communications to the President of Chile would be peculiarly valuable at this time in order to counteract what I feared was bad advice tendered him by certain persons who were determined to move in every possible way to prevent a rupture of relations between Chile and the Axis nations.

The Ambassador said that he agreed with every word I had said to him and that as a matter of fact he had written only a few days ago directly to President Ríos pointing out the very same arguments that I myself had advanced. The Ambassador said that President Ríos had definitely and officially committed himself to the President of the United States to break relations with the Axis powers. The

Ambassador had been the intermediary in making this communication to President Roosevelt. If this commitment were not carried out, the Ambassador would immediately resign his post since he would never agree to represent a chief of state who failed to carry out his official commitments. . . .

The Ambassador said that in view of our conversation he would again write immediately a personal letter which would reach the President of Chile directly. He emphasized his own belief that nothing could be more fatal nor more disadvantageous for Chile than the failure on the part of President Ríos to break relations before he undertook his visits to Washington and to Rio de Janeiro.

S[UMNER] W[ELLES]

740.0011 European War 1939/24260 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 15, 1942—5 p. m.

[Received 5:20 p. m.]

1494. For Secretary and Under Secretary. Barros Jarpa told Rockefeller⁴⁸ today that he has just received telegram to effect Secretary Hull said failure to break relations before going to States not so important. We have them all punch-drunk on this issue. Please telegraph if this statement was justified in Mr. Hull's conference with Michels yesterday.

BOWERS

740.0011 European War 1939/24260 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, September 15, 1942—11 p. m.

1067. Your 1494, September 15, 5 p. m. Ambassador Michels must have misunderstood me if he thought I acquiesced in the view he expressed under instructions of his Government that it was preferable that Chile defer until after the President's visit to the United States rupture of diplomatic relations with the Axis.

I replied to the Ambassador's observation that President Ríos and himself were of course within their proper scope in supporting whatever point of view on this matter that seemed to them preferable. By the same token, the Ambassador and his Government would appreciate that we were entitled to adhere to our own point of view. From the outset, it had been the judgment of the President, Mr. Welles

⁴⁸ Nelson A. Rockefeller, Coordinator of Inter-American Affairs.

and myself that the break of relations with the Axis should come before the visit rather than afterwards.

Ambassador Michels took no exception to what I said although he continued to press the point of view of his Government. I am sorry if I failed to make clear to the Ambassador our position and will go over it with him again tomorrow.

To recapitulate our attitude, President Ríos conveyed the message to the President through Ambassador Michels that Chile was ready to cooperate in the defense of the hemisphere in whatever way indicated by President Roosevelt. The President was most grateful for this constructive attitude and requested the Ambassador to inform President Ríos that he would appreciate Chile's rupturing relations with the Axis. The President also asked the Ambassador to inform President Ríos that he hoped President Ríos could visit him in Washington. It was the President's belief, which has been maintained by all of us, that Chile would rupture relations in response to his indication and that President Ríos would then visit the United States.

HULL

825.24/688

*Memorandum of Conversation, by the Adviser on Political Relations
(Duggan)*

[WASHINGTON,] October 3, 1942.

The Ambassador of Chile informed me that he had been instructed by his Government to state that it would be very glad to accept the armament set forth in the lists recently furnished the Ambassador in the event that Chile ruptures diplomatic relations with the Axis. The Ambassador made special mention of the fifty planes which the President had offered in addition to the equipment on the lists furnished him by the Department.

825.50/90: Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, October 3, 1942—10 p. m.

1172. Your 1605, October 1, 4 p. m.⁴⁹ It would appear that at least certain of the Ministers accompanying President Ríos entertain the belief that this Government is prepared to bargain economic assistance to Chile for rupture of relations by Chile. Any such belief is totally in error. Our position in the premises is set forth clearly in the Department's 649, June 6, 6 p. m. The only development since

⁴⁹ Not printed.

that time which at all bears on the question was the statement that President Roosevelt made to Ambassador Michels to the effect that this Government would provide Chile, in the case it severed diplomatic relations with the Axis, (a) with certain additional armament in order to place Chile in a better position to repel attack from Axis quarters and (b) with economic assistance in the unlikely event of large-scale unemployment caused by the attack and shutdown of Chilean mines by the Axis.

It is believed desirable that there be no misunderstanding as to the attitude of this Government by the President and the members of his party.

WELLES

740.0011 European War 1939/24837: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, October 14, 1942—3 p. m.

[Received 11:33 p. m.]

1710. In addition to the instance previously reported the following occurred in last 24 hours:

(1) The *Mercurio* this morning in its leading editorial praised the dignity and moderation of the President's⁵⁰ address yesterday and hoped that a way out would be [apparent omission] and in another featured editorial stated that the Boston address⁵¹ required the Government to make an immediate and thorough investigation to establish the truth or falsity of the statement that Chilean soil was a base of subversive activities.

(2) The Socialist Party met yesterday and passed resolution calling for the dismissal of Barros Jarpa.

(3) Yesterday the Minister of the Interior arrested the editor of the *Acción Chilena*, an Axis subsidized sheet, for scurrilous attacks on the United States war effort and insolent reference to President Roosevelt on my protest against the infamous picture of Roosevelt but it is significant that another reason was given. This is the first time that a newspaper editor has been actually arrested although the Government has taken legal action against various newspapers mainly for attacks on Axis Ambassadors and Chiefs of State.

BOWERS

⁵⁰ President Ríos.

⁵¹ Address by the Under Secretary of State (Welles) at the World Trade Dinner of the Twenty-ninth National Foreign Trade Convention. For text, see Department of State *Bulletin*, October 10, 1942, p. 808; for correspondence on this subject, see vol. v, pp. 210-236 *passim*.

740.0011 European War 1939/25657

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] November 6, 1942.

The Ambassador of Chile called to see me this afternoon at his request. The Ambassador told me that he had just learned that General Espinosa, Chilean representative on the Interamerican Defense Commission, had received direct word from General Escudero, Chief of Staff of the Chilean Army that the Government of Chile intended to break relations in the near future and that General Espinosa was, consequently, to shape his conduct in the United States with that in mind.

The Ambassador had also received word that his Government had issued directives to the Chilean newspapers to prepare the way editorially for a rupture of relations with the Axis.

The Ambassador said that he wished to state very frankly that he now felt that the action taken by this Government in bringing home publicly and clearly to public opinion in his own country and to the members of the Chilean Senate and House of Representatives the true facts in the picture had been altogether desirable and that the results in all probability would soon prove it. I told the Ambassador that the statement he had just made was, of course, deeply gratifying to me personally.

The Ambassador further discussed at some length recent developments in Chilean politics . . .

S[UMNER] W[ELLES]

825.24/705d : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 14, 1942—11 p. m.

1380. Your 1952, November 11, 8 p.m.⁵² On August 7 the Under Secretary delivered to Ambassador Michels a memorandum⁵³ containing a statement of the military assistance which had been given and which could be given to the Government of Chile by the War and Navy Departments of the United States. The list of items for future delivery was to form the basis of a Lend-Lease Agreement to be signed after Chile had broken relations with the Axis. These lists were immediately made available by Ambassador Michels to his Foreign Office and to General Espinosa. At a later date, Ambassador Michels expressed to the Under Secretary the very great satisfaction

⁵² Not printed.

⁵³ Not found in Department files.

of the Chilean Government with the assistance represented by the lists of matériel.

You are authorized to inform the appropriate Chilean authorities that the matériel specified in these lists will be provided in accordance with the conditions set forth therein. These conditions have been made known to the Chilean authorities.

HULL

740.0011 European War 1939/25878: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, November 21, 1942—3 p. m.

[Received 6:10 p. m.]

2027. The Foreign Office repeating its pledges that Chile will break relations gently requests, as had General Escudero and Morales,⁵⁴ that as much as possible of the armament our Under Secretary indicated to Ambassador Michels could be given to Chile (Department's 1380, November 14, 11 p. m.) be sent with the least possible delay and not be withheld until rupture actually takes place, arguing that it would relieve military fears, enhance good feeling in the army, and be accepted as a gratifying expression of confidence in Chile's pledge to break with the Axis. I urgently support this request.

BOWERS

740.0011 European War, 1939/25878: Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 23, 1942—midnight.

1434. Your 2027, November 21, 3 p. m. The Department does not feel that it can accede to the request of the Chilean authorities that certain of the armament set forth in a list handed to the Chilean Ambassador by the Under Secretary last August be made available to Chile prior to Chile's rupture of relations with the Axis. The reasons for this position are as follows:

(1) In the matter of arms and munitions, Chile was for some months after the outbreak of the war treated on a par with those American republics which either declared war on the Axis or break [*broke*] relations and which, in general, lived up to their inter-American commitments. So far as actual amounts of arms and munitions sent, Chile's position compares very favorably with that of many other of these republics. This attitude on the part of the Government of the United States was based upon our belief, as a result of many

⁵⁴ Presumably Raúl Morales Beltrami, Chilean Minister of the Interior.

authoritative and official expressions reported by you, that Chile intended to comply with her obligations.

(2) In view of the above, the other American republics which have taken all possible measures to protect the security of the continent, would fail to understand continued treatment of Chile, a country which by its failure to act has endangered the security of the continent, on an equal basis with them.

(3) In our judgment, Chile has now been supplied with all of the arms and munitions which she requires for her present needs, in view of her failure to give any positive indication of a desire to contribute to continental security.

(4) So long as Chile maintains relations with the Axis, all details regarding arms and munitions which might be sent to Chile, as well as the disposition, location and use of such arms and munitions would be immediately made known to the Axis, thus reducing materially the potential value of such arms and munitions in the defense of Chile and of the continent.

HULL

740.0011 European War 1939/25883 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 23, 1942—midnight.

1435. Your 2016, November 20, 5 p. m.⁵⁵ From the Under Secretary. You will recall that prior to Ambassador Michels' return to the United States at the end of last July, there was no thought of an invitation to President Ríos to visit the United States. The invitation was only extended after Ambassador Michels, on behalf of President Ríos, had assured President Roosevelt in the most authoritative and official manner that President Ríos was prepared to do everything which might be considered necessary for the security of the continent. The President expressed his appreciation and said that the most effective step Chile could take for the security of the hemisphere was rupture of diplomatic relations by Chile with the Axis. The President then extended the invitation to President Ríos. Shortly thereafter, a list of war materials which could be made available to Chile following a break in relations was furnished to Ambassador Michels and by him to General Espinosa and to the appropriate authorities in Santiago.

Thereafter and until the date of my speech at Boston, Chile did nothing whatever to indicate that Ambassador Michels' statement to President Roosevelt had been anything more than empty verbiage. President Ríos did plan to come to the United States, leaving Santiago some 10 weeks after the invitation was extended. The invitation itself was used throughout this period and continues to be used as a motive

⁵⁵ Not printed.

for delaying the break in relations. In other words, what President Roosevelt thought would facilitate the attainment of what he had been given to understand was a common desire of the two governments, namely, the elimination of highly prejudicial Axis diplomatic and subversive activity in this continent, was used by the Chilean authorities and is still being used by them to delay the attainment of this objective.

The invitation to Ríos still stands. If and when he comes, regardless of the action which Chile may have taken to live up to her commitments, he will, of course, receive a courteous welcome in official circles. However, in view of the very natural war-time psychology prevalent in the United States, which psychology is, as you will recognize, one of our major assets in the conduct of the war, it has been thought desirable to ask you to indicate clearly to President Ríos our misgivings as to the type of popular and press reception which he would receive if he were to take advantage of President Roosevelt's invitation before carrying out the official and authoritative commitment as a result of which that invitation was extended. (I refer in this connection to my personal letter to you of November 19).⁵⁶

It also seems desirable that you bear in mind the effect upon the Chilean position of the passage of time. The United States has now been in the war nearly a year. Ten months have elapsed since Ríos. Nearly four months have passed since President Ríos told President Roosevelt that he would do anything necessary for continental security. According to the "authoritative and official commitment" which Fernández and Ríos have given you, there will be no rupture of relations until the return of Ríos from his trip. In other words, the German, Japanese and Italian diplomatic and consular agents in Chile are guaranteed at the very least another three months of immunity.

The Department concurs with you that matters may be allowed to rest as they are and that you should limit yourself to such repetition of the Department's views as previously expressed as may in your judgment be useful. [Welles.]

HULL

⁵⁶ Not found in Department files.

740.0011 European War 1939/27116

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] December 17, 1942.

Participants: The President;
Ambassador of Chile, Señor Don Rodolfo Michels;
Chilean Minister of Interior, Sr. Raúl Morales Beltrami;
Under Secretary, Mr. Welles

Today at noon the President received the Chilean Ambassador, Señor Morales and myself. Señor Morales asked me to give the President the attached statement which he had prepared in writing⁵⁷ in view of his inability to express himself fluently in English. The President read the message and said that he fully realized the difficulty of preparing any democracy "spiritually", referring to the statement of the Chilean Minister of the Interior contained in the written declaration that it had been necessary "materially and spiritually" to arm Chile in order to convert her into an ally and not into a defense problem.

The Minister then stated that he was the bearer of a personal message to the President from the President of Chile that Chile had decided immediately to break diplomatic relations with the Axis powers.

The President replied that he was very glad indeed to receive this information and then explained to the Minister at some length the difficulties and dangers the United States had encountered in the World War of 1914-1918 on account of espionage and clandestine radio activities which were then taking place under Axis auspices in Mexico. The President explained how these had been checked. The President then continued by saying that very much the same sort of dangers had been occasioned the United States by the Axis subversive activities which had taken place in Chile until very recently and that, while he was very sorry to have to mention this fact, it nevertheless was a fact. The President then said that he felt sure that the step which the Government of Chile now contemplated would prove to be in the interest of Chile herself, that the situation of the United Nations had improved very materially in the last few months, and that for Chile to join the democracies in the manner proposed would inevitably be a happy solution to the problem which Chile had encountered. He went on to explain why it was essential for the United Nations to concentrate upon defeating Germany first, since if Germany was defeated, Japan was inevitably defeated likewise, whereas if the United States concentrated on defeating Japan first, the defeat of Germany would be long postponed.

⁵⁷ Not printed.

Señor Morales then raised the question of the dangers to which Chile would be exposed when she broke relations. The President said that Japan was not in a position to do any real damage to Chile, that the most that Japan could do would be to send a submarine, fire a few shells on the Chilean coast, as Japan had done against the California coast some six months ago, and that the effect had simply been to stimulate the morale of the people of California and the same result would occur if Japan attempted the same action against Chile. Señor Morales raised the question of the defenseless character of such strategic points on the Chilean coast as electric power stations, upon which the supply of copper depended. The President suggested that he discuss these details with me at a meeting which we were due to have this afternoon.

The conversation concluded by the Minister saying to the President that his mission here was to inform the United States Government that the policy of Chile had never been un-inter-American and had always been designed to cooperate in the defense of the Western Hemisphere. He also requested that the message he had communicated to the President be regarded as confidential, since only the President of Chile himself should announce the intention of the Chilean Government to break relations with the Axis powers.

The Minister likewise left with the President a long memorandum⁵⁸ written in Spanish which I said I would have translated and give to the President, and I also told the President that the Minister had a personal letter addressed to the President by the President of Chile which the Minister would give me later and which I would give to the President.⁵⁹

S[UMNER] W[ELLES]

740.0011 European War, 1939/26705a : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, December 18, 1942—3 p. m.

1521. From the Under Secretary. Morales has communicated to the President the decision of the Chilean Government immediately to break relations with the Axis. My own conversations with Morales have been concerned with the following points:

(1) Although I have tactfully pointed out to Morales that Chile's inter-American commitments have for nearly a year furnished ample justification for a break in relations, he is insistent upon the development of some specific pretext which can be made the occasion of the break and which will ensure a maximum of support for the Government's action among the Chilean people. Evidence is, therefore, being assembled by our military, naval and other authorities which will show

⁵⁸ Not printed.

⁵⁹ No evidence found in Department files that such a letter was presented.

conclusively the part played by Axis espionage in Chile leading to the sinking of United Nations vessels and the death of United Nations citizens. The Minister stated that the Chilean Government would use this information as the justification for the immediate break of relations with the Axis.

(2) Although both the President and I pointed out to Morales that the situation of Chile in relation to possible attack from the Axis and particularly from Japan was considerably more favorable than that of the United States and of other American Republics which had complied with their inter-American commitments, he was emphatic as to the need for providing for the protection of specific points on the Chilean coast, including especially Tocopilla and Coronel (the coal area), and possibly Valparaiso. The President has agreed to consider the furnishing of such material and the matter is being discussed with our military and naval authorities. I took occasion to point out in this connection that our Government does not feel that the effective cooperation which it has already rendered Chile in defense matters has been recognized or appreciated by the Government of Chile. Morales, together with the Chilean Ambassador here, and the military and naval personnel of the Embassy are proceeding to examine the list of war matériel which was furnished the Chilean Government last August in order to ascertain whether any added matériel is now required. The Chilean Ambassador has already expressed the view that the aforesaid list was extremely comprehensive and satisfactory. It will be recalled that, at the time, the Ambassador told me on behalf of his Government that the Chilean military authorities were very pleased.

My interview last night with Morales concluded with the statement by Morales that he felt, in view of the satisfactory agreement which we had reached on the above two points, he could plan to return immediately to Santiago. [Welles.]

HULL

740.0011 European War, 1939/26585 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, December 18, 1942—1 p. m.

[Received 2:47 p. m.]

2199. Attention Under Secretary and Duggan. Morales United Press interview effect that President Roosevelt expressed the hope to him that President Ríos would make an early visit to the United States has caused general discussion here and the opponents of rupture who by no means have given up the fight are using it to maintain that there is no insistent desire on our part that Chile break relations.

In this situation I urgently need for my confidential information the cabled indication of the nature of the discussions which I requested in my No. 2184 of December 16, noon.⁶⁰

BOWERS

⁶⁰ Not printed.

740.0011 European War, 1939/26585 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, December 19, 1942—8 p. m.

1529. Your 2199, December 18, 1 p. m. The President stated to Morales and will probably include a statement to the same effect in a letter to President Ríos that he hopes that as soon as the difficulties of the immediate future in Chile have been surmounted, President Ríos may reach the conclusion that he would be justified in coming to the United States in accordance with the invitation which President Roosevelt had the pleasure of extending to him 4 months ago.

HULL

740.0011 European War 1939/27117

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] December 22, 1942.

The Ambassador of Chile and the Minister of the Interior of Chile called this morning at my request.

I told Señor Morales that, as a result of our last very agreeable and satisfactory conversation, I felt there were only two further points to be discussed between us.

The first of these points, I said, had to do with the request of Señor Morales that I make available to him, secretly and for the secret information of the President of Chile, a specific statement showing how American ships that had left Chile had been sunk in the Caribbean as a result of clandestine radio messages sent by German agents in Valparaiso to German military or naval agents. I said that the Navy Department had prepared two documents for me, one of these a memorandum showing in considerable detail how five American ships had been sunk as a result of these subversive activities in Chile and the place and manner of their sinking. The other document, which was solely for the information of the President of Chile and the Minister of the Interior, contained the deciphered texts of two of these clandestine messages. I handed the Minister the two messages in question, copies of which are attached.⁶¹

The Minister said that he would keep these messages in the secrecy requested and that the information given him was exactly what he required.

The second point, I said, had to do with the request made by the Minister that certain defense matériel be made available immediately to the Government of Chile for use when the breaking of rela-

⁶¹ Not printed.

tions by Chile took place. I said that on this subject I wished to speak very frankly with the Minister. I said that last August I had given to the Chilean Ambassador in Washington a confidential memorandum⁶² showing the categories of military and naval matériel which the United States Government would be able and prepared to make available to Chile in the event that Chile broke relations with the Axis powers. In addition to that memorandum, I said, the United States had been furnishing Chile naval and military matériel since early last winter just as if Chile had actually signed a lend-lease agreement with the United States, and that in this manner the United States had made it plain to Chile that it desired to furnish Chile with every possible means of defense, in view of the defenseless condition of Chile, notwithstanding the fact that Chile had taken no definite action with regard to her relations with the Axis powers. The subsidiary list⁶³ which the Minister had now sent to me through the Chilean Embassy contained many items which were not on the list which I had handed the Chilean Ambassador last August and raised a question which it would seem to me neither Chile nor the United States would desire to confront, namely, a question which appeared to give rise to the interpretation—quite unfounded, of course—that Chile was now prepared to break relations with the Axis powers because of the new bargain struck between the United States and Chile, a bargain furnishing Chile additional quantities of defense matériel not already contemplated by the Government of the United States. I said I felt that it was better for both countries not to take any action which would give rise to an unfounded interpretation of this character.

I stated that when Chile broke relations with the Axis powers, the lend-lease agreement already negotiated could be signed immediately and that I could only reassure the Minister once more, as I had frequently stated to the Chilean Ambassador, that this Government would be prepared to do everything possible to cooperate with Chile by the furnishing of matériel under the lend-lease agreement for the defense of the territory of Chile. I concluded by stating that I felt under these conditions it was far better to leave the exact determination of what matériel should be sent and when it should be sent to the military and naval experts of our two countries. Both General Espinosa and Admiral Moreno, the Chilean military and naval representatives in Washington, had the complete confidence and regard of our own military and naval authorities and I said I felt quite sure that both Governments could safely rely upon their military and naval experts to find a satisfactory and efficient solution of the defense problem.

⁶² Memorandum not found in Department files.

⁶³ Not found in Department files.

At this point the Ambassador interrupted to say that the Minister should always bear in mind the fact that the United States Government had been making continually available to Chile during the past eleven months large quantities of defense matériel, both military and naval, and that the two Governments should have sufficient confidence one in the other to rest assured that the United States and Chile would cooperate completely with regard to the Chilean defense problem.

Señor Morales said that he was entirely satisfied to leave the matter in this way and that he would at once inform the President of Chile by cable of the statements I had made to him. He said that he had now planned to arrive in Santiago on January 2 and that as soon as he returned, he would send me a personal message through the Chilean Ambassador in Washington to let me know the exact date upon which Chile would break relations. The Ambassador suggested that January 15 would be an appropriate date inasmuch as that date marked the anniversary of the Rio de Janeiro conference. Señor Morales agreed to this suggestion and said he thought it might be possible that the date for breaking relations be even earlier than that. I concluded by stating that I desired to emphasize my own great respect and admiration for the Chilean Government and people and that I felt the one important thing now to avoid was the permitting of so long a time to elapse before relations were broken as to allow conjecture as to Chile's attitude to be current once more in the press of all of the other American Republics. I said that I thought if the action contemplated were taken promptly, and by that I meant within the next two or three weeks, the reaction throughout the Hemisphere would be most enthusiastic and satisfactory and that in that event the history of the past months would soon be forgotten and Chile would be welcomed by all of the other American Republics into the fold of the American nations who were cooperating for the security of the Western Hemisphere and for the preservation of the ideals which we all shared.

The Minister said that immediately upon his return to Santiago he would emphasize in his statements to the Cabinet and to the Chilean Senate that he had found in Washington nothing but friendship for Chile and a very great measure of understanding for the desire of the Chilean Government now to align itself with the other American nations who had come out against the Axis powers. He said he would emphasize that the Government of the United States had at no time, in any way or manner, brought the slightest pressure to bear upon Chile and that the only interpretation he could give to American policy with regard to Chile was that it was for Chile to decide whether she would break relations or not, but that if she did break relations the United States would do everything possible to cooperate with her.

S[UMNER] W[ELLES]

NEGOTIATIONS TO PROCURE FOR THE UNITED STATES STRATEGIC MATERIALS FROM CHILE AND EFFORTS TO LIMIT EXPORTS OF SUCH MATERIALS TO OTHER COUNTRIES⁶⁴

811.20 Defense (M) Chile/78: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 12, 1942—3 p. m.

[Received 10:48 p. m.]

59. My No. 851, 5 p. m.⁶⁵ Senate has approved copper tax law in form satisfactory to copper companies except that in the debate Minister of Finance⁶⁶ made an erroneous statement which has to be cleared up in the official record. Bill was returned to Chamber of Deputies and expected to pass without alteration. Copper companies now object to provision in the law which stated that the President of Chile by decree can insist that 20% of the exports of raw materials be returned to Chile in the form of finished products. Copper companies say impossible to comply with such a [provision?]. Minister of Finance stated frankly to a company representative that he considered this provision a club to insure that the United States furnish Chile with sufficient essential materials. Graham,⁶⁷ negotiating Metals Reserve contract, of the opinion that clause is political and not much actual danger of its ever being applied is an unfortunate precedent but too late to correct the law itself. The matter might be corrected by an informal exchange of notes reiterating to Chile our intention of supplying needed material to the limit of our ability but stating that if Chile insisted on enforcing a return of finished goods in some fixed proportion of our purchases of Chilean raw materials beyond our possibility to supply, Metals Reserve agreement would have to be abrogated and renegotiated. Please instruct.

BOWERS

811.20 Defense (M) Chile/79a: Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, January 16, 1942.

61. The Federal Loan Agency informs us that the negotiations for the agreement with the Chilean Government having to do with strategic and critical materials are now completed and that it is desired to have the document signed on Monday, the 19th. Our understand-

⁶⁴ For previous correspondence, see *Foreign Relations*, 1941, vol. vi, section under Chile entitled "Negotiations to procure for the United States strategic materials from Chile."

⁶⁵ Dated December 30, 1941, *ibid.*

⁶⁶ Guillermo del Pedregal.

⁶⁷ Horace R. Graham, representative of the Metals Reserve Company, a purchasing agency of the Federal Loan Agency until February 24, 1942, and thereafter of the Department of Commerce.

ing is that the form contemplated is an exchange of notes between yourself and the Ministry of Foreign Affairs and that your reply will be countersigned by Graham as the representative of the Federal Loan Agency. This form seems satisfactory to the Department. Before, however, authorizing you finally to sign, would you kindly telegraph at once the text of your contemplated reply to the Ministry of Foreign Affairs as it now stands, omitting exhibit A. The Department will send its reply over the week-end so that you may be in a position to sign on Monday.

As for the question raised in your 59 of January 12, this Government would be quite unwilling to accept any such commitment in connection with the purchase agreement and assumes that there is no mention of action under this provision in the text of your exchange of letters with the Chilean Ministry of Foreign Affairs.

HULL

811.20 Defense (M) Chile/102

The Ambassador in Chile (Bowers) to the Secretary of State

No. 2536

SANTIAGO, February 4, 1942.

[Received February 9.]

SIR: With reference to the Embassy's telegram No. 94 of January 17, 1942,⁶⁸ I have the honor to transmit herewith copies of notes exchanged on January 26, 1942 between the Embassy and the Foreign Office of Chile effecting the Agreement for the Purchase of Strategic Materials in Chile by the Metals Reserve Company, together with copies of Exhibit "A" in which there are specified the terms applicable to all purchases as well as the quantities, grades, prices and delivery conditions for each of the materials.

Respectfully yours,

For the Ambassador:

DONALD R. HEATH

First Secretary of Embassy

[Enclosure 1]

The American Ambassador (Bowers) to the Chilean Acting Minister for Foreign Affairs (Pedregal)

No. 861

SANTIAGO, January 26, 1942.

EXCELLENCY: I have the honor to inform Your Excellency that my Government agrees to the provisions of your note of this date, re-

⁶⁸ Not printed; this telegram transmitted text of proposed note, printed below, to the Chilean Acting Minister for Foreign Affairs. On January 19, the Department authorized the signing of the agreement using this text.

peated below, and considers the Agreement completed by the exchange of these notes.

1. The Government of the Republic of Chile undertakes, through the issuance of export licenses and other adequate control regulations effective immediately, to restrict exportation of the strategic materials listed in Exhibit A attached hereto,⁶⁹ for a period of eighteen months from the date hereof, except to (1) Metals Reserve Company or other corporation or Agency designated by the Federal Loan Agency; (2) United States purchasers; (3) the British Empire; (4) in cases where the United States or the United Kingdom have made purchases on behalf of a third party, such designations for direct shipment as shall be nominated by the United States or the United Kingdom, as the case may be; and (5) the other American Republics which have systems of export control acceptable to the Government of the United States; unless in any case a different provision for export control is set forth in Exhibit A.

2. While the Chilean export control system, referred to in paragraph numbered 1 above, operates effectively, the Government of the United States confirms that the Federal Loan Agency of the Government of the United States, acting through the Metals Reserve Company or another Agency designated by it, agrees to purchase for a period of eighteen months from such sources approved by the Federal Loan Agency, the maximum quantities of each material as listed in Exhibit A hereof, less sales made through commercial channels or otherwise to the eligible countries referred to in paragraph numbered 1 above. The terms of purchase of each material by the designated Agency of the Federal Loan Agency are set forth in Exhibit A hereof. Without in any way limiting or affecting the prices at which a particular seller may sell Chilean material through commercial channels or otherwise to eligible countries, the Federal Loan Agency, acting through its designated Agency, agrees that its purchases during the period of this Agreement shall be at the prices listed in Exhibit A, with the understanding that these listed prices will be reviewed each six months.

3. The Government of Chile agrees that any increases in export taxes or fees that may be enacted or enforced between the time of purchase by the designated Agency of the Federal Loan Agency and the date of shipment of the material, will not apply to the materials purchased by the designated Agency or the Federal Loan Agency.

4. The Federal Loan Agency, for the purpose of performing its commitment hereunder, has appointed Mr. H. R. Graham, its Author-

⁶⁹ Not printed; the strategic materials listed were copper concentrates, copper ore, gold ores and concentrates, manganese ore, and mercury. In addition, the Metals Reserve Company was prepared to purchase both ores and concentrates of antimony, cobalt, lead, molybdenum, tungsten, and zinc.

ized Representative in Chile, who has accepted the Agreement on behalf of the Federal Loan Agency by signing at the end hereof.

Accept [etc.]

[CLAUDE G. BOWERS]

Accepted:

Federal Loan Agency

[H. R. Graham]

Authorized Representative

[Enclosure 2—Translation]

The Chilean Acting Minister for Foreign Affairs (Pedregal) to the American Ambassador (Bowers)

No. 4

SANTIAGO, January 29, 1942.

MR. AMBASSADOR: With reference to our letters of this date⁷⁰ relating to the purchase of Chilean products by the Federal Loan Agency, I have the honor to confirm to Your Excellency the agreement which we have reached with respect to the periodical revision of the prices stipulated in paragraph 2 of said letters:

(1) The prices, tonnage and terms of purchase established in Document "A" shall be revised by common accord at the end of each period of six months counted from this date.

To make this revision and the respective adjustments, there will be taken especially into account the variation in the prices of the materials in the world market, the value of the dollar, fluctuations in Chilean exchange and increases in salaries, wages, materials and freights and loading expenses which affect the cost of production in Chile.

(2) In the execution and fulfillment of this contract and to settle the difficulties which may arise, the Caja de Crédito Minero will act as the representative of the Government of Chile. This official institution will authorize the present buying firms in order that they may continue making their purchases under the same conditions as they did before the war.

(3) Mr. Cesar Fuenzalida, Director of the Caja de Crédito Minero, signs at the end hereof to attest that said institution accepts the foregoing conditions. In like manner, Mr. Horace R. Graham will also sign at the end of Your Excellency's reply to attest that the Federal Loan Agency accepts said conditions.

I take [etc.]

GUILLERMO DEL PEDREGAL

(signed) CESAR FUENZALIDA C.

⁷⁰ The reference is presumably to the notes exchanged on January 26.

811.20(D)E.D.B./854

The Ambassador in Argentina (Armour) to the Secretary of State

No. 4377

BUENOS AIRES, March 11, 1942.

[Received March 16.]

SIR: I have the honor to advise that recent increases in Argentine copper imports from Chile give rise to the problem of how it would be possible to maintain a satisfactory control to the end that this material does not reach, directly or indirectly, the hands of processing or other firms on the United States Proclaimed List. We are advised, for example, that the South American Mining Company, which we understand is controlled by Mauricio Hochschild, now has orders pending for shipment from Chile during the month of March for a total of 212 tons for the Argentine Ministry of War and 150 tons for the Ministry of Marine. It is understood that all Chilean copper sales to this market are now handled through Anaconda directly by Copper Export Association, Inc., 25 Broadway, New York, and that Mr. William E. Kennedy, Vice President, is in charge of the business. The Embassy at Santiago has been requested to look into the matter and see if these and any other shipments now pending can be delayed until approved by the Board of Economic Warfare. This Embassy is convinced that some control such as this is necessary, if the United States Proclaimed List is to be in any way made effective in the Argentine. All evidence available indicates that the Argentine Ministry of War and probably the Ministry of Marine will deliver a goodly part of the raw copper they receive to the local firm Sociedad Electro Metalúrgico Argentina (Sema), which is now on the Proclaimed List.

As the local office of the South American Mining Company have repeatedly asserted their desire to cooperate in every way, and as the only other copper producers in Chile are American companies, it should be a relatively easy matter to obtain a full control of the Chilean copper exports and thus ascertain the degree to which Argentina must depend upon the United States for its copper import requirements.

The matter is one of immediate concern and full advice as to any action that the Department may take would be greatly appreciated.

Respectfully yours,

For the Ambassador:

THOMAS L. HUGHES
Commercial Attaché

825.6374/1462

The Chilean Ambassador (Michels) to the Secretary of State

MEMORANDUM

Due to late developments in the Far East, the possibilities for sales of Chilean nitrate during the next few years have been reduced still further, which will affect Chile's economy to a greater extent.

To avoid a more extensive depression in the near future, and to prevent a tremendous crisis in Chile after the war because of the excessive production of nitrogen throughout the world, Chile would like to have the cooperation of the United States,⁷¹ which might be based on the following considerations:

a) An agreement, for the duration of the present state of war, to furnish the means of transportation which will make possible the sale of 700,000 metric tons of nitrate per annum here;

b) That all the plants last constructed or which will be constructed, for the purpose of national defense, by the Government of the United States, directly or indirectly, shall be operated, after the war, in an indispensable proportion, and exclusively for the purpose of national defense.

c) The Government of the United States will keep Chilean nitrate of soda on the "free list", both during and after the war. Neither will any import duty be imposed nor systems of quotas or licenses on imports be applied, nor any other restrictions be adopted which may limit imports of this product.

d) The Government of the United States, as a policy of cooperation in the maintenance of the market for Chilean nitrate of soda on the Continent, will not in the future extend any credit facilities to finance plants for the production of synthetic nitrate in other Latin American countries.

e) Elimination of regulations adopted by the United States that give preference to national products for industrial governmental uses.

After considering the situation in this country and the special conditions imposed by the war, the possibility is suggested for the discussion of an agreement, which should be satisfactory for Chile, on the following lines:

1. During the present state of war the Government of the United States will devote all the production of nitrogen made in the plants recently built, under construction, or hereafter to be constructed under the war program, to the manufacture of war materials; will consider as of first necessity for agriculture, and to fill out the needs of defense, the importation of nitrate of soda from Chile; and will make special endeavours to provide transportation for Chilean nitrate of soda in

⁷¹ The Under Secretary of State was said to have assured the Ambassador and Florencio García, manager of the Chilean Nitrate and Iodine Sales Corporation, that the United States did not wish to harm the economy of any small country, and that after the war it would be necessary for Chile and the United States to consider the nitrate question.

amounts which will not be less than the deliveries to the United States during the last few years.

2. The Government of the United States will retain the ownership of all nitrogen plants already constructed or that may be constructed in the future for national defense purposes, and will not definitely decide what their final use will be until after the end of the war. In arriving at the necessary decisions they will take into consideration the agreements of cooperation and good neighbour policy reached at the Inter-American Conferences, and will properly weigh the effect that such decisions might have on Chile's economy. The Government of the United States will invite the Government of Chile to discuss this matter before determining the future use of these nitrogen plants.

3. The Government of the United States will keep Chilean nitrate of soda on the "free list", both during and after the war. Neither will any import duty be imposed nor systems of quotas or licenses on imports be applied, nor any other restrictions be adopted which may limit imports of this product.

4. The Government of the United States, as a policy of cooperation in the maintenance of the market for Chilean nitrate of soda on the Continent, will not in the future extend any credit facilities to finance plants for the production of synthetic nitrate in other Latin American countries.

5. Elimination of regulations adopted by the United States that give preference to national products for governmental industrial uses.

WASHINGTON, 1 April 1942.

811.20 Defense (M) Chile/165: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, May 5, 1942—6 p. m.

[Received May 6—4:21 a. m.]

681. The American copper companies are worried over the ever increasing demand for raw copper from Chilean concerns able to purchase it at artificially low peso price and export it to Argentina at a premium price. The chief offender is the Chilean army workshops which applies a little fabrication (thick sheets) and extorts a large middleman's profit from export to Argentina which possibly through established channels is already receiving its minimum requirements.

The copper companies are required by law to supply Chilean needs and although these purchases are obviously for export to Argentina, are not happy about refusing Chilean enterprises because of the political pressure and feeling the latter can arouse.

I request authorization to write the following letter to the American copper companies which they can use to brake excessive demands for copper for Argentina.

"It has come to the attention of the Embassy that you are being asked to supply steadily increasing demands for copper for export to

markets which the Embassy is informed have sufficient stocks for minimum requirements. In view of the fact that for United Nations war requirements the United States is purchasing all of your production not required for Chilean use or minimum needs of the other American Republics, and in view of the priorities given your company for materials needed in copper production and the concessions made by the United States in the Metals Reserve contract, the Embassy would appreciate being consulted before you satisfy new orders for copper not needed for Chilean use, so that if necessary it can discuss the matter with the appropriate Chilean authorities."

We have asked the Buenos Aires Embassy to verify rumors that Argentina has more than sufficient stocks on hand at the present time. Mark Lamb, representing the New York Steel Exchange, Argentina, is now endeavoring to make a deal with the army workshops for copper, most of which will receive only a minimum of fabrication: "claiming that he has the approval of the American Embassy at Buenos Aires for the exclusive representation of copper exports from the army workshops to Argentina which is already well supplied by sales agencies.["]

Repeated to Buenos Aires.

BOWERS

811.20 (D) E.D.B./1173

The Ambassador in Argentina (Armour) to the Secretary of State

No. 5103

BUENOS AIRES, May 15, 1942.

[Received May 23.]

SIR: I have the honor to refer to this Embassy's strictly confidential despatch No. 4377 of March 11, 1942, discussing the need for a control of Chilean copper exports to Argentina.

Since the date of the above despatch the problem of copper has assumed increasing importance, both as to its reaching the hands of firms in Argentina, unfriendly to the United States, and as regards the supply now reaching this country which, if allowed to continue, will surpass even the normal needs of the market. I also wish to refer to cable No. 681 of May 5, 6 p. m., sent by our Embassy in Santiago to the Department, proposing assistance to the American copper companies in braking the excessive demands of Argentina for copper.

In view of the immediate importance of this particular subject, I took occasion to send a member of my staff, acquainted with the matter, on the regular diplomatic courier trip to Santiago on Saturday, May 9. He had the opportunity to discuss the entire question with Messrs. MacLean and Gray of the Embassy staff in Santiago, with Mr. Horace Graham, representative of the Metals Reserve Corporation and with Messrs. John R. Cotter and Frank N. May of the Ana-

conda Copper Corporation. It was agreed that the problem was two-fold. First, the question of control over shipments of raw copper, principally in bar or ingot form, to the Argentine market to the end that this copper would not reach the hands of pro-Axis entities. The unanimous opinion regarding this feature was that Anaconda should continue to make sales only from New York and that these would receive the approval of the Embassy in Buenos Aires through their local representative before they were consummated.

The second factor has to do with the sales in Argentina of Chilean semi-manufactured copper by the Fábricas y Maestranzas del Ejército de Chile (Chilean Army Workshops). The practice in brief is as follows: By Chilean law the North American producing companies in that country are required to sell in Chilean pesos the copper needed by domestic industry. Presumably this means for domestic consumption. Consequently, the Chilean Army Workshops are able to buy from Anaconda and probably from Braden Copper Company, in those cases where fire-refined copper is satisfactory, all of their needs to meet the Chilean market demands. However, a very lucrative business both for intermediaries and the Chilean Army Workshops has recently developed by reason of the following practice. Since Anaconda will not sell in Chile and since in New York they will only sell to regular copper consumers, intermediaries dealing largely on a speculative basis are unable to make their purchases direct. Hence, they contract with the Chilean Army Workshops to purchase fixed tonnages of semi-manufactured copper. Occasionally this is in the form of wire of relatively large gauge, at other times it is in strip or sheets. Recently, however, since the income from the business is so attractive, it is understood that the greater amount of this copper is worked but very little, such as being rolled into very thick sheets or strips. Under this situation the Chilean Army Workshops have been able to purchase fairly substantial quantities of copper from Anaconda. They then work it as above indicated and sell it in turn to the intermediary, who exports the product to Argentina.

There is little or no control over the sales of this copper once it reaches the Argentine market and the practice is clearly an abuse by all of those engaged in the transaction.

Consequently, I venture to suggest that the Department may wish to advise the Chilean Government that it considers that future sales of semi-manufactured copper by the Chilean Army Workshops to intermediaries not normally consumers of copper and subsequent exportation of this copper to Argentina, should be discontinued inasmuch as:

1. The practice is detrimental to the war effort of the United States, as *a*) the United States needs every ton of Chilean copper available;

and, *b*) there is no shortage of shipping space for its transportation to the United States, and further, *c*) the present practice of exporting this semi-manufactured copper to Argentina gives practically no control over its destination and allows it to reach the hands of firms or entities unfriendly to the United States.

2. The practice is detrimental to the economy of Chile, as *a*) the capacity of the Army Workshops is such as to require its complete use in meeting the local requirements of the Chilean market were it to dedicate itself to the production of the various copper items needed in that market, such as fine sheets, fine gauges of wire, strip, etc.

3. Argentina has no need of this material, as *a*) she has manufacturing facilities sufficient to perform all of the semi-manufacturing processes now performed by the Chilean Army Workshops; and, *b*) her present stocks of copper are sufficient probably to meet her minimum requirements for at least the rest of 1942; since (1) average normal imports of raw copper, brass and bronze are less than 6,000 metric tons. Argentina imported approximately 7,400 metric tons of electrolytic copper and 300 tons of brass and bronze in 1941. Imports from January to April inclusive during 1942 have been between 5,000 and 6,000 metric tons of electrolytic copper.

It is believed that the Chilean Government would be glad to cooperate as above suggested and it would also relieve the American copper companies of a constant problem as regards sales to the Chilean Army Workshops which they know are to be re-sold to speculator intermediaries for re-export to Argentina. I further believe that by this method an effective control over Argentine copper imports can be maintained and that at least no further shipments will reach the hands of Sema or other unacceptable firms.

Respectfully yours,

NORMAN ARMOUR

811.20(D)E.D.B./1173

The Secretary of State to the Ambassador in Chile (Bowers)

No. 1655

WASHINGTON, June 19, 1942.

SIR: Reference is made to strictly confidential despatch no. 5103 dated May 15, 1942 from the American Ambassador at Buenos Aires, a copy of which he sent directly to you, regarding the continued need for control of Chilean exports to Argentina of Chilean semi-manufactured copper.

The subject was further discussed in your despatch no. 3387 dated May 22, 1942⁷² from which it appeared that exports of such copper to Argentina have thus far this year reached 5,000 tons, estimated to be nearly enough for the entire year.

⁷² Not printed.

It is observed that the American Ambassador at Buenos Aires states that the supply now reaching Argentina, if allowed to continue, will surpass even the normal needs of the market. The Ambassador at Buenos Aires likewise indicates the need for control to prevent such copper from reaching pro-Axis entities, and he also mentions the Chilean law which requires that copper needed by Chilean domestic industry must be sold in Chilean pesos, presumably for domestic consumption only. It is noted that the Chilean Army Workshops sell semi-manufactured copper to intermediaries who then sell it in Argentina. The amount purchased and handled by the Chilean Army Workshops is understood to be far beyond Chilean needs.

The Ambassador at Buenos Aires reports that there is little or no control over the sales of such semi-fabricated copper once it reaches Argentina.

It has been observed that the Chilean Under Secretary of Commerce ⁷³ recently inquired of the Anaconda Copper Corporation in Chile whether it would be prepared to sell certain amounts of copper to the Chilean Army Workshops for dollars. The Chilean law providing for the sale in Chilean pesos of copper produced by foreign-owned corporations in Chile and needed by Chilean domestic industry is apparently being interpreted not to apply to copper ultimately destined for export.

You are requested in your discretion to remind the appropriate Chilean authorities that the Government of the United States is making arrangements for the extension of financial assistance to the copper industry in Chile on a large scale in order to increase the production of copper for the war effort and that it appears to this Government that the uncontrolled distribution of copper in Argentina which is assisted by entities in Chile is inconsistent with this developmental program. You should point out that this Government considers, moreover, that it is unfortunate that the Chilean Army Workshops should serve as an intermediary for the delivery of semi-manufactured copper to Argentina for uncontrolled distribution to purchasers, many of whom may be pro-Axis entities. You may mention in this respect that the participation of the Chilean Army Workshops in such activity appears inconsistent with the asserted Chilean needs for war matériel which presumably require the use of all Chilean Army Workshop facilities and, in addition, the facilities of other countries from which the Chilean Government desires to import such matériel.

Very truly yours,

For the Secretary of State:
[File copy not signed]

⁷³ Ricardo Heatley.

811.20 Defense (M) Chile/217: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, July 24, 1942—8 p. m.

[Received July 25—8:47 p. m.]

1212. For Bridgman ⁷⁴ from Graham.

"Have had several discussions Minister of Commerce ⁷⁵ and other Chilean Government representatives. We have explained fully and clearly present situation indicating that in reality our only interest is in copper ores and concentrates and copper bars from Chagres and Naltagua. Their principal interest is in gold mining which in event no assistance would practically cease and cause unemployment several thousand men. They have submitted following requests:

1. Production costs between February and June have increased copper 18% manganese 28% gold 15% and costs rising. They state that in their belief we should increase purchase price materials so as to compensate for approximate increase 25 to 30 percent production cost during 6 months period.

2. Due lack gasoline and other transportation facilities they wish us to receive materials at source rather than ports with price reduction corresponding freight differential.

3. They are considering establishment small furnaces in northern ports to treat ores and produce matte and in old smelter Guayacan produce copper bars. For this they wish us aid obtain essential materials.

4. Extension contract to 3 years to allow exploitation present properties and develop new [apparent omission].

5. Increase price mercury to \$192 per flask with payment 100 percent value against delivery.

6. Fix price for copper ores and concentrates with gold content over 35 grams and agreement that ores and copper products may contain one gram for each three kilos copper.

7. Include Los Vilos as port delivery.

8. Increase tolerances manganese ores silica to 16% copper 0.35 percent.

After long discussions we have informed Government representatives that no priorities can be expected for gold mining but that in gold ores which contain some copper, we would recommend (1) reduction refining charges from two cents to one cent for copper content in gold ores and concentrates. In addition would feed as much material as possible to local smelters purchasing f. o. b. smelter instead of f. o. b. ports in cases where freight charges to smelters less than to ports giving them credit freight differential and would eliminate charge for sacks used on concentrates, (2) in spite of extremely high price

⁷⁴ G. Temple Bridgman, executive vice president of the Metals Reserve Co.

⁷⁵ Pedro Alvarez Suárez.

now being paid for copper concentrates that we would recommend increase price copper concentrates by 5% and copper ores by 10% and would eliminate sack charge on concentrates but would not allow freight differential, (3) would recommend inclusion Los Vilos as acceptable port against guarantee Miners Bank to increase loading equipment and port facilities, (4) we would recommend increase tolerances silica to 15% and copper to 0.35% in manganese ores with penalties if any fixed by Washington.

We stated that in our opinion moment was not opportune for extension contract to 3 years and that there would be no further concessions. In addition unless world prices increase considerably that no material revision could be expected upon termination second 6 months period. Naturally they are quite discontented terms indicated and are particularly anxious to have us develop some way to aid gold mining industry in which problem unemployment will soon develop. They use arguments good neighbor and hemisphere solidarity. Original prices set for copper, manganese, mercury were generous and in excess prices we would have offered if Japanese situation had not existed. In case gold prices were low because ore buyers and Japanese were not purchasing this material at time we made the contract. These gold ores are valuable for use as flux in present smelting operations Chagres and Naltagua and probably of value for shipment to Tacoma under ordinary peace conditions and commercial freight rates. We have endeavored to find some way that we could recommend to aid these gold mining operations but aside from suggestions above which aid some gold producers sufficiently but in some cases especially gold mines Coquimbo and Atacama Districts give no aid at all we are unable to suggest any scheme unless for special considerations you feel some help might be given. Please advise.["]

BOWERS

811.20 (D) E.D.B/1535 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, July 31, 1942—3 p. m.

[Received 8:40 p. m.]

1241. Requests for copper by local firms to Anaconda and Braden increasing rapidly and now total something like 15,000 tons per annum against deliveries of only about 3,000 tons last year. Attracted by opportunity for large profits established copper fabricators are expanding their output and many new firms planning to enter this field.

Reference Department's air mail instruction 1655, June 19, 1942.

American companies are doing their best to restrict deliveries and refuse orders from newcomers but are under heavy pressure and their position is none too strong in view of the provision in the copper tax law which obliges them to supply the local market.

The Embassy has pointed out to the Chilean authorities that shortage of copper is critical and any diversion to nonessential uses directly affects our war production. Also that the entire output of Anaconda and Braden has been purchased by our Government. However, I am convinced Chile will not establish effective control over either domestic consumption or exports unless we take a really strong stand.

I therefore request authorization to inform the Chilean Government officially that it is imperative a mutual agreement be reached promptly fixing the quantities of copper that will be supplied for domestic needs and for export such quantities to be based on a study of the essential requirements of Chile, Argentina and Brazil. Furthermore, that pending the results of such a study Anaconda and Braden have been instructed to make no deliveries without the approval of the Embassy which will consult with the appropriate Chilean authorities.

With regard to the requirement study Colonel Lord ⁷⁶ stated that he would send an expert from the United States which is obviously desirable.

Telegraph instructions urgently.

BOWERS

811.20 Defense (M) Chile/217: Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, August 3, 1942—2 p. m.

865. For Graham from Metals Reserve. Your cable July 24,⁷⁷ under terms Over-all Agreement only question now open is review of prices and we believe discussions should be confined strictly to price changes or matters related directly thereto such as sack charges, freights, delivery points, etc.

While not wishing finally to close door on question of gold mines and while requesting your further views on this subject present reaction of agencies here including State Department is adverse to any change. Incidentally feel it would be very embarrassing if further encouragement given and then export of equipment and supplies pro-

⁷⁶ Assistant Director of the Board of Economic Warfare.

⁷⁷ No. 1212, p. 58.

hibited for gold mines which seems most likely. State Department also communicating with Embassy on this gold ore question.

Although we ask you do not make final commitment for moment believe we can gain acceptance here of points you have said you would recommend if this would settle the matter but prefer if possible omit Los Vilos as acceptable port as impossible under present shipping conditions to arrange vessels call at minor ports and we would thus either have to pay higher local transshipment to larger ports or leave stocks there until end of war.

Assume you have definitely disposed of Chilean proposals 4, 5 and 6 and assume from your letter 170 you consider proposal number 3 impractical. [Metals Reserve.]

HULL

811.20 Defense (M) Chile/232 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 10, 1942—5 p. m.

[Received 11 : 02 p. m.]

1273. For Bridgman, Metals Reserve :

“Reference your cable August 4 [3]. We have discussed your cable fully with Minister of Commerce, President Caja Crédito Minero, President National Mining Society and group of Chilean engineers appointed as experts. We have explained fully existing situation and particularly the impossibility of further aid gold mines in view priorities situation. We definitely refused accept Los Vilos as port but stated we would again review situation in 6 months time if port had been improved. Caja Crédito has stopped some gold mines and is devoting attention to increase copper production. In this regard they wish permission to increase tolerances in copper concentrates from 35 grams gold to 60 grams gold as they state they can in this way treat copper ores 4 to 5 percent containing 10 to 15 grams gold and make concentrates from materials that are now not being exploited and absorb some of unemployment gold mines. Instead 5% on concentrates and 10% on ores which is price increase we suggested they request 8% and 15% respectively. All other matters settled. In view of this situation we recommend you allow tolerances up to 60 grams gold on copper concentrates and offer increased price copper ores and copper concentrates 6% and 12% respectively. We believe on this basis we can close arrangement immediately and would appreciate your prompt attention.”

BOWERS

811.20 Defense (M) Chile/237 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 13, 1942—6 p. m.

[Received 8:55 p. m.]

1293. For Bridgman from Miller.⁷⁸ Reference telephone conversation Irwin Miller.

We calculate there should be delivered during remaining year contract approximately 66,000 tons copper ore and 78,000 tons copper concentrates both including material now going direct to local smelters. Roughly average cost ore per short ton \$14.50 and for concentrates \$52.50 based on present contract terms for copper content. With these figures you can calculate effect increase in prices on whatever percentage basis involved. In addition we calculate \$265,000 broken down as follows:

(1) Approximately \$50,000 involved in reduction refining charge copper contained gold ores and concentrates.

(2) Approximately \$125,000 elimination sack charge.

(3) Approximately \$50,000 elimination freight differential material direct to local smelters.

(4) Probably maximum involved acceptance 60 grams gold copper concentrates \$40,000.

[Miller]
BOWERS

811.20 Defense (M) Chile/232 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, August 14, 1942—11 p. m.

909. For Graham from Metals Reserve Company.

"Reference your 1273, August 10, 5 p. m. Agree to increase gold tolerances in copper concentrates to 60 grams and to freight and sacking concessions also to review Los Vilos as a port in 6 months if improvements have been made. Agree to 6% increase on copper concentrates. Also agree to increase of 12% on copper ores if absolutely necessary but as present price we are paying for copper ores is already higher than any we are paying elsewhere hope you can hold to 10% increase. You are authorized to close the matter on the above basis. Please send us confirmed copy of agreement covering above modifications of original Over-All Agreement."

HULL

⁷⁸ Representative of Metals Reserve Company.

811.20 (D) E.D.B./1535 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, August 18, 1942—11 p. m.

922. Your 1314, August 14 [17].⁷⁹ You are authorized to proceed on the basis outlined in your 1241, July 31. Anaconda people here advise that they have been informed Chilean Government wishes to purchase amounts available for export to other American republics (other than this country) and sell them directly. This approach is obviously attractive to the Chilean authorities, since it gives them an opportunity for a profit and also gives them basis for bartering for scarce materials from the other countries. While it would be greatly preferable to eliminate this transaction, you are authorized to consent to such an arrangement if necessary for an agreement. In the event Chile seeks an excessive price from the other republics, matter could be called to attention of proper Chilean authorities asking that reasonable price be maintained.

It is important that you continue to stress the serious shortage of copper and the urgent need of keeping to the absolute minimum both Chilean consumption and exports to the other republics; diversion from direct war effort would be impossible to justify.

The Embassies at Rio de Janeiro and Buenos Aires have been told the current rate of exports from Chile to Brazil and Argentina and asked whether such amounts are necessary for indispensable needs. You will be advised of replies. It is believed here that any more careful study could not be completed in time to present an early settlement of this important problem.

Metals Reserve suggests that Graham participate in these discussions so that it may be fully informed upon his arrival, and that you may find Miller helpful in that connection after Graham's departure.

HULL

811.20 (D) E.D.B./1535 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, August 25, 1942—10 p. m.

956. Department's 922, August 18. Please advise status of discussions. It is believed particularly desirable that Graham be fully informed in order that he will be in a position to discuss matter upon his arrival.

Following telegram has been received from Buenos Aires :

"Official statistics show average annual imports of 12,092 short tons of copper brass and bronze manufactured and unmanufactured from

⁷⁹ Not printed.

1937 through 1941. Same source indicates 9,144 short tons imported first 6 months 1942. Not possible to separate copper from brass and bronze because of manner statistics prepared.

Facilities available here to fabricate all products from Chilean electrolytic copper except enameled wire and plain wire smaller than B. S. guage number 38. 1943 requirements enameled wire estimated at 184 short tons and small copper wire at 150 tons. 75% of this for radio industry. Other products not indispensable though quality and price not comparable to those furnished from the United States.

Spare parts for automobiles, machinery and intricate electrical apparatus not included either in import figures or estimate even though made of copper, brass or bronze because no figures available on these individual items.

Embassy of opinion no further allocations copper, brass or bronze necessary for 1942. And no more copper needed from Chile this year.

If 10,000 tons can be received from Chile during 1943 Argentina will have sufficient copper to meet all of her requirements except those of enameled wire and wire smaller than number 38."

HULL

811.20 Defense (M) Chile/255 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 27, 1942—6 p. m.

[Received 8:40 p. m.]

1391. For Bridgman from Graham.

21. Revision Metals Reserve contract completed August 21 but official acceptance Minister of Foreign Affairs Chile⁸⁰ not yet obtained although expected today. Arrangements made in accordance with your instructions and wishes with 10% increase copper ores and 5% increase copper concentrates sack and freight differentials allowed in cases already indicated, no other changes of importance. Details by letter. [Graham.]

BOWERS

811.20 (D) E.D.B./1668 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 27, 1942—8 p. m.

[Received 9:45 p. m.]

1393. Department's 956, August 25, 10 p. m. Commercial Attaché⁸¹ and Graham have discussed with Minister of Commerce the proposals based on Embassy's 1241, July 31 which were presented to Foreign Office in note August 20. Minister appreciates importance of agree-

⁸⁰ Ernesto Barros Jarpa.

⁸¹ H. Coit MacLean.

ment fixing quantity copper which American companies will supply both for domestic consumption and for export from Chile in fabricated form. He emphasized that Chile's only desire is to fabricate its copper in its own plants and that to the extent that is possible imports by Argentina and Brazil from other sources should be reduced so no increase in total consumption would result. Minister stated however, that Colonel Lord gave definite assurances he would send expert from the United States to make necessary studies and he has asked Chilean Embassy by telegraph to request that this be done. He was surprised and somewhat concerned with statement that no more copper needed from Chile this year by Argentina which has been principal export market. Minister pointed out that situation had been complicated because of Government's inability to obtain any satisfactory response from American companies particularly Anaconda. Problem will be discussed further when Chilean Embassy's reply is received.

Regarding proposal that Embassy be consulted before American companies accept orders and before Government issues export permits, Minister of Commerce stated reply would have to come from Foreign Office with which Embassy is taking up matter.

To relieve pressure temporarily Anaconda has agreed to accept orders approved by Chilean Government up to 1,000 tons.

BOWERS

811.20 Defense (M) Chile/260: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 4, 1942—7 p. m.

[Received 11:15 p. m.]

1431. Your telegram No. 712, June 20, 2 p. m.⁸² Embassy has been approached by both Heatley, Under Secretary of Commerce and Wennerberg, Swedish Chargé d'Affaires regarding attitude our Government towards exchange of Chilean copper for Swedish products. Wennerberg has informed Heatley that British Government has agreed to issue navicerts for 2,500 tons copper per quarter for Sweden. Commercial Secretary of British Embassy, Santiago,⁸³ says this allegation is not correct and that British Government will not issue navicerts for copper to Sweden without prior consultation with Department. Commercial Secretary states a navicert was issued for 2,500 tons of copper for Sweden for first quarter 1942 but none will have been issued subsequently.

⁸² Not printed.

⁸³ Arthur J. Pack.

This Embassy believes no further navicerts should be issued for copper to Sweden because of need for copper in the United States and danger of copper consigned to Sweden falling into the hands of Germany.

If Department agrees telegraph authorization to inform Heatley that United States cannot give its approval to proposed transaction.⁸⁴

BOWERS

811.20 (D) E.D.B./1706 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 5, 1942—7 p. m.

[Received 10:33 p. m.]

1441. Reference Embassy's 1393, August 27. Reply to note of August 20 not having been received Commercial Attaché brought up copper question during a conversation with Under Secretary of Commerce September 3. Under Secretary stated reply had been drafted but apparently did not feel free to divulge its contents. Meanwhile he showed copy of telegram from Chilean Embassy, Washington, stating that Colonel Lord's assurance had been discussed with Mr. Soulies of Board of Economic Warfare who said a man would be sent to Chile within a month to study the situation regarding copper and other Chilean products. Under Secretary asked that discussions concerning quality copper to be delivered in Chile be postponed until this man arrives. Please telegraph whether Embassy's report is correct and Department's views.

Anaconda representative reports telephone conversation with Vice President Wheeler, New York,⁸⁵ who expressed willingness agree to deliveries up to 20,000 tons per annum. Consider this figure much too high particularly in view of report from Embassy at Buenos Aires no further copper needed from Chile this year. No information yet received from Rio de Janeiro.

BOWERS

811.20 (D) E.D.B./1760 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 14, 1942—4 p. m.

[Received 10:30 p. m.]

1486. Embassy's telegram No. 1441, September 5, 7 p. m. Foreign Office reply to note of August 20 merely states that Embassy will be

⁸⁴ In Department's telegram No. 1053, September 14, the Ambassador was given the authorization requested.

⁸⁵ Burr Wheeler, vice president of the Anaconda Subsidiary of the Chile Exploration Company.

informed shortly of plan for regulating supplies of copper for national industries which has been prepared by Ministry Commerce and that Chilean Ambassador at Washington has telegraphed that within a month Board of Economic Warfare will send expert to Chile to study distribution of copper to South American countries. All [*Also?*] referred to Embassy's suggestion that pending an agreement Embassy be consulted before acceptance orders by American producers or issuance export permits is considered.

From discussions with Minister of Commerce it seems clear that the regulations referred to will not go beyond the establishment of specifications covering the products which fabricators must make in order to obtain supplies of bar copper. The purport of the regulations will be to ensure work for local plants by requiring more than elementary fabrication.

While there is continued threat that new legislation will be introduced eliminating all possible doubt as to the obligation copper producers to deliver whatever quantity local industries desire and particularly of other acute problems concerning nitrate price and petroleum supplies, it does not appear desirable to force the issue at this time. With Embassy's consent Anaconda will, therefore, indicate its willingness to accept Government approved orders for a second month up to maximum of 1500 tons. This it agreed to on August 19 for 1 month but orders received have fallen short by 300 tons and it appears doubtful whether maximum quantity will be [apparent omission].

As Embassy cannot act effectively without definite advice regarding sending of expert please telegraph urgently whether this will [be] done.

BOWERS

832.24/1106 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, September 25, 1942—8 p. m.

1121. Your 1518, September 21, 3 p. m.⁸⁶ Metals Reserve has agreed to instruct Anaconda to make available 2383 tons of copper for Brazil War Ministry and suggests Merry del Val Company, Ltd., place order through Anaconda in Chile.

HULL

⁸⁶ Not printed.

811.20 (D) E.D.B./1840: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, October 2, 1942—noon.

[Received October 3—2:30 a. m.]

1609. In the absence of instructions requested in Embassy's telegram 1441, September 14 [5], no progress has been made towards solving copper problem. Meanwhile Minister of Commerce states that Kemnitzer⁸⁷ is the expert promised by Lova and that he is awaiting the latter's arrival before beginning discussions. As Anaconda is continually under pressure to accept orders from new firm an understanding must be reached as quickly as possible. Telegraph urgently when Kemnitzer will arrive, whether the Department expects him to handle copper problem and whether he has received definite instructions.

It would be difficult to deny Chile enough of its own copper to cover its domestic consumption of about 3,000 tons, plus whatever part of Argentina's and Brazil's import requirements, estimated at 10,000 and 11,000 tons respectively of copper metal, she may be able to sell them in fabricated form. The latter quantity cannot be determined in advance. When Chilean fabricators requests copper the Government naturally assumes they have a market for their products. It uses the argument that no increase in total consumption will result if exports of copper metal are reduced by a quantity corresponding to exports of fabricated copper.

Under the circumstances, it seems evident that any limitation on deliveries of copper for fabrication in Chile would have to be made arbitrarily. Embassy believes that it would be wise not to agree to any delivery schedule for more than 3 months for which period present figures of 1500 tons per month might be continued if it should be impossible to obtain agreement on a lower amount. If Chilean fabricators buy more than they are able to sell profitably they will, presumably, not continue their purchases. More effective control over the ultimate destination of copper sold for export appears more important than any limitation on quantity which could be obtained. This aspect will of course be stressed in our discussions.

In making the above suggestion account has been taken of the fact that we cannot push too hard without risking new legislation which would definitely obligate the American producers to supply whatever quantity local industries require either for domestic consumption or for export in fabricated form.

The Department's views are requested.

BOWERS

⁸⁷ Presumably William J. Kemnitzer of the Board of Economic Warfare.

811.20 (D) E.D.B./1885 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, October 8, 1942—11 p. m.

[Received October 9—5:56 a. m.]

1663. Since Department's airgram A-163, September 21⁸⁸ states no copper expert will be sent, discussions have commenced with Undersecretary of Economy with participation of Miller, representative of Metals Reserve.

Copper problem has been further complicated by demand for 500 tons per month from Valdivia Steel Company in which Government has large interest. This quantity is in addition to the 1500 tons per month to which Anaconda tentatively agreed and its delivery is required by decree issued by Minister of Fomento [apparent omission] economy.

Undersecretary has now given Embassy text of proposed decree, reference my despatch 4618 of today's date,⁸⁸ regulating copper purchases whose principal provisions are as follows: (1) provision of copper tax law requiring producers to supply Chilean industries includes latters needs both for export and for domestic market; (2) all orders must be approved by Ministry of Economy and the copper used only for fabrication, sale in original form being prohibited; (3) producers must reserve up to 20,000 tons per annum or such other quantity as President may fix, to fill approved orders.

Consider it impossible to obtain modification provision (1) above and other general provisions appear advantageous. The question therefore is to limit the minimum the quantity producers must deliver. Requests presented to Government now exceed 2,000 tons per month. Attempt will be made to obtain agreement to 1500 tons per month without right to carry over any portion not ordered and on condition that Government furnish Embassy promptly details of all export permits issued, but it may be necessary to agree to 1666 tons or annual basis 20,000 tons as specified in draft decree. As purchasers must pay cash and there is a limit to sales possibilities it is hoped that after immediate demand is satisfied orders will fall off.

If Department has instructions to give, telegraph immediately as decision cannot be postponed.

BOWERS

⁸⁸ Not printed.

811.20 (D) E.D.B./1840: Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, October 10, 1942—2 p. m.

1207. Your 1609, October 2, noon. The Department and other interested agencies of this Government have been giving their most earnest consideration to the problem of determining the minimum amount of Chilean copper which can be diverted from supplies required in our war effort and still satisfy the legitimate needs of Chile and of other American republics normally supplied by Chile. The reaching of a satisfactory agreement on this point would be a demonstration of Chile's willingness to cooperate in this phase of the war effort. The Department authorizes you to discuss with the appropriate authorities of the Chilean Government a figure of 20,000 tons per annum as representing our considered judgment of requirements for Chilean internal consumption and for export principally to Argentina, Uruguay and Brazil.

In reaching this figure the necessity for a reduction in the normal civilian consumption of copper under war conditions has been balanced against the legitimate role to be played by copper fabricators in Chile and in other American republics in supplying certain articles which the United States and other non-South American suppliers are no longer able to furnish.

As you know, the United Nations desperately need every ounce of copper which can be obtained for military purposes. Consequently any unnecessary diversion of copper to civilian users directly and unfavorably affects the war effort. This Government has been seriously preoccupied with the increasingly large diversion of Chilean copper into uses which can not be termed essential, both in Chile and in Argentina as well as possibly in other countries. In considering this problem, the Department is fully aware of the price situation and of the further fact that it is reasonable to suppose that there has been some hoarding of copper for speculating purposes.

At the same time that you approach Chilean authorities on this matter of a specific amount of copper for the purpose mentioned, you should indicate that in the event those authorities believe an agreement is possible, this Government will be disposed to assign a representative or representatives (probably Graham of Metals Reserve) to discuss details such as allocations to companies and to markets with the appropriate Chilean authorities. The Department recognizes of course that these are matters within the exclusive jurisdiction of the Chilean Government but believes that, once the Chilean

Government has indicated its willingness to cooperate, the necessary details can only be worked out through joint conversations.

This matter is regarded as one of the utmost importance.

WELLES

832.24/1131 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, October 12, 1942—11 p. m.

1221. Your 1637, October 6.⁹⁰ Department is presently engaged in working out methods to make the copper available to Brazil. Our information is to the effect that Brazil still has adequate stocks and that Lend-Lease is shipping War Ministry over 5 million pounds last quarter of this year. Consequently the urgent pressure of the Brazilian War Ministry to obtain copper in Chile does not seem warranted. If the Department is able to have the copper released to Merry del Val Company, it should not be considered a precedent in as much as the Department does not approve of such copper transactions except directly between manufacturers and consumers. Moreover, in the future, Chile should supply Brazil's needs in accordance with procedures outlined in Department's telegram no. 1207, October 10, 2 p. m.

WELLES

832.24/1145 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, October 13, 1942—6 p. m.

[Received 10:10 p. m.]

1698. Confirming my conversation this afternoon with Duggan.⁹¹ Your telegram 1221, October 12, 2 [11] p. m.

Instructions came from Ministry of War Brazil for purchase through Merry del Val Company and conveyed to me by Brazilian Ambassador. In your telegram No. 1121, September 25, 8 p. m. you said Metals Reserve had agreed to instruct Anaconda to sell amount asked, and I so informed the Ambassador. Your No. 1221 puts me in a most embarrassing position since my relations with Brazilian Ambassador are very close and constant and it happens that Merry del Val is his son-in-law. I feel strongly that it will be a serious mistake to ignore your No. 1121 at this stage and result in resentment of Ambassador with whom it is of the utmost importance that I

⁹⁰ Not printed.

⁹¹ Laurence Duggan, Adviser on Political Relations.

maintain the closest and friendliest relations. There seems no doubt that the order is genuine and from Brazil's Ministry of War. Whatever may result in the future urge that this one order be put through.

BOWERS

102.73/2956 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, October 22, 1942—10 p. m.

[Received October 23—1:42 a. m.]

1798. For Brandes¹ Plant Industry from Bartlett.² Have been asked to remain here few days longer than planned. Representing Chilean Ministry Agriculture Señor Manuel Elgueta requests formal agreement guaranteeing market for such guayule and kok-saghyz rubber as may be produced in Chile. I beg to submit the following suggestion as basis for possible negotiation providing it would be in line with policies of our Government; the United States Government agrees for period of 10 years from November 1, 1942 to exchange ton for ton best grade of butadiene synthetic rubber for high grade but no deresined natural rubber produced in Chile from guayule or kok-saghyz on the basis of actual rubber content up to limit of Chile's requirement of synthetic rubber for fabrication in Chile, and likewise agrees during said period of 10 years to purchase entire excess Chilean guayule and kok-saghyz rubber above amount required for fabrication in Chile at price then current in the United States for such rubber or at price then current in the United States for butadiene synthetic rubber, whichever may be most advantageous to Chile. I would appreciate receiving your views in this matter prior to my departure for Argentina. [Bartlett.]

BOWERS

811.20 (D) E.D.B./1885 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, October 28, 1942—8 p. m.

1296. Your 1663, October 8, 11 p. m., and Department's 1207, October 10, 2 p. m. In connection with your discussions, it may be helpful to be prepared to submit a concrete program for allocation of the total tonnage agreed upon. You are authorized to agree that a total of 20,000 short tons of copper, brass, and bronze per annum, produced in Chile be allocated to supply Chile's internal consumption

¹ E. W. Brandes, rubber expert of the Bureau of Plant Industry, Department of Agriculture.

² H. H. Bartlett, specialist of the Department of Agriculture on guayule.

requirements as well as exports. Allocations of the portion this tonnage for export shall be based upon the average importation into the other American Republics from all sources of copper, brass, and bronze during the three-year period ending 1939. For each of the other American republics in percentages of the total such imports were as follows:³

<i>Country</i>	<i>Percentage</i>
Argentina	28.03
Bolivia . . . . .	.56
Brazil	31.39
Chile	4.26
Colombia	5.38
Costa Rica . . . . .	.78
Cuba	4.48
Dominican Republic . . . . .	.35
Ecuador . . . . .	.45
Guatemala . . . . .	.45
Haiti . . . . .	.22
Honduras . . . . .	.22
Mexico	7.51
Nicaragua . . . . .	.22
Panama, Republic of . . . . .	.78
Paraguay . . . . .	.22
Peru	3.25
El Salvador . . . . .	.45
Venezuela	5.16
	100.

It may be understood, however, that variations from these percentages may be considered on the merit of each application if circumstances warrant. In carrying out this program the following specific agreements are highly desirable:

1. That to prevent duplication of shipments, it is necessary that the Department should be informed in advance of all exports of copper, brass, and bronze from Chile with name of buyer and consignee, amount, and description of each shipment.

2. That to prevent critical material from going into unnecessary inventories or speculator stocks, buyers be limited to fabricators or manufacturers.

3. That preferred consideration will be given to United Nations' military requirements.

4. That unused allocation in any quarter shall lapse, not to be cumulative.

5. That Chile supply only the essential needs of the other American republics out of the proposed 20,000 ton allocation.

6. That tonnage agreed upon shall become effective for the first quarter of 1943 and shall be reviewed in January 1943 for continuation or revision for second quarter, 1943.

³ For instruction to add Uruguay to this list, see Department's telegram No. 1325, November 5, 7 p. m., p. 74.

Please inform the Department whether Chile needs additional copper, brass, or bronze for necessary domestic requirements now, after taking fully into consideration the necessity that Chile, as well as all of the other American republics, should eliminate all nonessential consumption of copper.

It is the earnest desire of the Department that these things be accomplished by mutual agreement. Under no circumstances are the above suggestions to be interpreted as a failure to recognize the sovereign right of the Chilean Government.

This matter is regarded as one of pressing importance. You are requested to discuss it on an urgent basis with appropriate officials of the Chilean Government and to inform the Department at the earliest practicable date of the results of your representations.

HULL

102.73/2956 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, October 31, 1942—10 p. m.

1312. Your 1798, October 22. Suggestion by Bartlett of basis for possible negotiation of rubber agreement is regarded unfavorably. Proposal does not offer substantial net increases in rubber available for war effort. In fact larger amounts would be available from Guayule plantings in other areas where there would be no obligation to deliver synthetic in exchange. This Government in general would not favor a rubber agreement at this time unless there is a likelihood of securing thereby substantial amounts of rubber which would not otherwise be available.

HULL

811.20 (D) E.D.B./1974 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 5, 1942—7 p. m.

1325. Your 1849, October 30, 1942, 11 p. m.⁴ To countries listed in Department's 1296, October 28, 8 p. m. please add 5.84 percent for Uruguay. Department feels that exports from Chile to other American republics in excess of the percentage indicated should be permitted when conditions warrant and when approved by both Chilean and United States Governments.

⁴ Not printed.

The Department feels that the percentage basis is the fairest approach for making allocations in order that all the republics may be treated in a similar manner.

HULL

811.20 Defense (M) Chile/307

The Ambassador in Chile (Bowers) to the Secretary of State

No. 4857

SANTIAGO, November 5, 1942.

[Received November 13.]

SIR: I have the honor to refer to Department's mimeographed instruction of October 9 [19] (File No. 811.20 Defense (M)/9746A)⁵ expressing the desire that there be reported promptly by telegraph for the information of the United States Commercial Company data concerning raw materials being purchased or believed susceptible of purchase by enemy countries, as well as shipments going to neutral and non-belligerent countries believed ultimately destined to enemy countries.

So far as pre-emptive buying is concerned, the principal group of products which would be of interest to enemy countries, namely metals and minerals, appears already to be adequately covered by existing contracts, notably the contract concluded by the Metals Reserve Company. As for other products, there are few except wool, hemp and limited quantities of hides and skins which Chile is in position to export, and the Embassy has no reason to believe that purchases of these commodities have been made by enemy agents or that shipments have been reaching enemy countries, either directly or indirectly.

The only possible exception to what has just been said is in the case of copper which, as the Department knows, has been going in considerable quantities to Argentina and in some instances is known to have reached firms in that country which are included in the Proclaimed List. Whether or not any of this copper has subsequently been reexported from Argentina to destinations from which it might eventually reach the enemy is, of course, a matter for the Buenos Aires Embassy to determine.

This Embassy will continue to be on the alert with respect to the activity of enemy agents and of cloaks for the latter and will investigate carefully all transactions which appear to be in any way questionable.

So far as shipments from Chile to countries outside the Western Hemisphere are concerned, such information as is obtainable locally

⁵ Not printed.

is being reported regularly and in the Embassy airgram No. A-314, October 31, 2 p. m.,⁶ it was pointed out that the British Embassy transmits immediately to London full information regarding all shipments from Chile to Europe in connection with the navicerts system and that data regarding such shipments not only from Chile but from all other Latin American countries should be readily available at the British Ministry of Economic Warfare.

Respectfully yours,

CLAUDE G. BOWERS

811.20 (D) E.D.B./1974: Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 6, 1942—8 p. m.

1334. The Department's 1296, October 28, 8 p. m. and your 1849, October 30, 11 p. m.⁷ A meeting was held in the Department on November 4 with the participation of Horace Graham to discuss the Chilean copper export and internal consumption problem. The Department does not desire to present to the Chilean Government any formula which might offend their sensibilities or lead them to believe that we are endeavoring to encroach on their rights by spelling out to the last detail what we feel it is desirable in the interest of hemispheric security to achieve. Although it is considered essential that copper availabilities be conserved to the optimum degree possible and as a corollary to this that shipments not be made to countries where sufficient stocks already exist (such as Argentina, where 8,000 tons are apparently now in the hands of speculators) or where the supplies would be dissipated, some plan of distribution must necessarily be incidental to any orderly treatment of the problem. Consequently, please consider the percentage figures given in the Department's 1296 not as final and binding but rather as informative and as couched to form the basis of discussion for the achievement of a formula which would be mutually acceptable.

In Graham's estimation (and the Department agrees with him), the 20,000 short ton figure is an eminently fair and just one and one which the Chileans should be willing to accept. Consequently, unless you perceive controlling reasons to the contrary, it is preferred that you adhere to this over-all figure. Nevertheless, the Department would be willing to go along with reasonable adjustments in the breakdown percentage figures.

The Department wishes to make it clear that the 20,000 short ton figure is not considered to be the amount which will supply all South

⁶ Not printed.

⁷ Latter not printed.

American needs, but rather simply the amount which Chile would contribute toward the satisfaction of those requirements, including Chilean requirements.

It is thought that, if the Chilean Government would agree to a formula which would in general approximate that given in the Department's 1296, our ends could be satisfactorily achieved. However, it is essential that we know in advance what shipments are anticipated and to what countries in order that adjustments may be made on shipments from this country. Consequently, it is hoped that you will be able to convince your Chilean friends that the Embassy should be informed when shipments are contemplated in order that you may inform the Department. Please explain to the Chileans that we quite understand that we have no right to demand that such reports be made but that we would consider it a friendly and cooperative gesture in keeping with Chile's expressed desires to render all possible assistance in continental solidarity and security.

The Department wishes to make it clear that this telegram and previous telegrams on this subject are intended as suggestions looking to the achievement of the ends we seek and not as final proposals which preclude deviation. Our desire is to (1) limit Chilean internal consumption and exports to 20,000 short tons; (2) provide a workable export control; and (3) provide this Government with sufficient advance notice of shipments. If you are able to evolve with the Chilean authorities an alternate formula along these lines, and provided the one already suggested is not acceptable, please inform the Department.

HULL

832.24/1145 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 7, 1942—5 p. m.

1338. Your 1698, October 13, 6 p. m. War Production Board and Metals Reserve have agreed to the release of 2,621 short tons of copper to Brazilian War Arsenals through the Merry del Val Company, but formal release is delayed pending receipt of an agreed delivery schedule. Please consult Merry del Val and Anaconda and advise whether following suggested schedule is feasible and satisfactory: 621 in November; 1000 in December; 1000 in January; all short tons. As War Production Board is particularly desirous that shipment be spread over three or more months, it is hoped Merry del Val will have no objection.

Please telegraph reply.

HULL

811.20 Defense (M) Chile/284 : Airgram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 9, 1942—8: 15 p. m.

A-259. Your A-206, October 3.⁸ Department is in receipt of a letter dated November 6 from the Board of Economic Warfare giving the following list of commodities available in Chile that the United States Government is interested in purchasing:

Copper	Antimony
Manganese Ore	Cobalt
Mercury	Gold
Molybdenum	Lead
Sheepskin Shearlings	Tungsten
Nitrate of Soda	Zinc

The Board of Economic Warfare states that any exporter desiring to offer the above materials to the United States should contact Mr. Horace Graham, addressing communications to him in the care of your Embassy.

HULL

811.20 (D) E.D.B./2188 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, December 17, 1942—10 p. m.

[Received December 18—4: 50 a. m.]

2197. Copper Negotiations. Department's 1334, November 6, 8 p. m. and reference messages. British "replacing MacLean departed".⁹ Graham, Cotter and May¹⁰ conferred with Minister of Economy and Commerce¹¹ and his Under Secretary and assistants today on a draft presidential decree. Chileans were unwilling apparently to limit 1943 local manufactures for domestic consumption and export to 1,500 metric tons monthly although figure over double 1942 consumption. They were unwilling to state in decree the prerequisite requirement that exporters indicate ultimate consumer "because of internal political reasons" but Minister agreed to institute such requirement and so inform the Embassy by letter. Other desired export data included in decree. In general, decree seems acceptable. Percentages in Department's 1296, October 28, 8 p. m. have been dropped from discussion but might be revived if Department desires. Further discussions will be held.

⁸ Not printed; this airgram was a request for a list of products which the United States was interested in purchasing.

⁹ This part of sentence is apparently garbled.

¹⁰ Cotter and May were representatives of the Chile Exploration Company.

¹¹ Gen. Froilan Arriagada Herrera.

It developed that Argentine Ambassador has recently requested 1,500 tons of electrolytic copper for essential Argentine Army uses. We pointed out large stocks in Argentina. Chile will probably reply agreeing to supply manufactured copper. It seems apparent that Chile hopes for a considerable extension of export business now so favorable to manufactures here because of price differentials and that is the real reason behind desire not to state limit of 1,500 metric tons monthly, which they probably hope to exceed as the year advances.

Repeated to Buenos Aires by air mail.

BOWERS

CONTROL OF EXPORTS FROM THE UNITED STATES TO CHILE

825.24/303 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 30, 1942—5 p. m.

[Received 10:20 p. m.]

183. Department's 85, January 22.¹² In view of the lack of any Chilean agency enjoying either the necessary authority or qualifications, and particularly in view of the unsatisfactory results obtained by the Embassy's own strenuous efforts over a period of months, I am convinced that the advance detailed information requested cannot be supplied in time to be of value. The National Supplies Board states that it would require at least 6 months to detail consignees, quantities and uses of allocated commodities and I strongly question whether even then complete data would be available. It took the Tin Rationing Commission 7 months to compile the data submitted. Embassy's partial compilation of legitimate importers and users of only three primary iron and steel products includes 230 names in Santiago, Valparaiso area alone. It is manifestly impossible to telegraph such extensive data.

Some more practical plan must be adopted for Chile and I definitely feel that the most effective method of exercising adequate control of distribution and restricted use will be through the Certificate of Necessity covered by the Department's memorandum of January 14.¹³ The allocations made to date are sufficiently low to prevent diversion of materials to nonessential uses. The problem is to keep essential industries going.

The following plan discussed by Minister of Commerce¹⁴ and the National Supplies Board with the Embassy would accomplish the

¹² Not printed; this instruction concerned allocations of commodities, and requested names of consignees.

¹³ Not found in Department files.

¹⁴ Arturo Riveros Alcaide.

desired result: as soon as possible after the election of February 1 the Government would create rationing commissions—starting with iron and steel, rubber and chemicals—with full power phase of distribution of all allocated commodities. A representative of importers, an American citizen where available, would be on each commission to keep Embassy in constant touch. Importers would apply to appropriate commission which if it approved would recommend that the National Supplies issue Certificate of Necessity. Board would consult with Embassy prior to issuance of any certificate. The first certificates would cover orders already pending in the United States for which Exchange Control Board during the past months has authorized opening of letters of credit. Later, if administrative difficulties arise owing to the large number of individual importers, it may be necessary to consider temporarily canalizing trade in the hands of a limited number of selected firms.

The Minister of Commerce has emphasized to the Embassy that he hopes at the beginning the authorities in Washington will allow some flexibility as regards the certificates and will accept them even if not complete in all details. Eventually the projected rationing commissions will be able to answer fully all the questions on each certificate but at first this will be difficult owing to lack of organization. The Minister assures the Embassy that the rationing commissions will restrict the use of scarce materials to the essential needs of the national economy; in any event the Embassy will review all certificates before issuance and our objection will automatically suspend action.

The Chilean Government is sufficiently concerned over the shortage of materials so that we can feel certain of absolute cooperation.

I recommend strongly that our authorities: (1), waive the pre-information requested in telegraphic instruction No. 85 as regards allocated commodities, (2), approve the system of rationing commissions acting under constant and close Embassy supervision which is outlined above, and (3), accept as valid Certificates of Necessity issued during the first quarter of 1942 even though during the organization period of the rationing commissions they may not be complete in every detail.

This recommendation is made after a particularly careful study of the problem from every angle and numerous lengthy discussion the Chilean authorities. Unless some such simplified and accelerated procedure is approved promptly we may precipitate an economic and political mess in this strategically important country.

Cable reply urgently.¹⁵

BOWERS

¹⁵ Telegraphic instruction not sent. See Department's instruction No. 1307, April 10, p. 82.

825.27/387 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, March 14, 1942.

[Received March 14—9:25 p. m.]

415. Misunderstanding apparently occurred regarding plan outlined Embassy's telegram number 183 January 30, 5 p. m. for controlling distribution allocated commodities through Certificates Necessity. Minister Commerce and National Supplies Board now state they did not intend that rationing committees should decide distribution before issuance of certificates but only upon arrival goods. They point out that allocations are below Chile's need, that regardless of certificates committees will have power to impose whatever distribution seems necessary when shipments arrive and that compliance with policies laid down by United States will be assured since no decisions will be made without concurrence committee member approved by Embassy. Rationing committees will not be set up before new administration takes office April 2d and some time will elapse before they really function. Meanwhile supplies are urgently needed especially of iron and steel.

Minister Commerce asks approval following procedure regarding iron and steel allocations which he insists is only practical method of getting shipments moving promptly. The balance of the allotment for each iron and steel group after deducting the quantities for which certificates have already been issued would be divided between the few principal importers, the railroads and Fomento Corporation to whom certificates would of necessity be issued stipulating that final distribution shall be made by rationing committee. These firms would obligate themselves to make delivery only to approved consumers for essential uses as instructed by committee which would also fix prices. Some certificates have already been issued to Fomento on that basis. Although Minister's proposal now covers only iron and steel, it must be presumed that if accepted it will be extended to other commodities for which rationing commissions are created.

Obviously the procedure differs widely from ideas of American control authorities. However since iron and steel must arrive soon if unemployment is to be avoided and experience has clearly demonstrated inability Chilean Government to act promptly, it is recommended that Minister's proposal be agreed to for first half of 1942 which would give rationing committees time to organize and gather necessary data. But Government should be officially informed that for second half year United States will not clear shipments allocated commodities unless ultimate consumer and use are shown in Certificates of Necessity. It is to be remembered that this is an interim government and until the new government takes office on April

2d efficient handling of this problem can hardly be expected. Please instruct urgently by cable.¹⁶

National Supplies Board requests telegraphic information specifying types iron and steel products covered by first quarter allocation; whether needs of copper, iron and nitrate companies and of railways particularly track materials, wheels and axles are included; and quantities cleared without certificates.

BOWERS

825.24/448a

The Secretary of State to the Ambassador in Chile (Bowers)

No. 1307

WASHINGTON, April 10, 1942.

SIR: There is enclosed a list of the commodities allocated to Chile¹⁷ for the second quarter of 1942. Iron and steel products, and some other additional items, will be announced shortly.

The allocations, as shown, are based largely on the recommendations of your Mission; and in this connection the Department wishes to express to you and your staff its great appreciation of the reports on essential requirements which have been submitted by your office. It is hoped that the reporting officers will continue to spare no effort to supply the Department with this vitally important information. A questionnaire is being prepared for your guidance in collecting and analyzing the type of information of most value to the agencies in Washington.

The Department is aware that our Missions have been handicapped by lack of information as to the exact procedure followed in the War Production Board and the Office of Export Control with regard to allocations and the licensing for export of allocated commodities. The following is designed to explain the background of the allocations system and to give the Missions a picture of the situation as it exists today.

Last January it was necessary to announce allocations before the machinery to administer them was set up. Following their announcement, the War Production Board began trying to fit allocations into production schedules. This proved to be so complicated, in view of the rapid conversion of industries to war production, that in effect there was no fixed allocations procedure during the first quarter of the year. The War Production Board, conscious of the necessity of

¹⁶ In telegram No. 541, April 7, the Embassy indicated its embarrassment that no reply had been received. In reply, the Department, in telegram No. 415, April 14, referred to its instruction No. 1307, April 10, *infra*, as its answer. (800.6363/588)

¹⁷ Not printed.

providing for the other American republics, proceeded on the basis of priority ratings, and it is gratifying to record that very substantial quantities of exports moved forward during a most difficult period.

During the first quarter, at the suggestion of this Government, the other American republics set up Certifying Agencies, most of which are now functioning. It has developed rather logically that in many countries the Certificates have become corollary to systems organized to supervise or control the equitable distribution and the price of the commodities upon arrival. Thus, as is evident from despatches received by the Department, the foreign governments are concerned as to the treatment accorded the Certificates by the Office of Export Control.

In the first quarter the Office of Export Control approved thousands of applications with and without accompanying Certificates of Necessity. The flow of production and export is a continuous process and could not be held up pending receipt of Certificates. The latter are only now beginning to arrive in substantial numbers. Many of the commodities so licensed have been shipped, others are at seaboard awaiting bottoms, while others are still awaiting their turn for manufacture. Statistics are in preparation to show how much of each allocated commodity was licensed or shipped to each country during the first quarter of 1942.

The large number of outstanding licenses not covered by Certificates presents a most complicated problem particularly in the matter of coordinating these licenses with the efforts of the Certifying Agencies and control systems in the other American republics. Attempt to recall or invalidate all outstanding licenses not covered by Certificates might result in interruption to the flow of manufacture and export. There must be a transition period during which, concurrent with the approval of licenses covered by certificates, the non-certified outstanding licenses can be worked off. The extent of this transition period cannot be determined at this time, but it may extend as long as through the second quarter, or until September 1, 1942.

These problems, and the questions they involve, have actively concerned the several interested agencies of the Government for several months; and the Department, the War Production Board, and the Board of Economic Warfare are still trying to work out a practicable allocations and licensing procedure for the second and subsequent quarters of the year. The successful merging of the existing unsatisfactory procedure and a new improved procedure constitutes an administrative problem of the first magnitude; the readjustment must be made while administrative processes carry on.

The Department is pleased to be able to inform you that the production phase of the allocations system is being worked out rapidly

and satisfactorily by the War Production Board. An announcement will shortly be made of a procedure which will (1) require manufacturers of an allocated commodity to reserve a definite portion of their production facilities to accommodate foreign orders within the overall total of the allocation for the industry; (2) require manufacturers to accept foreign orders that have been licensed for export; and (3) help the agents in the United States of foreign customers to find a manufacturer in the event difficulty is experienced in placing the order. Owing to the complexity of modern industrial organization, the implementing of orders issued by the War Production Board may be slightly different as regards different commodities, and announcements will be made in the near future with respect to fixed booking dates, etc., for orders to fit into production schedules for certain forward periods.

As for the licensing procedure, and the relation of the Certificate of Necessity thereto, the administrative problem is especially difficult. It is nevertheless hoped that an announcement will soon be made of a procedure which will provide the following: (1) During the transition period of working off the outstanding un-certified licenses, and in order to give certain of the other American republics more time to organize their Certifying Agencies, the Office of Export Control will give definite preference to those license applications covered by Certificates; (2) After a certain date the Office of Export Control will approve only those new applications for license to export which are covered by Certificates of Necessity (Confidential: this is the position being urged by the Department but there is no definite assurance as yet that the Board of Economic Warfare will agree). Thus it is hoped that during the third quarter and thereafter there will be a close coordination between the issuance of licenses and the issuance of Certificates of Necessity so as to enable the other governments to plan effectively the most advantageous distribution of scarce commodities within their economic systems.

With regard to other aspects of the allocations and licensing system the Department desires to give the following information in answer to specific questions presented by the Missions:

1. The Certificate of Necessity is to be used only for allocated commodities. However, the Board of Economic Warfare has by *Current Controls Bulletin* No. 10 of March 5, 1942, authorized its use in connection with rubber and rubber products. To date this is the only exception authorized. Use may be authorized in connection with other very tight unallocated commodities, but only when specific instructions, as in the case of rubber, have been issued. In the latter case, instances of which will be very few, the Certifying Agencies should issue certificates with the greatest care and only for essential

purposes. Such certificates will be considered in relation to the limitation orders affecting identical use in the United States.

2. The Certificate of Necessity will serve in lieu of a PD-1A form with regard to an allocated commodity. In this connection, however, the Certificate should contain full answers to the questions thereon, particularly as regards the end use of the commodity, existing inventories, and availability of substitutes. It is recognized that the Certifying Agencies in some of the other republics are still in process of organization and that all are not yet fully equipped to make the detailed investigations necessary to determine end use of allocated commodities for presentation on the Certificate form. Nevertheless, if such agencies, or any other agencies within the foreign governments, are to supervise the distribution of commodities after arrival they will eventually need to know such details. Thus the Missions are urged to encourage the agencies to persist in obtaining and recording such information, not only to comply with our requirements but also for their own future control purposes.

There are certain vitally important questions regarding allocations procedure which cannot be answered at this time. The first is whether the unused portion of a quarterly allocation will carry forward into subsequent quarters of the year. The problem is so involved that the Requirements Committee has not yet been able to work out a solution. The heavy industries of the United States are working against a strict forward time-table to satisfy the demands of the armed forces of the United Nations, and to attempt to telescope the unused portion of a quarterly allocation into production schedules for following quarters presents serious technical difficulties.

The second concerns the determination of what outstanding licenses shall be charged against first quarter allocations. For example, in many cases commodities licensed prior to January 1, 1942 are only now moving forward, while at the same time there are outstanding thousands of first quarter licenses for commodities that have moved forward only in part, and some not at all. The administrative problem of determining the exact status of the commodities that have been licensed, and checking them against factory production schedules and export shipments, is an extremely complicated one. However, the whole problem is receiving urgent attention and it is hoped that solution will soon be arrived at.

During the transitional period the Department appreciates that the position of the Missions in this matter will be a difficult one. However, the Missions should continue to cooperate as fully as possible with the Certifying Agencies and encourage the careful issuance of the Certificates, endeavoring to see that there is no cloaking, and that established trade channels, and in particular American firms, receive a proportionately fair share of the trade based on past performance.

The Department believes it inevitable that as the issuance of Certificates progresses the responsibility of the Missions will increase. It is understood that practically all of the Missions have made informal arrangements with the Certifying Agencies to receive a copy of each Certificate as issued. Needless to say, should the Mission feel that any Certificate issued is not in the best interest of the United States, the Certifying Agency should be approached tactfully with a view to rectification. If the case is judged sufficiently serious to warrant intervention, as a last resort, the Mission can effectively nullify the Certificate by advising the Department in the premises.

There is evident a tendency in the other American republics to adopt forms of economic control that are perhaps more comprehensive than the situation warrants. The Department realizes, of course, the sovereign right of the other American republics to institute such controls as they deem necessary to maintain order in their economic systems. In this connection, the Missions should lend their friendly and informal counsel to prevent, if possible, the establishment of controls which appear unnecessarily extensive or impractical. The Missions should be prompt in reporting controls which adversely affect the treaty rights of the United States and its citizens abroad.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

825.24/473 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, May 18, 1942—2 p. m.
[Received 8:50 p. m.]

756. *El Mercurio* May 16, published full details of letter addressed by Pedregal¹⁸ as press [*president*] of the Chilean Inter-American Development Committee to Nelson Rockefeller¹⁹ pointing out that in accordance with the American program for the economic development of the continent the Chilean Committee has submitted many carefully thought out proposals but until now not only has no concrete offer of aid been forthcoming from the United States but it has been impossible even to obtain export clearance for raw materials and equipment such as iron and steel, electrical iron and steel, electrical machinery and agricultural implements which are indispensable for

¹⁸ Guillermo del Pedregal relinquished his post as Minister of Finance in February 1942 but continued to afford financial advice as the representative of this Committee and of the Chilean Development Corporation.

¹⁹ President of the Inter-American Development Commission and Coordinator of Inter-American Affairs.

Chile's normal economic [apparent omission]. Special reference is made to the denial of export licenses for the machinery for the tire factory in which General Tire is interested. Pedregal asks Rockefeller's personal intervention to obtain favorable action by the United States authorities and his specific advice regarding the cooperation which Chile can expect from the Rockefeller organization. He writes as though there had been no change in conditions since the Inter-American Committee was created and makes no reference whatever to the fact that the United States is now engaged in a war of survival.

A copy of the letter in question has been obtained and the full text will be forwarded by next air mail.²⁰

It is dated May 12 and was given to the press without consulting the Embassy. Not only is that another instance of an attempt through misleading publicity to make it more difficult for our Government to refuse Chile's requests but in my opinion the matter is one which should have been taken up officially by the Chilean Government and not by the head of a semi-governmental institution direct with an official of our Government in Washington without the knowledge of either the Embassy or the Department. At any rate publicity should not have been given Pedregal's letter without the Embassy's knowledge.

Rockefeller's reply should of course be prepared in consultation with the Department and be transmitted through this Embassy. In this reply advantage should be taken of the opportunity to emphasize the true facts of our position which Pedregal deliberately ignored and the text should be given to United Press and Associated Press.

BOWERS

825.24/448

The Secretary of State to the Ambassador in Chile (Bowers)

No. 1503

WASHINGTON, May 25, 1942.

The Secretary of State refers to the Embassy's interesting despatch of April 27, 1942²¹ concerning the procedure being established in Chile with regard to the problem of allocated commodities and the issuance of certificates of necessity, and is gratified to note the apparent satisfactory degree of cooperation existing between the mission and the control agencies of the Chilean Government.

²⁰ Copy transmitted to the Department by the Ambassador in Chile in despatch No. 3370, May 20 (not printed).

²¹ Despatch No. 3124, not printed.

With regard to the several questions raised by the Embassy, the Department regrets that it can only answer in part. The fact is that the production and control agencies in Washington are still in the throes of evolving a procedure which, it is hoped, can be broad in principle but yet flexible enough to take care of the infinite number of special problems, many of which are of an emergency nature related to the war. It can be stated at this time that broad procedural policies have finally developed to the point where, within a short time, the Department hopes to be able to summarize the procedure in an informative instruction which will bring the missions up to date with the current stage of development.

In specific reply to certain questions (paragraphs 3 and 4 on pages 3 and 4 of the despatch under reference) the Embassy is informed that plans are now developing to separate the iron and steel requirements of certain large mining industries producing for the war effort and it is probable that future announcements of quarterly allocations of iron and steel requirements will show the country's estimated requirements apart from the requirements of such industries. As for the breakdown of the iron and steel allocations into types of material, the Embassy will recognize that this was done in the second quarter allocations.

The Office of Export²² is now following a general policy of recognizing all applications covered by certificates of necessity provided, of course, that (1) there is no evidence of cloaking, (2) the amounts requested are reasonable and within the allocation, (3) discrimination is not apparent, and (4) the use stated is clearly shown and is permissible under limitation orders in the United States. If administratively possible (the Office of Exports is handling 8,000 applications per day) it is hoped eventually to give specific reasons in each case where a certificate of necessity is rejected.

The Embassy will also appreciate that the shipping situation has become so difficult that it is seriously affecting the whole export problem, including allocated commodities.²³ The congestion at ports and railway terminals of goods awaiting ocean bottoms has reached the point where it is necessary to reject export licenses for all but goods of the most essential nature. While Chile is perhaps in a more favored position than others of the republics as regards shipping, the problem is only relatively less grave.

²² Of the Board of Economic Warfare.

²³ For correspondence on the shipping problem, see pp. 95 ff.

825.24/473

The Secretary of State to the Ambassador in Chile (Bowers)

No. 1573

WASHINGTON, June 5, 1942.

The Secretary of State refers to the Ambassador's telegram no. 756 dated 2 p. m., May 18, 1942, regarding a letter dated May 12, addressed by the President of the Chilean Inter-American Development Committee to Mr. Nelson Rockefeller as President of the Inter-American Development Commission concerning difficulties in carrying out the program for the economic development of Chile, which was published in the Chilean press.

While the reply by Mr. Rockefeller, in his capacity as President of the Commission referred to, will be made the subject of a separate instruction, it may be pointed out that export statistics for the first quarter of 1942 show that the United States has shipped to Chile goods valued at \$12,511,990 as compared with shipments during the first quarter of 1941 totalling \$10,666,747. As indicated by these statistics, the United States has taken extraordinary measures to cooperate with Chile by providing essential materials to prevent deterioration of the Chilean national economy, despite the fact that this cooperation has necessitated the diversion of important quantities of both labor and materials which could otherwise have been utilized in the war effort of the United States and its co-belligerents.

The Ambassador is authorized to use this information in any way that he may consider appropriate. These statistics are being made available to the press.

825.24/519 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, June 19, 1942—6 p. m.

[Received 11 : 15 p. m.]

1007. Department's instructions mimeographed March [May] 15²⁴ and 1522, May 27.²⁵ To assist Embassy in preparation of new requirements studies Junta²⁶ has given notice it will issue Certificates Necessity for 1943 only to firms reporting their needs before specified date. Local officials large mining companies unwilling submit such reports to Junta claiming latter should have no jurisdiction over their orders

²⁴ No. 1449, not printed; it requested a review of a list of exporters as to their desirability (740.00112A European War, 1939/11507i).

²⁵ Not printed; it enclosed a questionnaire sent as a guide in the preparation of reports on iron and steel requirements (810.20 Defense/2682a).

²⁶ The Junta Nacional de Abastecimiento was an official body that drew up regulations governing the distribution and consumption of raw and manufactured goods.

which are being cleared by their New York offices without certificates. Although they would prepare estimates for Embassy they insist more complete and accurate data available in the United States.

I see no practical advantage in having Junta certify requirements Anaconda, Braden, Bethlehem, Cía. Sud Americana de Explosivos and nitrate companies which relate directly to our war effort.

On the other hand if Junta should be called upon to issue such certificates these companies would have to supply it full detail regarding their consumption, stocks and orders which might create bad feeling by emphasizing preferential treatment accorded American controlled industries producing strategic materials compared to other Chilean industries and possibly create serious difficulties. I, therefore, recommend that everything relating to supplies for the large mining companies including estimates, requirements and clearance orders be handled direct with their New York offices entirely apart from the allocations system. A precedent for such special handling will do no harm in the case of petroleum products.

Telegraph urgently whether this can be arranged.

BOWERS

825.24/519 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, June 29, 1942—8 p. m.

744. Your 1007, June 19. The problem you present has arisen in other countries where vital mines are operating. Recognizing the viewpoint you express, the Office of Exports has not required and is not requiring Certificates of Necessity for export applications for materials going to mines enjoying mine serial preference ratings.

The Projects Division of the Board of Economic Warfare is attempting to obtain and break down the requirements of the strategic mining companies as apart from other industrial requirements for other allocated commodities. Such a separation cannot be accomplished before the fourth quarter at which time it is contemplated that the quarterly allocations announced will be net allocations available to the industries in Chile distinct from the requirements of the mining companies.

For the first, second and third quarters, however, all shipments of allocated commodities to the mining companies are charged off to the allocations which were announced for those quarters. This charge off will obviously not be satisfactory to the Junta but the production situation here makes it necessary. In explanation to the Junta please

inform it that the agencies are cognizant of the problem involved and that it is hoped a solution will be worked out for the fourth and subsequent quarters.

HULL

825.24/573

The Ambassador in Chile (Bowers) to the Secretary of State

No. 4033

SANTIAGO, July 30, 1942.

[Received August 7.]

SIR: In continuation of my despatch No. 3909 of July 16, 1942,²⁷ I have the honor to report that Dr. Rafael Torres, Legal Adviser of the Chilean Ministry of Commerce, has informally suggested that it would be advisable for the Embassy to discuss with the head of the *Comisariato de Subsistencias y Precios* the possibility of forcing blacklisted firms to disgorge their hoarded stocks. Dr. Torres remarked that there were undoubtedly a number of undesirable firms, particularly in the iron and steel trade, that had large accumulations of merchandise obtained by devious methods from the United States, which were only available to consumers at excessive prices. In his opinion, iron and steel products and perhaps industrial chemicals should be declared articles of prime necessity by the *Comisariato*, and excessive stocks of these goods should be requisitioned with fair compensation to the owners, such stocks to be pooled and redistributed. Dr. Torres was also of the opinion that the Chilean Ministry of Commerce would not object to any arrangement that might be worked out to force excessive merchandise holdings of blacklisted firms into consumer channels. He added, and this is the most interesting point of all, that he personally believed steps should be taken at an early date to accomplish this objective as otherwise the United States would be fully justified in withholding certain exports to Chile on the ground that hoarded stocks in the country should be utilized before further supplies are made available. It is understood that Dr. Torres has also discussed this matter with Señor Guillermo del Pedregal, Vice President of the *Corporación de Fomento*, who expressed himself as being in substantial agreement with the view of Dr. Torres.

It is the opinion of this Embassy that the problem of hoarded stocks is most acute in iron and steel, and in industrial chemicals. The Embassy will take up this problem with the *Comisariato de Subsistencias y Precios*.

Respectfully yours,

CLAUDE G. BOWERS

²⁷ Not printed.

811.659 Automobiles/413 : Airgram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 31, 1942—5:30 p. m.

[Received September 8—11 a. m.]

A-110. Reference my airgram No. A-92, of August 25, 1942, 5:50 p. m., and my despatch No. 2475 of January 26, 1942,²⁸ which recommended that no new passenger automobiles be imported into Chile from the United States in 1942, and that truck imports should not exceed 500 units. Actual importations of passenger automobiles in January-July 1942 amounted to 817 units, of which 807 units were received from the United States and actual truck importations to 1125 units, all of which came from the United States. Consequently, in the first seven months of 1942 Chile has received enough trucks to supply its essential requirements for a period of over two years, and enough automobiles for several years essential requirements. As supply of new passenger automobiles exceeds demand, Chilean dealers are disposing of a part of surplus in the Argentine, as reported in my airgram No. A-92 of August 25, 1942, and definite information has now been received that some of these automobiles have fallen into the hands of Proclaimed Nationals.

It is urgently recommended that no further exports to Chile of passenger automobiles or trucks be permitted without previous consultation with this Embassy.

BOWERS

811.659 Automobiles/413 : Airgram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, September 23, 1942—7:35 p. m.

A-153. Your A-110, August 31. Investigation reveals that the bulk of the substantial exports of automotives you mention went forward under old export licenses granted the latter part of 1941 and which were not revoked. As of July 1, further licensing of automotives to Chile has been suspended subject to the Embassy's advise on applications presented. Furthermore, all outstanding licenses for automotives as yet not exported will be revoked and subject to re-examination.

Referring to your airgram no. A-92 of August 25, 1942,²⁹ the Department requests that you inform the appropriate Chilean officials that the re-export to Argentina of automotives licensed for consump-

²⁸ Neither printed.²⁹ Not printed.

tion in Chile is considered by the Office of Exports as an attempt to evade the conditions and responsibilities incurred by the license under the general terms of the license granted and that unless this movement ceases it may result in the offending importing dealers being cut off from any further repair parts or accessories. In discussing this matter, please point out that the stock of automobiles now in Chile must serve for an indefinite period and that no more automobiles can, or will, be licensed to Chile because there are no more available. Please also inform the Department promptly as to the names of the dealers who are selling automobiles in Chile for export to Argentina. For your strictly confidential information the Department has, as a matter of policy, secured the suspension of all exports of automobiles from the United States to Argentina since July and the action of the Chilean Government in facilitating the movement of automobiles to Argentina via Chile is embarrassing.

HULL

825.50/88 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 28, 1942—6 p. m.

[Received 9:38 p. m.]

1579. That Chile will make a strong effort to obtain economic concessions during President's visit is clearly indicated by recent intense activity of National Supply Board in preparing new estimates of country's requirements of many commodities, notably iron and steel and chemicals, for Desiderio García of Fomento Corporation, member of Presidential Party, who left for United States by air September 25. The representations made in this connection will certainly exaggerate the need and should not be accepted without confirmation by this Embassy. Economically Chile is still in a favored situation and the essentially selfish and unenlightened economic policy it has been following can hardly be overlooked.

BOWERS

811.659 Automobiles/464 : Airgram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 13, 1942—6:55 p. m.

A-279. Your despatch no. 4568 of October 1, 1942³⁰ concerning the export of American automobiles from Chile. The Department and the Office of Exports consider that the dealers who exported automo-

³⁰ Not printed.

tives to Argentina violated the provisions of the license which they received. The question as to whether they have prejudiced themselves as consignees for further shipments of parts and accessories depends on their future actions. The Department desires to have this movement to Argentina stopped, and if any further exports of automotives occur the Ambassador is requested to advise the Department promptly.

With regard to the export of automotives to Peru and Bolivia the Department and the Office of Exports wish to be advised of the nature and circumstances of each proposed shipment. Specifically, the Office of Exports has no objection to the shipments proposed to Bolivia in your despatch under reference, but is the Embassy certain that the consignees are acceptable; please cable advice on this latter point. However, the Department believes it would be helpful to call to the attention of Chilean dealers that there is no possibility of replacing from the United States such units as they may export to Peru and Bolivia.

HULL

825.24/723b

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] November 24, 1942.

The Chilean Ambassador³¹ called to see me this morning at his request in order that Señor Desiderio García, representative of the Fomento Corporation of Chile, could say goodbye to me before he left for Santiago.

Señor García stated that he had come to the United States some two months ago, arriving some two weeks before the anticipated arrival of President Ríos, in order that he might serve as a member of the President's advisory committee on economic and financial problems, which the President had hoped to discuss with the United States Government. He said that since that time he had busied himself with obtaining machinery, both new and second-hand, which the Fomento Corporation desired for Chile, and he emphasized the difficulties he had had in this regard owing to the stringent export control on machinery of this character.

I remarked that of course Chile, like all of the American Republics, including the United States, was under difficulties at the present moment in obtaining imports for civilian needs, and that I believed these difficulties were nothing compared to the economic difficulties which

³¹ Rodolfo Michels.

would afflict the American republics in the period immediately after the end of the war. I said that at the present time Chile, except for her difficulty in getting imports was in an admirable economic situation owing to the fact that every scrap of metal which she could produce and her nitrates were being sold to the United States. I said it was obvious that this type of market would not exist in the post-war period and that it was for that reason that I had been much impressed by what the President of Ecuador³² had said to me last night upon his arrival in Washington on a visit which we most cordially welcome, namely, that he believed that the intimate and understanding economic cooperation of the American Republics after the war was even more to their interest and advantage than their economic cooperation during the war, important as that might be. I said that of course the Republics which were now joined together in the war effort had established that kind of indispensable basis for future cooperation in the post-war period which would prove invaluable to all of them. I said that I regretted, of course, more deeply than Señor García could appreciate that the Government of Chile was not taking part in this great inter-American cooperative effort, since her participation would be greatly valued and would certainly be, from every standpoint, to the interests of the people of Chile.

Señor García immediately asked if I had read the statements published this morning which had been made yesterday by the President of Chile, and I replied that I had. Señor García then expressed the hope that the time would be short before Chile and the other American Republics joined in the war effort would be cooperating closer together.

**EFFORTS TO SECURE CURTAILMENT OF OIL CONSUMPTION BY CHILE
IN VIEW OF TANKER SHORTAGE; OTHER SHIPPING PROBLEMS**

800.8820/534 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 12, 1942—9 p. m.

[Received January 13—1:58 a. m.]

65. Grace Line representatives, Santiago, are advising Chilean shippers that their weekly service is temporarily interrupted and that they expect to offer space by a freight vessel from Valparaiso sometime towards the end of January, by a second freighter in the middle of February and by a passenger ship also a freighter around

³² Carlos Arroyo del Río.

the end of February. The present period is the height of the season for shipments to New York of the Chilean fresh fruit. Other shippers of produce et cetera are normally served weekly by Grace Line from Valparaiso alternating with passenger and freight vessels. It is presumed that the usual service will be resumed after March 1 although this is not confirmed. The most important part of the fruit shipments are the grapes which only begin to move at the beginning of March when presumably schedules will be resumed.

It is understood that Chilean agricultural interests are urging the Minister of Foreign Affairs³³ to make a protest to the Embassy which would appreciate receiving any comment on the matter the Department believes useful.

BOWERS

800.8820/534 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, January 22, 1942—6 p. m.

81. Your 65, January 12, 9 p. m. It is the Department's understanding that the facts concerning the Grace Line Service contained in the telegram under reference are substantially correct. This interruption to the service has been brought about chiefly because of the necessity for removing vessels from service temporarily for the purpose of installing arms and degaussing equipment. It is understood that some Maritime Commission vessels have been diverted to this trade, principally to load copper. Unless further withdrawals of tonnage become necessary, it is expected that Grace Line Service should be back on a regular basis by March 1. Within the last few days, however, the Grace Line vessel *Santa Elisa*, which was southbound to the West Coast of South America, was damaged extensively in a collision and probably will not be available for service for some time.

HULL

800.8830/1409a : Telegram

*The Acting Secretary of State to the Ambassador in Chile (Bowers)*³⁴

WASHINGTON, March 4, 1942—10 p. m.

250. The Department has been notified by the War Shipping Administration that war needs have made necessary the withdrawal of

³³ Juan B. Rossetti.

³⁴ The same telegram was sent to the Embassies in Argentina, Brazil, Colombia, Peru, Uruguay, and Venezuela, and to the Legation in Ecuador.

all United States passenger vessels serving South America from New York. It will, of course, be impossible to replace those withdrawn previously. The Department is aware of the hardships which this step will cause to the country to which you are accredited but it is confident that these will be willingly accepted in view of the tremendous importance of these vessels in the war effort. The War Shipping Administration and the Department both realize the desirability of re-establishing passenger service and will seek to do so as soon as the military situation permits. Please inform seaport consulates.

WELLES

800.6363/565 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, March 23, 1942—6 p. m.

[Received 9 : 35 p. m.]

463. We are advised that first grade motor gasoline stocks in Chile will be exhausted April 1 and total motor gasoline stock April 15. Latin American supply committee New York has postponed earliest tanker loading Talara until April 1 to arrive Chile April 10 thus leaving no margin of safety. Unless loading date advanced the Chilean Government pool committee will recommend to Government that it introduce rationing effective March 26 and stop all movement of private automobiles in an effort to bridge over supplies. The Government presently engaged in establishing definite rationing scheme which it is judged cannot become effective until May 1. Please inform whether there is any possible way to get a tanker for earlier loading than April 1 and in the event this is impossible shall I reinforce the recommendation of the Chilean pool committee to the Government.

Reference my 456, March 21, 2 p. m.³⁵

BOWERS

800.6363/571 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, March 27, 1942—1 p. m.

347. Your 480, March 25.³⁵ The curtailment of petroleum deliveries outlined in Department's circular telegram 24³⁶ should apply to the

³⁵ Not printed.

³⁶ Not printed; it suggested the advisability of reducing consumption by at least 15% on the basis of equality of treatment between the United States and the other American Republics (800.6363/506a).

total consumption of all petroleum products. It is hoped that additional tanker tonnage can be allotted to those industries and auxiliary services which we consider essential to the Allied war effort so that their full requirements can be met. Therefore, if it is possible to meet the demands entailed by this policy the percentage reduction would be only on consumption by other than the war industries referred to above.

WELLES

800.6363/574 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, March 28, 1942—noon.

[Received 5:49 p. m.]

493. Further reference my 463, March 23; 474, March 24 and Department's 337, March 25.³⁸ To conserve gasoline stocks Chilean pool committee March 25 reduced deliveries by distributing committees 20% and recommended to Government immediate prohibition use private motorcar Sundays and holidays but at Cabinet meeting March 27 this proposal rejected as too drastic. Committee thereupon increased reduction gasoline deliveries to 25% and hopes apply card rationing system about May 1. On basis reduced deliveries it is hoped stocks will last until approximately April 20 whereas according to latest information tanker *Svithiod* delayed further 2 days not arriving Valparaiso before April 15. As any further delay to *Svithiod* would mean complete exhaustion gasoline stocks, imperative that Department continue to do everything possible to hasten arrival this vessel and also of additional tanker which I understand has been allotted.

Foreign Office officially notified March 28 consumption of all petroleum products should be curtailed immediately by at least 15% and that necessity further curtailment probable.

BOWERS

800.6363/547 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, March 31, 1942—midnight.

366. Your 493, March 28. The Department has been informed this morning that arrangements have been made to divert a tanker to haul 75,000 barrels of gasoline from Talara to Valparaiso in time to avoid complete lack of stocks. The *Svithiod*, the Department is informed,

³⁸ Telegrams Nos. 474 and 337 not printed.

will make two consecutive voyages to Chile as soon as she is again in service, in addition to the 75,000 barrel cargo first mentioned above.

WELLES

825.6363/231

*The Chilean Embassy to the Department of State*³⁹

MEMORANDUM

With reference to conversations taking place between this Embassy and the Department of State, concerning the shortage of gasoline in Chile, the Ambassador of Chile wishes to bring to the notice of His Excellency The Secretary of State, the following:

1. The Government of Chile is doing everything possible to reduce the consumption of gasoline. Studies made and present rationing experience shows clearly that a reduction of 33% in consumption would mean enormous disturbances and make it impossible to maintain the movement of domestic commerce. On the other hand, it is indispensable to maintain an emergency stock in tanks which are emptied now soon after the small shipments are received, which creates, besides, the grave problem of assuring means of national defense.

2. The Government of Chile wishes to be informed if the United States is disposed to guaranty over a period of one year shipping tonnage for gasoline on the basis of a reduction of 33% in consumption by private passenger automobiles and 25% by commercial vehicles. Should such a guaranty be obtained, efforts would be made to charter additional tonnage for the transportation of gasoline for military purposes.

WASHINGTON, 20 April 1942.

800.6363/670 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, May 12, 1942—6 p. m.

[Received 9: 34 p. m.]

727. Public ill feeling in Chile is growing due to restrictions on gasoline partially at least due to lack of adequate publicity that similar or more drastic rationing is taking place in 17 Eastern States and 2 Northwestern States. An immediate effective press release showing to the South American countries but especially Chile that the petroleum

³⁹ Received in the course of conversations between Mr. LaVerne Baldwin of the Division of the American Republics and the Counselor of the Chilean Embassy (Campbell).

restrictions they are suffering are only equal to those imposed on people in the United States is urgently desirable: that its policy of equal treatment of South American countries as regards petroleum supplies represents a great sacrifice to the American people and to the war effort.

Suggest that the Petroleum Coordinator or the Deputy give an interview along these lines, and that for the next 3 or 4 weeks arrangements can be made for follow up stories to be cabled the United Press and Associated Press. The air mail edition of *Time* and newsreel shots of the effect of gasoline rationing in the United States are also useful means of publicity.

BOWERS

800.6363/695

The Ambassador in Chile (Bowers) to the Secretary of State

No. 3357

SANTIAGO, May 18, 1942.

[Received May 25.]

SIR: I have the honor to refer to my telegrams No. 596 of April 18, 11 a. m.,⁴¹ No. 727 of May 12, 6 p. m., and No. 735 of May 14, 5 p. m.,⁴² and to my despatch No 3340 of this date,⁴¹ and to state that the ill feeling against the United States because of gasoline rationing in Chile, aided by erroneous incomplete reports and propagated by pro-Axis and anti-American elements, reached a point where it was thought necessary for the Embassy to make a statement to the press pointing out that Chile was being treated with entire equality. There is enclosed the English text and translation of the press statement⁴¹ which was printed in a prominent position by every Santiago daily with the exception of the Axis subsidized *El Chileno* and *El Diario Alemán*. There is also enclosed an editorial⁴¹ favorable to our point of view which appeared in *El Diario Ilustrado*.

It is believed that the publicity given this statement will have success in counteracting the campaign of ill feeling against the United States.

Respectfully yours,

CLAUDE G. BOWERS

825.85/131

The Ambassador in Chile (Bowers) to the Secretary of State

No. 3478

SANTIAGO, May 30, 1942.

[Received June 9.]

SIR: I have the honor to transmit for the Department's information statistics prepared at the request of the Embassy by the local office

⁴¹ Not printed.

⁴² Telegram No. 735 not printed.

of Grace and Company showing the small percentage (8 per cent in March) of Chilean exports to the United States carried by vessels of the Chilean merchant marine.

Grace and Company is now preparing similar statistics for April. During that month it is believed that only about 5 per cent of Chilean exports to the United States were carried by Chilean vessels.

It is to be noted that there are only three vessels belonging to the Chilean Line (Compañía Sud Americana de Vapores or C.S.A.V.) but they are also operating six small Danish vessels taken over last year. In the opinion of Grace and Company, the practical maximum annual shipments of cargo by these vessels to the United States would not exceed 120,000 tons.

The Embassy requested Grace and Company to make this statistical study since one argument against rupture of relations with the Axis which finds wide credence in Chile is that Chilean exports to the United States would thereafter be subject to attack by Axis vessels, it being the general belief that a large percentage of such exports is carried by Chilean vessels.

As a result of this study articles have now been published in the Chilean press (see my Despatch No. 3477 of May 30⁴³) showing that the so-called protection against submarine attack against Chile's exports extends only to the 5 to 8 per cent of those exports which are carried by the Chilean line.

Respectfully yours,

CLAUDE G. BOWERS

800.6363/710 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, June 1, 1942—3 p. m.

[Received 4: 18 p. m.]

865. In view of the request for a repeat, it is thought that my 852, May 30, 11 a. m.⁴⁴ was not clear to the Department and the following is clarification of that message.

Chilean officials were orally informed in accordance with the Department's 556, May 20, 6 p. m.⁴⁴ that all production at Talara which is not now allocated to Chile and Peru is urgently needed for military operations in the Pacific. The Minister of Commerce⁴⁵ now desires that that statement be submitted in writing and that no objection be raised to the publication of such communication by the Chilean Government. It is his thought that the publication of a formal statement

⁴³ Not printed; this despatch was dated June 1.

⁴⁴ Not printed.

⁴⁵ Pedro Alvarez Suárez.

by the Embassy will serve to reconcile the Chilean public to the necessity of gasoline restrictions and stop the campaign of misrepresentation that the United States is withholding petroleum products in an endeavor to force Chile to break relations.

Please rush authorization to give this statement in writing and assurances of no objection to publication by the Chilean Government of our note.

BOWERS

800.6363/710 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, June 3, 1942—6 p. m.

629. Your 852, May 30⁴⁶ and your 865, June 1, 3 p. m. While the facts regarding the distribution of petroleum products from Talara are as stated in the Department's 556, May 20, 6 p. m.,⁴⁶ the Department questions the desirability of the publication in Chile of a statement emanating from the American Embassy on this subject. As you are no doubt aware, both the allocation among the American republics of available petroleum products and the means for transporting these products are currently being handled through cooperative arrangements in which all of the American republics participate. The needs of the war effort have resulted in the removal of large numbers of tankers under the control of the United Nations from their ordinary routes. However, the remaining resources, particularly of transportation, are being allocated among the different countries in accordance with their civilian needs. There is no ground whatever for the thought that Chile is being in any way discriminated against. Possibly the Chilean Representative on the oil supply pool Committee in Santiago might issue an authoritative statement which would serve the purposes that you have in mind.

HULL

740.00112A European War 1939/13634

*The American Embassy in Chile to the Chilean Ministry for Foreign Affairs*⁴⁷

AIDE-MÉMOIRE

It has recently come to the attention of the United States Embassy that on four separate occasions the Compañía de Petróleos de Chile has been ordered by the competent Chilean authorities to deliver petroleum

⁴⁶ Not printed.

⁴⁷ Copy transmitted to the Department by the Ambassador in Chile in his despatch No. 3650, June 19; received June 29.

products to firms specified on the "Proclaimed List of Certain Blocked Nationals".

Order No. 206 dated May 15, 1942, from the Departamento de Industrias Fabriles, Ministerio de Fomento, directed delivery of 5000 liters of gasoline to the Sociedad Manufacturera de Cueros, Caucho y Tejidos or Peñaflores. This concern is the manufacturing branch of the Bata Shoe Company, which is controlled from German-occupied territory and which has been blacklisted wherever its branches are to be found. This is also the firm which initiated negotiations with the United States Embassy in Santiago looking toward its removal from the Proclaimed List, and which discontinued these negotiations which lasted over a period of about two months for reasons unknown to the United States Embassy.

On May 22, 1942, an order was issued by the Comité Nacional de Distribución de Petróleo to deliver 150 liters of Diesel Oil monthly to Air France, a firm controlled from German-occupied territory, although this line is not operating at the present time nor is there any likelihood of its operating in the near future.

On May 29, 1942, the Dirección de Abastecimiento de Petróleo, Comisión Racionadora de Gasolina, issued an order to Copec⁴⁸ to deliver 120 liters of gasoline monthly to Erwin Storandt, a person who did not hesitate to admit to a member of the staff of the United States Embassy that he was a member of one of the blocks (Block No. 4) of the Nazi party in Santiago.

Order No. 62, dated May 26, 1942, from the Dirección de Abastecimiento de Petróleo, Comisión Racionadora de Gasolina, directed Copec to deliver 500 liters of gasoline monthly to Siemens-Schuckert, a concern which is known to have engaged in anti-neutral and National-Socialist activity in Chile.

The United States Government views such orders with deep concern, especially when they involve essential materials such as petroleum, an adequate supply of which for Chile represents a problem and sacrifice of United States and British interests. It is hoped that the Chilean Government will perceive the desirability to make the Proclaimed List Policy completely effective, as the continuance of compulsion to deliver such essential raw materials to local firms on the Proclaimed List without prior consultative cooperation will seriously undermine one of the important elements of hemisphere defense. It is believed that if local control is not instituted in Chile over Axis and other undesirable interests, at least affirmative action which amounts to support of Proclaimed List firms should be avoided.

SANTIAGO, June 11, 1942.

⁴⁸ Compañía de Petróleos de Chile.

825.6363/234 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, June 12, 1942—11 a. m.

[Received 9 p. m.]

956. From the outset the Chilean Government has shown unwillingness to face the facts regarding the petroleum situation. Instead of accepting the evident necessity for a sharp reduction in normal consumption and making an honest effort to meet our ideas, it has tried, through bargaining tactics, to get just as much as possible although membership in the Latin American pool implies cooperation in the common interest. Furthermore, the Government has done nothing to correct the false impression in the mind of the public resulting from misleading and inaccurate press stories that there is no shortage even of tankers sufficient to justify the present curtailment of supplies and consequently that the United States is merely exerting pressure on Chile.

Equal reduction of petroleum consumption may mean very unequal sacrifice in the different countries and there is no doubt that in Chile the curtailment to two-thirds of 1941 consumption means severe hardship. Thus, Chile has valid arguments available but by its tactics it is not only prejudicing its own case but allowing an unnecessary growth antagonism against the United States. This situation is so unfortunate for both countries that I feel strongly it should be cleared up in order that further discussion of the petroleum problem may be on a practical instead of a bargaining basis. I recommend the Department to instruct me by cable to take up the matter with the Chilean Government in line with the foregoing.

BOWERS

800.6363/745 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, June 29, 1942—11 p. m.

745. When you communicate to the Chilean Government the substance of Department's circular telegram of this date,⁴⁹ you should at the same time give that government the following information relating to the points raised in your despatch no. 3549 of June 9.⁵⁰ Chile's contribution to the United Nations war effort by furnishing copper, nitrates, et cetera is appreciated and is recognized by exempt-

⁴⁹ Not printed; the Department observed a lack of realism on the part of the American Republics in their oil consumption policies and indicated that less than half of the 1941 rate of consumption for civilian needs would be available (800.6363/775a).

⁵⁰ Not printed.

ing from the rationed category and furnishing in full the oil supplies which are necessary for the production of those war essential materials. Emphasis should be placed upon the fact that approximately 85 percent of Chile's total oil requirements is for services classified as war essential, exclusive of oil demands for bunkering allied navies which does not contribute directly to the national economy of Chile. This means in effect that a 50 percent reduction in Chile's rationable civilian consumption corresponds to only 7½ percent of her total national demand based upon 1941. This is a very moderate burden for Chile to bear in comparison with the other oil importing republics. In these circumstances this Government does not view with favor any proposal to divert any available tanker tonnage from less fortunate neighboring republics for the purpose of still further improving Chile's relative situation.

It should also be pointed out that during the first 5 months of 1942 Chile's gasoline consumption has been 10 percent higher than during the same period of 1941.

HULL

825.6363/241 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, July 2, 1942—7 p. m.
[Received July 3—3:32 a. m.]

1083. The announcement of further reduction in supplies of petroleum products to Chile has fallen like a bombshell on the Government, the President canceling appointments for a special Cabinet meeting to consider the situation and will probably have an equally bad effect on public opinion here for the well-organized Axis propaganda will doubtless redouble its not unsuccessful efforts in connection with the first reduction of petroleum supplies.

I hope the Department will authorize me to say that every effort will be made to prevent interruption of vital services mainly truck and bus transportation. Secondly, it is important that the press associations carry an interesting and convincing statement from someone of importance within the Government—I suggest Mr. Welles—pointing out dramatically that the present scarcity is the result of war needs in this important year and pointing out that other countries dependent on tanker-borne supplies such as Brazil, Uruguay, et cetera, are receiving the same treatment and that even this reduced treatment is only possible at a sacrifice of the military needs of the United Nations.

One difficulty here is that it is well-known throughout Chile that Peru, Argentina, Colombia and Venezuela are undergoing no rationing and it is the thorough belief here that rationing even in the Eastern States is on a much more generous per capita scale than in Chile.

It is particularly unfortunate that this reduction occurred at this precise moment and we must react vigorously with the best publicity available.

BOWERS

825.85/133 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, July 3, 1942—2 p. m.

[Received 7:30 p. m.]

1089. Department's 753, June 30, 9 p. m.⁵¹ All Chilean vessels under control Government whose approval would have to be obtained before any arrangements could be made. Sub-Secretary Commerce⁵² states that to relieve present shortage possibility of allotting additional ships for service between Chile and the United States now under consideration. He promises more specific information about July 9. The ships in question and present trades are as follows: *Chollin*, *Federico Schwager* coastwise coal; *Millabu* Peruvian sugar; *Castilla* coastwise; *California* single trip Argentine wheat.

There appears no possibility obtaining Chilean vessels for service other than to the United States.

BOWERS

811.20 Defense (M) Chile/208 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, July 21, 1942—7 p. m.

822. Your 1141, July 11, 4 p. m.⁵³ Vessels have been withdrawn from Chilean iron ore trade and are being utilized for urgent needs of war effort.

HULL

825.85/138 : Airgram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, July 22, 1942—2:30 p. m.

[Received July 28—1:45 p. m.]

A-12. My telegram No. 1089, July 3, 2 p. m. Undersecretary of Commerce now states that he perceives no possibility of allotting addi-

⁵¹ Not printed; it inquired whether certain named vessels could be diverted to war shipping.

⁵² Ricardo Heatley.

⁵³ Not printed; it indicated that representatives of the Bethlehem Chile Iron mines said their mines were closing because of the loss of vessels.

tional Chilean vessels for service between Chile and the United States. This matter has been discussed with him several times and he has said repeatedly that all vessels are urgently required in the Chilean coast-wise trade. The SS *Taltal* mentioned in your telegram No. 753 June 30, 9 p. m.⁵⁴ has been lost at sea.

BOWERS

800.6363/852

The Ambassador in Chile (Bowers) to the Secretary of State

No. 4171

SANTIAGO, August 13, 1942.

[Received August 18.]

SIR: I have the honor to transmit herewith a translation of a note from the Minister of Foreign Affairs⁵⁵ No. 05349, dated August 10, 1942, accompanied by a memorandum prepared by the Ministry of Commerce,⁵⁶ in reply to the Embassy's note of July 6, 1942, which was based on the Department's circular telegram, dated June 30 [29?], 1942,⁵⁷ announcing the necessity for a further reduction in petroleum deliveries. In the latter memorandum reference is made to the Ministry's previous communications regarding the petroleum problem and to the fact that no communication has been received from the Embassy in reply setting forth the opinion of the competent American authorities with regard to Chile's estimates of its indispensable needs. In the present instance a specific request is made that the additional information now furnished be transmitted to the Government of the United States in order that consideration may be given to the possibility of authorizing the delivery of 12,000,000 liters of gasoline per month, which is considered the quantity indispensable to the Chilean economy. In this connection reference is made to the Embassy's despatches No. 3480 of June 1, 1942, No. 3549 of June 9, 1942, and No. 3574 of June 11, 1942,⁵⁸ with which were transmitted the three communications received from the Chilean Government on the subject of the country's petroleum requirements, together with the Embassy's comments.

In my opinion, the additional data now furnished are by no means of a convincing character and do little to support Chile's claim that it must receive larger supplies of petroleum products if essential needs are to be taken care of. The figure of 12,000,000 liters of gasoline per

⁵⁴ Not printed.

⁵⁵ Ernesto Barros Jarpa.

⁵⁶ Neither printed.

⁵⁷ See footnote 49, p. 104.

⁵⁸ None printed.

month is entirely arbitrary and is evidently put forward as a trading proposition. Particularly in the matter of private cars there is still little evidence that the rationing of gasoline has had pronounced effects on the number in circulation and, in the case of other petroleum products, it is admitted that little has been done toward reducing normal consumption. The Embassy knew that the Ministry of Commerce, which is handling the petroleum problem, was preparing its case and hoped that instead of repeating the same general arguments which had previously been put forward specific facts and figures would be presented, showing in detail the quantities of the various petroleum products required for essential uses and the quantities now being supplied under the reduced delivery schedule.

A further attempt will be made to obtain data of this character which will be transmitted promptly with the Embassy's comments. Meanwhile, unless and until the Chilean Government demonstrates that it has done everything possible to eliminate all waste and unessential consumption of petroleum products it does not seem desirable that our Government should agree to increase the schedule of deliveries now in effect. This statement is made despite the fact that in the Embassy's opinion that schedule does place Chile in an extremely difficult position.

Respectfully yours,

CLAUDE G. BOWERS

825.6363/253 : Airgram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 25, 1942—5 : 50 p. m.

[Received August 31—10 : 30 a. m.]

A-91. In accordance with his latest intimation from the Department that 40% of the 1941 petroleum consumption might be the total available for normal internal consumption in Chile, a study was prepared by Mr. Clover⁵⁹ from all available data to show the effect upon Chile's internal economy. It is the Embassy's recommendation that the 40% basis be modified to the extent of an additional 153,000 barrels every 6 months, say 2 cargoes. Total rationed consumption in any 6 months' period would thus be scheduled as 488,000 barrels.

It is expected this quantity would permit the functioning of essential public services, motor truck and bus transport at an existence level, and such taxis and essential private cars as may be necessary, but would eliminate pleasure driving. The Embassy considers that further

⁵⁹ Philip Clover, Petroleum Attaché at Buenos Aires, whose jurisdiction included Chile.

reductions are not feasible, except on the basis that lack of tankers precludes the possibility of giving consideration to the effect upon Chile of any further reduction in petroleum supplies.

This basis and the inevitability of it have been explained to the Chilean authorities. As soon as the Department telegraphs what quantity may be expected it is anticipated that Chile will issue rationing orders in conformity with the visible supplies.

The Embassy once more repeated to the authorities that any chartering of tankers by Chile would not help their situation unless they secured a fleet capable of bringing in more than the total quantity planned for Chile by the Pool. Lesser capacity would help the Pool, not Chile.

For over-all political reasons the Embassy very strongly recommends that the Department accept by telegram this estimate as the minimum to be supplied for Chile's normal requirements. The comparatively small extra quantity is considered to be a negligible price to pay for a gesture considered by the Chilean authorities to be a realistic cooperation with their very pressing difficulties. At this stage of our political negotiations only overwhelming necessity could justify forcing normal local petroleum consumption below what is considered by the governmental authorities and the Embassy to be the lowest subsistence level.

The Embassy's recommendation is based upon the following study:

Recommended petroleum allotment for a 6 months' period, on basis of cutting supplies to lowest figure short of a basic disruption of Chile's internal economy.

[Here follows statistical table.]

The normal consumption for non war-essential use in 1941 (July-December) was 23.7% of Chile's total consumption. In common with the other petroleum importing South American Republics, it is understood that Chile will be asked to cut her consumption to 40% of the 1941 figure.

A basic study of the effects of such a cut indicates that a minimum of 13.8% of the 1941 consumption (instead of the normal 23.7%) is required for the functioning of the internal economy, even on a very reduced basis. This increase over the 40% amounts to 153,000 barrels, or 2 extra tankers in 6 months.

It is considered that the above appraisal of the minimum quantities for Chile is applicable to any 6 months' period, and not just for the last 6 months of 1942, because seasonal variations have been eliminated.

Supporting data covering each product will be detailed in Mr. Clover's report to the Petroleum Adviser.

BOWERS

800.6363/775a Suppl.: Circular telegram

*The Secretary of State to the Diplomatic Representatives in Certain American Republics*⁶⁰

WASHINGTON, September 9, 1942—9 p. m.

Department's circular telegram of June 29⁶¹ referred to supplies being reduced to something less than 50 percent of 1941 consumption.

You should now advise the country to which you are accredited that the present basis for scheduling supplies is forty percent of 1941 consumption plus any war essential requirements approved through the procedure outlined in our circular telegram of July 25 and amended by Department's circular telegram of September 3.⁶²

HULL

825.6363/257 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 11, 1942—3 p. m.

[Received 7:05 p. m.]

1465. To Secretary and Under Secretary. Department's circular telegram, September 9, 9 p. m. In my airgram 91, August 25, 5:50 p. m., I reported with all possible emphasis that only overwhelming necessity could justify reduction petroleum deliveries to Chile at this time to such an extent as absolutely to disrupt the country's economy. I recommend that deliveries for other than war essential uses be at the rate of 60% of 1941 consumption. Your own petroleum expert, Mr. Clover, after a very careful study on the ground, concluded that a reduction below 60% would have disastrous effects on country's economy. We are firmly convinced that to reduce to 40% would have major economic consequences that would most gravely compromise any progress we are making with difficult political negotiations and give our enemies ammunition that would be used with deadly effect against us.

With all possible emphasis, therefore, I urge that no change be made in present delivery schedule, at least until after the President's visit, and that instead of advising Chilean Government that a further reduction has been made I merely inform them that the increase asked is impossible and warn that further reductions may be neces-

⁶⁰ Sent to representatives in Chile, Bolivia, Brazil, Colombia, Ecuador, Paraguay, Uruguay, and Venezuela.

⁶¹ See footnote 49, p. 104.

⁶² Neither printed.

sary. Even this will be a very hard blow since consumption is still far above the 50% level and stocks, particularly motor gasoline and kerosene, are small. I shall take no action until you have reconsidered the matter and I receive further instructions.

Just at this critical juncture with lines closely drawn here, we are already creating the impression of bringing pressure in the case of nitrate and copper and it certainly seems unwise to me knowingly to strike a disastrous blow at Chile's economy that may easily turn public opinion bitterly against us in the midst of difficult negotiations that are making progress. I am so positive that I am correct that I cannot assume the responsibility without again making clear to the Department the dangerous political reactions that would follow the disruption of Chilean economy.

BOWERS

825.6363/253 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, September 11, 1942—9 p. m.

1039. Department is impressed with the facts and arguments summarized in Embassy's A-91 of August 25 which analyze Chile's requirements for oil and is making unremitting efforts to maintain oil supplies to Chile, as to the other American republics, at a level which will avoid basic disruption of internal economy. The fact is that demands on tanker transportation for direct war services leave this Department as well as other agencies of this Government which are concerned in maintaining civilian supplies with a limited and possibly even a further decreasing total tonnage which can be divided among the republics but which cannot be increased. You should make clear to the Government of Chile that it is in no sense a lack of "consideration to the effect upon Chile" on the part of this Government, but the nonexistence of sufficient tankers that compels Chile along with the other oil importing republics to accommodate consumption to the possibilities of supply.

While it regrets the obvious necessity for this conclusion the Department feels that the only realistic viewpoint is the one that recognizes the lack of tankers as a physical fact and it is the opinion of the Department that nothing can be gained by representing to Chile that any improvement in the oil supply situation can be expected in the near future.

HULL

825.6363/258 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 12, 1942—11 p. m.

[Received September 13—3 : 30 a. m.]

1477. For Under Secretary. I am sending this to you because of its vital effect on present political negotiations.

Department's circular September 9, 9 p. m. and number 1039, September 11, 9 p. m.

Chilean Government has been informed of the further reduction in petroleum supplies for other than war essential uses of 40% 1941 consumption.

Although your telegrams indicate that this reduction is only effective now the Chilean Pool Committee has information that it is retroactive from August 1. If the latter is correct Chile will soon find herself completely without petroleum and while I cannot defend her shortsightedness in not having adjusted consumption to our delivery schedule such a situation simply cannot be permitted to arise.

The following figures, expressed in thousands of liters, make this danger clear: Pool Committee New York will calculate that on 40% basis Chile is entitled deliveries at rate of only 6375 gasoline and 563 kerosene per month as from August 1st and that in view of supplies already received since that date no further deliveries should be made for a considerable period. September rationing is still on basis of 9700 gasoline and 1180 kerosene and August consumption was considerably higher which means that in 2 months Chile will have used up nearly twice as much as will be replaced and therefore that her approximate stocks of 22600 gasoline and 2300 kerosene on September 1st will be rapidly exhausted. Specific data are not available for black products but a similar situation is known to exist.

If transportation facilities, light, power should all be cut off, and this will result if replacements of petroleum supplies to Chile should be placed on the 40% basis as from August 1, the reaction on public opinion here would be tremendous and largely counteract all we have recently gained on the main issue of breaking relations. I cannot urge too strongly therefore that the effective date of the new reduction be postponed until October 1st when a decree prohibiting the use of private cars except when specially authorized goes into force or at least that the reduction not be made effective until September 12th, the date on which the Chilean Government was first given notice. Please telegraph instructions on this point urgently.

With reference to the Department's circular telegram September 3, 10 p. m.,⁶³ regarding the classification of certain operations as war

⁶³ Not printed.

essential and therefore entitled to receive their full petroleum requirements it is the Embassy's understanding that such classification has already been granted at Washington to the principal mines and the railroads transporting strategic materials and that in those cases no action is necessary here. Please confirm this by telegram giving a complete list of the approved companies. It will be assumed that all consumers not on this list including the Chilean Army and Navy will have to submit applications through the appropriate local agency for transmittal by the Embassy to Washington.

BOWERS

825.6363/258

Memorandum by Mr. Emilio G. Collado, Special Assistant to the Under Secretary of State (Welles) ⁶⁴

[WASHINGTON,] September 15, 1942.

There are attached telegrams 1465 and 1477 from Santiago ⁶⁵ in which Ambassador Bowers urges strenuously that the reduction in tanker deliveries to 40% for civilian needs not be put into effect in Chile ever or, at least, until after the visit of President Ríos. There are also attached memoranda ⁶⁶ by Mr. Thornburg ⁶⁷ and Mr. Norden ⁶⁸ regarding the Chilean oil situation.

The problem may easily be resolved down to its bare bones:

(1) Ambassador Bowers states that a reduction in oil supplies to Chile below 60% of 1941 level for "civilian uses" may threaten disruption of the national economy.

(2) Chile actually receives more petroleum proportionately than any of the other American republics since its "war essential" uses are very heavy—copper companies, nitrates (the biggest increase), et cetera. If we average all shipments to Chile, deliveries are actually at a rate of 101% of 1941, a somewhat irrelevant figure.

(3) Chile has been warned repeatedly since January that it will have to curtail civilian consumption of gasoline and other products. Nevertheless, its consumption of aviation gasoline was up 48.4% during the first seven months of this year, kerosene up 30.6%, and motor gasoline up 1.9%.

(4) The Embassy has been repeatedly warned that consumption must be cut. On June 29 the Department advised Ambassador Bowers to inform Chile that the cut would be to "less than 50%". This reduction was to be effective August 1, but in reality took effect

⁶⁴ Addressed to the Secretary of State and the Chief of the Division of the American Republics (Bonsal). Mr. Bonsal added the notation: "I suggest postponement to Oct. 1."

⁶⁵ Dated September 11, 3 p. m., and September 12, 11 p. m., and printed, respectively, on pp. 110 and 112.

⁶⁶ Not printed.

⁶⁷ Max W. Thornburg, Petroleum Adviser.

⁶⁸ Carl F. Norden, Consul at Paramaribo, assigned to the Department.

nearer September 1, as products scheduled or en route were not affected. Mr. Welles at meetings of the Inter-American Economic and Financial Advisory Committee repeatedly discussed the situation, advising of a cut of not more than 40% at the August 6 meeting. Thus there seems to be no basis for the Ambassador's statement that Chile heard of the reduction only on September 12.

Since the supply of tankers for American republics' needs is fixed (in fact, declining due to sinkings), we can provide more petroleum to Chile only by taking it away from one of the other republics. Brazil and Uruguay have already been put on a 40% basis, and they are the only countries from which tankers could be taken. Any increase in deliveries to the three countries could be done only by removing tankers from other areas—that is, from direct war uses in Australia, England, et cetera. This I believe the Department would hesitate to request.

I agree with Mr. Thornburg that there is no permanent solution to this problem short of an amelioration in the war situation and the construction of additional tankers. Nevertheless, as it is of the greatest political expediency, the effective date of this cut can probably be made September 15 or October 1. I do not see how it can be postponed any further.

In the absence of Mr. Thornburg, EO ^{68a} is attempting to keep certain of these petroleum matters moving and I should appreciate your directions as to whether we should ask the Petroleum Pool to make the effective date September 15 or possibly October 1.

EMILIO G. COLLADO

825.6363/258f : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, October 2, 1942—1 p. m.

1157. Embassy's 1477 of September 12 and 1530 of September 22, and Department's 1122 of September 25.⁶⁹ Arrangements have been made to reschedule oil supplies to Chile on the basis that the reduction from 66 percent to 40 percent will not become effective until October 1. According to current reports from pool committee which are confirmed by your 1477 Chile will on this basis start October with sufficient gasoline stocks to meet her civilian requirements on a 40 percent basis for two months which is a higher reserve inventory than the pool even attempts to maintain elsewhere.

For obvious reasons it is not desirable to give names, positions and services of any tankers, and all Government agencies are making ef-

^{68a} Board of Economic Operations of the Department of State.

⁶⁹ Telegrams No. 1530 and No. 1122 not printed.

forts to avoid broadcasting such information, but local committee will have sufficient information currently to enable Chilean authorities to plan regulatory measures.

You should tell the Chilean authorities that the announcement of the 40 percent supply program was not intended to be regarded as a decision on the part of this Government but instead as the disclosure by this Government of a factual situation which the Chilean Government would do well to prepare to meet. The fact that Chile disregarded this advice two months ago has now required that this Government deprive war important services of oil and send tankers to Chile instead. This course cannot be continued. On the other hand you should assure the Chilean Government that whenever improved situation or special circumstances make it possible additional supplies will be put in to enable the reserve inventory to be built up. Department wishes you to know that despite statements that have been made it has as yet seen no reason for believing that the burden of reduced oil supplies in Chile is as serious as in a number of other republics which do not have either substitute fuels or war industries which receive full supply.

WELLES

825.6363/266 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, October 6, 1942—9 p. m.
[Received October 7—12: 27 a. m.]

1643. Chilean Government has just chartered Argentine tanker *Juncal* believed to be en route to the United States with vegetable oil for Commodity Credit Corporation, for single trip from West Coast United States to Chile with 10 million liters gasoline. This gasoline is ostensibly to increase reserves of Ministry for Defense but when asked whether it would be counted as delivery by pool answer was evasive and there will be nothing to prevent its use for civilian consumption.

Embassy is also informed that Ministry of Defense has contracted to buy outside of the pool 10,000 barrels of aviation gasoline in steel drums to be delivered within 90 days probably at San Pedro.

Both transactions will result in considerably higher cost than pool deliveries and Embassy considers them extremely questionable. Local Standard subsidiary has informed headquarters and recommended that the Department investigate immediately.

BOWERS

825.6363/266 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, October 14, 1942—4 p. m.

1235. Embassy's 1643, October 6. Any cargo delivered to Chile will be counted as a pool delivery.

It seems unlikely that the Ministry of Defense will be able to purchase 10,000 barrels of aviation gasoline in steel drums while there is said to be more than 13 months supply in Chile and while bulk supplies are available to the Government from present suppliers. It seems unlikely that export licenses will be issued for 10,000 steel drums. This is for your personal information.

WELLES

825.6363/274 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, October 30, 1942—3 p. m.

[Received 7:20 p. m.]

1840. A very acute situation is developing as a result of curtailment of petroleum supplies and information from various friendly and reliable sources indicates that extremely serious political and social disturbances may develop. Obviously our enemies are effectively exploiting the general discontent and have been successful in creating the belief on the part of large numbers that the United States is trying to force Chile's hand by withholding petroleum supplies.

The trade associations and labor unions, whose members are dependent on the continued operation of motor vehicles and motor driven equipment, have united in an appeal to President Ríos for immediate and effective action and have tentatively proposed as a solution that Chile utilize its two small navy tankers exclusively to supply class B rationed consumption, leaving class A to be supplied by the pool. They claim that since Chile would then herself be responsible for transporting supplies for class B consumption it would effectively silence the charge of pressure by the United States. They firmly believe that public opinion will force the navy to utilize their tankers, which today are operating far under capacity, with much greater efficiency once it is generally known they alone are responsible for supplying class B needs. Including in category B the consumption of the Chilean navy and armed forces and the national air line as well as Panagra,⁷⁰ which are supplied today under A, we estimate that if the Chilean navy tankers operate with 100% efficiency they could supply for class B 50% of 1941 consumption instead of 40%.

⁷⁰ Pan American-Grace Airways.

There might be a saving in the tanker tonnage now provided by the pool and in any event no loss since the navy tankers are now transporting less than the quantities allotted to class B.

Although this proposal is not in conformity with pool principles and if the plan broke down Chile would of course expect the United States to come to its aid, the Embassy has been asked by representatives of the group to submit it and since political and social disturbances would harmfully effect our war effort, I ask that it be given very careful consideration.

It would of course have to be definitely agreed by Chile that if the plan were accepted no attempt would be made to obtain additional tankers outside of the pool.

BOWERS

825.6363/274

*Memorandum of Conversation, by Mr. Max Thornburg,
Petroleum Adviser*

[WASHINGTON,] November 2, 1942.

This afternoon Mr. Ynnaes, [*Illanes*] Commercial Attaché to the Chilean Embassy and Colonel Marin, Military Attaché to the Chilean Embassy called at my office to discuss the current oil supply situation in Chile. Apparently it was their intention to propose the use of the two Chilean Navy tankers in somewhat the same way that Ambassador Bowers outlined in his cable number 1840 of October 30. The general idea seemed to be that the two Navy tankers would be used to supply a limited category of requirements which they designate as class B, including supplies for the Army, Navy, Air Force and Air Lines. According to their proposals these Navy tankers and the requirements indicated as falling within class B would be removed from the pool, which would otherwise operate as at present.

I explained to them that the current requirements for the Army, Navy and Air Force, as well as all Air Lines, were already in our "essential" category and, therefore, are fully supplied on the unrationed basis. Consequently, there is no point in the suggestion that the Navy tankers be assigned to this particular service outside the pool. I told them further that Mr. Welles and Mr. Bonsal were giving very close and minute attention to the present oil supply problem in Chile, and that I have, only today, been instructed to take immediate steps to deal with that situation in some effective way. I added that one such step that had been decided upon is to send Mr. Nuland, Executive Secretary of the Foreign Petroleum Policy Committee to Santiago at once to make particular examination of the oil require-

ments which should be classified as "essential", and, therefore, removed from the rationed category.

I took occasion to point out to them that according to our information from Mr. Bowers, the two Chilean Navy tankers are at present working "far below capacity". I said that our Ambassador obviously could not be expected to know this except by report and that, consequently, he might be in error, but that if it proved to be true, it must be looked upon as a shocking disregard of our pool principles. Mr. Ynnaes [*Illanes*] and Colonel Marin both appeared astonished at this report and promised to look into it. They seemed completely satisfied with the present plan of having Mr. Nuland visit Santiago and agreed that the principles which I described, and which they discussed in some detail to make sure they understood, were sound.

For the record, these principles were as follows:

1. That the Chilean Navy tankers are considered as being part of the pool tanker tonnage, although remaining completely under the Chilean authority as far as actual operation is concerned.

2. Military supplies of oil will be furnished on a basis of current requirements, allowing a normal inventory of, say, two months.

3. All requirements classified as "essential", whether on a basis of war importance or essentiality for national reasons, will be supplied fully by the pool in amounts determined by the committees which have already been established for this purpose.

4. If Mr. Nuland, in collaboration with the national pool committee in Santiago and such other agencies of the Government as are designated, find that certain oil requirements now in the forty percent rationed category should be reclassified in the "essential" category, supplies will be rescheduled immediately. The rationed category, however, will remain at forty percent or whatever level is currently in effect.

MAX THORNBURG

325.6363/274 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 3, 1942—4 p. m.

1318. Your 1840, October 30, 3 p. m. The Department shares your concern at the situation developing in Chile with regard to the curtailment of petroleum supplies. The Department realizes the extent to which our enemies will continue to exploit the difficulties resulting from the reduction in normal supplies. The Department feels it extremely important to dispel by all possible means the impression which our enemies are endeavoring to create that Chile is being discriminated against.

It has consequently been decided that, within the next few days, Mr. L. H. Nuland, Executive Secretary of the Foreign Petroleum Pol-

icy Committee, an interdepartmental group set up by the President, will proceed to Chile in order to discuss with you and with Chilean officials all phases of Chile's petroleum problems, including those described by you in your telegram under reference. You are authorized to inform the Chilean authorities of Mr. Nuland's trip and to assure them of this Government's desire to cooperate fully in the solution of Chile's problems within the limits of the supply situation which confronts the American republics as a whole. The Chilean Ambassador here has been informed.

HULL

825.6363/281 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, November 17, 1942—9 p. m.

[Received November 18—2:50 a. m.]

2004. For Thornburg from Nuland. Reference your memorandum of conversation dated November 2 with Colonel Marin and Mari-onyinnaes [*Mario Illanes*]. Preliminary discussions held today indicate Chile's desire to receive supplies of fuel oil and diesel oil approximately equal to their 1941 consumption. Their estimate of gasoline consumption for November and December indicates a cut of approximately 6% from a similar period in 1941. The foregoing refers to category B only as there is no question about A essentials.

It is apparent that in their mind is the use of their tankers and any other tankers which they may secure including a possible one from Sweden and a possible one from Argentina which would supply their B essentials at practically 100% of their 1941 consumption. It was pointed out to them that if they desired to leave the pool then they would also have to supply 40% of their A essentials which are now supplied with pool tonnage and they correctly stated that they could not do this even with the addition of a Swedish and Argentine tanker. On the other hand, if we would supply their war essentials from the pool tanker tonnage they could then take care of their ordering supplies with their boats.

I have taken the line that it is undesirable for them to withdraw from the pool with which they have apparently agreed but their ideas of requirements are so far above what they would get on the pool basis that no satisfactory agreement seems even likely. However, we might trade them into a position where they would undertake to supply such a quantity for themselves as would require them to secure an Argentine or a Swedish tanker. The latter may be possible by their trading a transport allegedly now in Sweden for a tanker.

To me this is a breakdown of the pool but it must be admitted that there is not now much incentive for any pool member to go out and attempt to secure additional tonnage. You might wish to consider revising general pool principles to the extent of allowing any member that provides additional tanker tonnage to secure 50% of the vessel's capacity for its own essential use in excess of the formula. Personally I would prefer to see the pool maintained and this country granted consideration by essentials subcommittee for certain additional requirements despite the unhappiness it will create although you will understand that nothing we can do on the basis of existing principles will satisfy their present demands.

Will you please indicate whether you desire to negotiate towards their leaving the pool on the most advantageous terms possible to us or continue them in the pool with the maximum of generosity possible within existing principles. [Nuland.]

BOWERS

825.6363/281 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, November 21, 1942—5 p. m.

1422. Nuland from Thornburg. Embassy's 2004 of November 17, 1942. Department agrees that any arrangement under which any pool member uses its own tankers to supplement share obtainable through pool will mean that the pool has broken down. Obviously if all members took such steps there would be no pool. This applies also to making such arrangements for half or any other part of the capacity of locally controlled tankers. It is recognized by the Department and by the pool administration that the really essential needs of each republic must be met, and the present procedure for determining and supplying those essential requirements is believed to be adequate for the purpose of guiding pool operations to that end. You should determine on the ground what requirements should be classified as essential and advise Department directly. Department will take immediate steps to instruct pool administration accordingly. [Thornburg.]

HULL

825.6363/282 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, November 21, 1942—8 p. m.

[Received November 22—7 a. m.]

2032. For Thornburg from Nuland. After meeting with local pool committee, two members of which are also members of the Petroleum

Commission and following further meetings with the Commission and the Director of Petroleum Rationing⁷¹ all thoughts of Chile's leaving the pool seem to have been abandoned and a better understanding of the realities of the pool's operations seems apparent.

In this improved atmosphere it has been possible to maintain the basic pool principle of 40% of 1941 civilian requirements plus essentials. We have agreed to recommend the following categories and estimated monthly quantities in barrels per month: local military 3200; all air lines 170; Anaconda 380; Braden 80; manganese mines 108; nitrate mines 1250; iron mines 50; other copper mines 931; mineral trucking 7530; mineral railways 50; mineral agriculture 1650; mineral labor transportation 2630.

This list includes and supersedes all former lists of essentials including those now being used by the pool committee.

These figures have been arrived at by using the rationing authorities estimates which were arrived at by multiplying the number of motor vehicles engaged in the various operations by the rationed quantity of gasoline for each of the various categories and it is considered that the quantities to which they propose to ration are reasonable.

In addition it is recommended that Chile be allowed as essential 13,290 barrels of gasoline per month for December, January, February and March only for urgent agricultural needs.

It is agreed that essentials will be supplied only to the industries listed and that supplies are not merely being made available to Chile's general economy.

All changes in "A" essentials will only be made after submission to this Embassy and subject to the established procedure for the creation of essential categories. Chile's diesel oil, fuel oil and kerosene estimated requirements are admitted by the Commission to be so far out of line that they cannot even be considered without careful review which will take some time. Once this is done a request will be made to the Embassy to establish certain categories of essentials in accordance with the approved formula.

In the meantime it has been repeatedly emphasized that they will only be supplied diesel and furnace oil on a 40 percent basis and continued consumption at present rates will result in a stock shortage.

Chile will make available to the pool the full and improved use of her two tankers and such deep tank and double bottom supplies as she can arrange. Also any additional tonnage she can secure such as the *Juncal*.

Chile will also attempt to secure Swedish or other tankers as we may indicate, provided the United States Government will reimburse

⁷¹ Osvaldo Martinez.

Chile for any cost in excess of pool rates. Chile will also consider enlarging her present coal output, reducing her present consumption or purchasing coal from Australia to be delivered by War Shipping Administration ships now allegedly running empty from Australia to Chilean ports. We should develop this possibility in Washington and advise the Embassy here as to what can be done. Such additional coal could be used as a substitute for fuel oil, thus reducing Chile's tanker tonnage requirements. There was no question raised regarding military reserve stocks nor of the 10,000 barrels of aviation gasoline.

I fear that it cannot be said that they are fully satisfied but they are at least willing to go along for the time being on the present basis. If the formula submitted herein is approved the figures can be supplied the essentials subcommittee with the full recommendations of this Embassy and the pool committee. It is anticipated that approval will date from November 1 and that this Embassy and the local pool committee will be notified as soon as possible so that appropriate stocks may be made available.

This formula will result in total supplies to Chile of approximately 10,000,000 liters per month for the four months December, January, February and March and 7,500,000 liters thereafter. This is something less than was considered necessary in Buenos Aires despatch number 6292 dated August 26, 1942⁷² and is a considerable reduction from the request of the Chilean Government for a minimum of 14,000,000 liters per month.

If constant pressure can be maintained on the Chilean Government it may be able to supply sufficient tonnage to take care of a part of the proposed increase.

You appreciate that what we have done is to rearrange the classification between essentials and nonessentials.

The proposed formula has the following advantages: (1) It has driven home and gained respect for the fundamental pool principles. (2) It should accelerate the rationing activities of the Chilean Government. (3) It will maintain pool principles of distribution. (4) It has reduced the Chileans previous estimates of their minimum requirements and supplies to considerably less than they considered absolutely necessary. (5) It causes additional agricultural supplies to expire at the end of four months, thus paving the way for further reductions. (6) It provides an incentive for Chile to secure outside tonnage since they now appreciate that of the essentials supplied the southern division of the pool by pool tankage Chile receives over

⁷² Not printed.

66⅔% although their contribution to the pool to date has been only two poorly operated small tankers.

It is proposed that the Chilean authorities will now formally present their request for special consideration for gasoline requirements to the Embassy and these will be forwarded to you in the usual manner. Later diesel and fuel oil will be formally presented as will all requests for change in the quantities or categories deemed essential.

Meanwhile it is suggested that this telegram be considered advance notice of the formal gasoline request so that it may be dealt with immediately and I am assuming that for political reasons and on the instructions of the Department these recommendations will be immediately approved by the essentials subcommittee.

As there is nothing further that I can do here Mr. Clover and I expect to depart for Buenos Aires on Sunday the 22nd and Mr. Merritt,⁷³ whose assistance has been invaluable, will return to Bogotá on the same date. [Nuland.]

BOWERS

EFFORTS BY THE UNITED STATES TO SECURE THE COOPERATION OF CHILE IN IMPOSING CONTROLS OVER INTERNATIONAL FINANCIAL TRANSACTIONS

840.51 Frozen Credits/5217: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, January 29, 1942—3 p. m.

[Received 4: 57 p. m.]

178. Your circular telegram January 24, 4 p. m.⁷⁴ No freezing control measures have been instituted. Chilean Government was informed my note December 19 that we would like to see prompt adoption measures numbered 1, 3, 4 and 5 of Department's telegram December 15, 10 p. m.,⁷⁵ but so far as can be learned here no action in this connection is contemplated at this juncture.

BOWERS

⁷³ Roy W. Merritt, Petroleum Attaché at Bogotá.

⁷⁴ Not printed; it requested information as to what control measures had been instituted (840.51 Frozen Credits/5168a).

⁷⁵ Not printed; in this telegram the Department expressed the desire that the American Republics prevent or curb business transactions with the Axis and indicated the measures desirable to freeze the business operations of individuals, banks and other companies having Axis connections (840.51 Frozen Credits/4686a).

840.51 Frozen Credits/5288 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, February 5, 1942—5 p. m.

[Received 9:45 p. m.]

212. In slip to reliable American contact recently, Chilean Superintendent of Banks stated that following December 7th attack on Pearl Harbor Axis interests withdrew 60,000,000 pesos from Chilean banks. Realizing too late that an American was present he added that most of this sum had been redeposited. Contact doubts whether redeposits were more than 10,000,000 pesos. If this estimate is correct Axis nationals and agents in Chile have cash on hand at least the equivalent of \$1,600,000. Another contact reports that amount in Yokohama Specie Bank account with Bank of Chile (Japanese Chilean clearing account) is 20,000,000 pesos.

BOWERS

840.51 Frozen Credits/6460

The Ambassador in Chile (Bowers) to the Secretary of State

No. 3360

SANTIAGO, May 19, 1942.

[Received May 25.]

SIR: I have the honor to report that on May 13, 1942, Mr. Stuart Petrie, a British official of the Compañía Sud Americana de Explosivos of Valparaiso, which is jointly owned by du Pont and Imperial Chemicals, called on an officer on my staff to inquire regarding the likelihood that his firm may be granted permission by the Exchange Control Commission to purchase dollars with which to remit profits accumulated to the credit of American stockholders.

Mr. Petrie was told that from all indications the exchange situation had greatly improved and would continue to improve as the result of large United States purchases of Chilean raw materials, especially copper, the increased return of dollars from copper because of the special 1¼ cent per pound tax, and the increasing difficulty experienced by Chile in making purchases in the United States as a consequence of the diversion of productive efforts to war needs.

In reply to a question as to what attitude he had found at the Exchange Control Commission, Mr. Petrie stated that Director Baltra had showed him a list of requests for dollar exchange on the part of importers the total of which was less than \$1,000,000 and had stated that a few months ago importers' requests for dollar exchange totalled about \$8,000,000. Sr. Baltra made no promises but Mr. Petrie was encouraged to believe that before long the Commission expected that it would have considerable dollar balances available.

Mr. Petrie was told, in reply to his question, that to date the Embassy had not decided whether it would urge the Exchange Control Commission to release dollars for the transfer of profits in the near future, but that if such action were decided upon it would be only fair to present the demands of all Americans with frozen funds rather than urging the release of dollars in one or two cases.

It was observed that an individual concern might meet with greater success by relying on its own resources rather than by inclusion in a general request submitted on behalf of all firms wishing to transfer profits to the United States. Mr. Petrie remarked somewhat ruefully that he realized that this was so; some months ago, he stated, he had obtained permission from the Exchange Control Commission to purchase £30,000 to remit as profits to British stockholders; shortly thereafter the Exchange Control Commission made a large block release of pounds sterling for the liquidation of frozen British funds; Mr. Petrie had on this occasion requested that his firm be granted permission to purchase £25,000 but the permission granted was for only £15,000; when he complained to the Commission he was told that the reduction had been made at the request of the British Embassy which did not wish his firm to have any share in the block allotment since it had already received £30,000 while other firms were receiving only about half what they requested. Mr. Petrie stated that the profits accumulated for transfer to American stockholders totalled about 18 million pesos which at the 31 peso per dollar rate amounts to just under \$600,000.

Early in January 1942, an official of the West India Oil Company (subsidiary of Standard Oil Company of New Jersey) informed the Embassy that his firm had accumulated about \$500,000 dollars in profits which it wished to transfer to the United States as soon as possible.

The only other case which has come to the attention of the Embassy is that of the Chilean branch of the Ford Motor Company. On May 18, 1942, the Chilean manager, Sr. Matray, called and stated that Ford would like to transfer some 20 million pesos (just under \$650,000 at the 31 peso per dollar rate) of accumulated profits, although it had in hand only about half this sum at the moment since the rest was in part being used as credits to distributors while a certain portion had already been transferred by the old dodge of overvaluing imports.

It is my opinion that the Embassy should not press the Exchange Control Commission to authorize American owned or controlled companies to purchase dollars for the transfer of accumulated profits until Chile has been able to build up considerable dollar balances in the United States, a situation which may develop in the next few months.

In the meantime, of course, certain more active firms may obtain permission to purchase dollars for this purpose through their own efforts.

In this connection reference is made to article 17 of the draft law granting the President of the Republic authority to effect changes of a financial, economic and administrative character called for by emergencies arising as a result of the world conflict. This measure, the text of which was forwarded as an enclosure to my despatch No. 3201 of May 5, 1942,⁷⁶ has been approved by the Senate and is now pending in the Chamber of Deputies. Article 17 authorizes the President of the Republic "to negotiate conditions with the object of assuring the return of profits and amortizations of new capital which is invested in the country in productive activities." Article 18 grants similar authority with respect to capital invested in the iron, steel and related industries. In commenting on these articles in his address before the Senate (a translation of which was forwarded with the despatch under reference), Minister of Finance Matte stated that:

"The State cannot disinterest itself in the consequences which can be suffered by our economy because of the shortage of credit and the lack of capital. To a primordial obligation, farsighted and stimulating, correspond the provisions of articles 17 and 18 of the proposed law which the Senate is considering. In these, security and inducement to investment in Chile and in its productive activities are authorized for foreign capital."

In an earlier section of his address discussing the progress amelioration of the foreign exchange situation Sr. Matte stated that:

"It should be noted that the total foreign money blocked in the country does not reach 5,000,000 dollars and naturally the amount must be declining progressively."

The Embassy has not collected data in recent years on American blocked funds, especially profits, in Chile since there appeared to be no possibility that exchange existed for the unfreezing of such funds. Through clearing, most frozen funds of European nationals were liquidated prior to the war and, as mentioned above, under the payments agreement with Great Britain considerable amounts have been unfrozen during the war largely because of the inability of the British to supply Chile with the goods the latter would like to purchase.

There is a possibility that President Ríos and his Finance Minister may consider a considerable relaxation of foreign exchange controls especially if substantial dollar balances accumulate. Such a development would be of much greater importance than the unfreezing of two

⁷⁶ Not printed.

or three large accounts and indicates vigorous action to achieve the latter should not be taken at least for the moment.

Respectfully yours,

CLAUDE G. BOWERS

740.00112A European War, 1939/12390: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, June 7, 1942—5 p. m.

[Received 9:40 p. m.]

927. In conversation yesterday Del Pedregal now President of the Fomento Corporation ⁷⁷ said to MacLean ⁷⁸ and Heath ⁷⁹ that he had just been advised by Fomento's representation in New York that the United States Government was disposed to assist in Chilean acquisition of Proclaimed List firms provided funds could be blocked. Del Pedregal said that the Fomento Corporation was very anxious to take over Osram ⁸⁰ and Sociedad Lanera ⁸¹ on a straight and uncoerced purchase but under Chilean law had no way to block funds; secondly, he said the sellers were afraid to receive blocked funds; fearing Chile's later entrance into the war and a resultant partial or total loss of such blocked funds. He asked for an argument or methods with which to overcome the sellers' reluctance. He said the Fomento Corporation had been given some thought instead of purchasing these firms to renting them or to acquiring them on a long term combined rental purchase plan.

We learn that Grace and Company has been approached by Fomento to take over the management of Osram and that Raúl Simón ⁸² is leaving shortly for Washington to talk the matter over with the Department and other interested authorities.

The Department's observations and instructions would be appreciated.

BOWERS

740.00112A European War, 1939/13167

The Ambassador in Chile (Bowers) to the Secretary of State

No. 3560

SANTIAGO, June 10, 1942.

[Received June 22.]

SIR: I have the honor to enclose herewith for the information of the Department a copy of a letter of June 2, 1942,⁸³ from the Consulate

⁷⁷ The Chilean Development Corporation.

⁷⁸ H. Coit MacLean, Commercial Attaché.

⁷⁹ Donald R. Heath, Counselor of Embassy.

⁸⁰ Fábrica de Ampolletas Eléctricas, Ltda., a branch of a German firm that used Proclaimed List dealers as outlets.

⁸¹ A Proclaimed List firm dealing in wool, controlled by the German Vorwerk and Company.

⁸² General manager in Chile of Grace and Company.

⁸³ Not printed.

at Valparaiso to the Mission concerning the transfer of dollar funds held in the Banco de Chile for the account of the Sociedad Agrícola e Industrial San Pedro to the Banco Central de Chile for the account of the Banco Alemán Transatlántico. The Sociedad Agrícola e Industrial San Pedro is an offshoot of the now dissolved firm of Wagner, Chadwick y Cía. and the partners, particularly Ernesto Wagner, are well known Nazis or Nazi sympathizers. Both the Sociedad and Ernesto Wagner were recommended for publication in the Proclaimed List in despatch No. 3317 of May 14, 1942,⁸⁴ and have been on the Statutory List for several months.

Inasmuch as the transaction in question has already been consummated, there is nothing that can be done even in an informal way, but the matter is being called to the Department's attention as a further example of the noncooperation on the part of the Chilean Government and the impossibility of preventing transfer of dollar funds to Proclaimed List firms within the country under present conditions.

Respectfully yours,

CLAUDE G. BOWERS

811.51/4431

*The Chilean Minister for Foreign Affairs (Barros) to the American Ambassador in Chile (Bowers)*⁸⁵

E 11-6-22 No. 04364

SANTIAGO, June 30, 1942.

MR. AMBASSADOR: I have the honor to acknowledge the receipt of Your Excellency's Notes Nos. 1159 and 1181 of the 13 and 23 of the current month⁸⁶ in which Your Excellency, under instructions from Your Government, and in connection with the various measures taken to establish a control over the importation of North American currency, advised the Ministry under my direction regarding new regulations issued by the Treasury Department. Your Excellency adds that the Government of the United States hopes that the Government of Chile will adopt without delay measures tending to facilitate a similar control and will proceed to ship to the United States the North American currency existing in Chile in order to protect the interests of Chilean citizens in legitimate possession of such currency.

This Ministry has taken due note of the Notes of Your Excellency and has communicated them opportunely to the competent authorities.

⁸⁴ Not printed.

⁸⁵ Copy transmitted to the Department by the Ambassador in his despatch No. 3854, July 10; received July 20.

⁸⁶ Neither printed; Note No. 1159 indicated that persons entering the United States were limited in importing currency and that sums over \$250 were to be held in blocked accounts and to be released only after consideration of a very detailed application. Note No. 1181 gave the details for making this application.

As soon as a decision in this matter is reached, I shall be pleased to advise Your Excellency accordingly.

I take [etc.]

ERNESTO BARROS

811.51/4482 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 7, 1942—6 p. m.

[Received 9: 11 p. m.]

1266. Department's circular telegram dated June 19, 11 p. m.⁸⁷ and previous. On August 3 I wrote the Foreign Minister requesting a reply to my notes regarding control of American currency and on August 5 he told me Chile would cooperate.

Today the Secretary of the Central Bank⁸⁸ informed an officer of my staff that it had been instructed by the Finance Minister to accept American currency for collection and forwarding to the United States Treasury Department. The bank early next week intends to announce in the press that beginning August 17 (later for Punta Arenas) the Santiago and all branch offices will accept dollars for collection at the risk of the owners. Latter will have to submit signed statements giving personal data and information on origin of the currency. The bank lacks facilities for investigation but it will forward one of three types of certificates as follows.

1. That it knows the owner and believes his statements are true.
2. That it knows nothing of the owner or the validity of his statements.
3. That it has reason to suspect the owner and to believe his currency has an Axis taint.

The bank would then forward currency collected to Treasury Department with certificate of owner and its own certificate covering each lot separately, the Treasury would advise the bank of all currency found without Axis taint and the bank would then reimburse the owner in pesos at D. P. rate or with a dollar draft. Tainted currency would be deposited in an account of the Central Bank to the credit of the owner to be released after the war.

The Secretary was not enthusiastic over the suggestion that the Embassy be provided with a copy of the certificate of each owner but agreed that a representative of the Embassy could examine such certificates especially when large amounts are involved.

He stated that the Central Bank has not the authority to prohibit imports and exports of trade in the country in dollar currency by

⁸⁷ Not printed, but see vol. v, p. 798, footnote 52.

⁸⁸ Luis Dávila Echaurren.

private persons, and that any such action would have to be taken by the Chilean Government.

Please inform me urgently whether the procedure outlined is acceptable to the Treasury Department since the Secretary of the Central Bank has requested the opinion of the Embassy by Monday afternoon.

BOWERS

811.51/4482 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, August 8, 1942—6 p. m.

884. Your 1266, August 7, 6 p. m. It is unfortunate that the Central Bank is not prepared to prohibit the import and export of dollar currency or to prohibit the holdings of and dealings in dollar currency by private persons in Chile. Since this problem appears to have arisen because of apparent lack of authority by the Central Bank, you are requested to bring this to the attention of the Finance Minister and to endeavor to persuade him to take the necessary steps toward the promulgation of appropriate legislation for the purpose of carrying out a program of currency control as outlined in the Department's circular telegram of June 19, 1942, 11 p. m.⁸⁹

You should point out to the Finance Minister that in order to make controls over dollar currency effective it is necessary to prohibit the import and export of dollar currency from Chile except direct currency movements between the Central Bank and the United States and except for small amounts for travelers between the United States and Chile. Once this step has been taken it will be necessary to prohibit both the holding of and dealings in dollar currency by private persons in Chile in order to minimize the possibility of a black market.

With respect to the program outlined in your telegram under reference there would appear to be no objection thereto although the program falls far short of achieving effective control over the movement of dollar currency. It is assumed that once this program has been put into effect the Central Bank will not cash any more dollar currency (except small amounts for travelers) but will accept such dollars on a collection basis only and that the dollars will be shipped to the United States and no action will be taken with respect thereto until an appropriate decision has been made by the Treasury Department. In this latter connection it is suggested that with respect to such currency which is not released by Treasury there is no need for the depositor to be given any credit at all since the Central Bank is merely a collecting agent and that, in any event, the Central Bank

⁸⁹ Not printed, but see vol. v, p. 798, footnote 52.

should not make any commitment with respect to its release after the war. For your information the Central Bank might find such a commitment embarrassing if the Treasury Department should in the future decide to take steps more drastic than blocking with respect to tainted currency.

In notifying the Secretary of the Central Bank of your attitude toward the proposed plan you should make it clear that there will be no guarantee whatsoever that the Treasury Department will release any of the currency forwarded to the United States from Chile.

HULL

740.00112A European War 1939/12390

The Secretary of State to the Ambassador in Chile (Bowers)

No. 1922

WASHINGTON, August 12, 1942.

SIR: Reference is made to the Embassy's despatch no. 3376, dated May 20, 1942⁹⁰ on the subject of possible representations to the Chilean Government with reference to the Proclaimed List, and also to the Embassy's telegram no. 927, dated June 7, 1942 on the subject of the possible acquisition of Osram by Chilean interests. The Department and other interested agencies have reviewed fully the questions raised in these communications and have also discussed them fully with the British Embassy.

The persistent failure of the Chilean Government to cooperate in the implementation of the basic Resolutions adopted at the Rio Conference⁹¹ has produced a situation that cannot fail to be a source of danger to American solidarity and welfare. The following may be noted as typical of existing conditions:

1. Commercial and financial transactions are conducted without restriction by inimical firms and individuals in Chile (including those on the Proclaimed List), with the result that the objectives of Resolution V⁹² adopted at the Rio Conference are largely nullified. Cloaking operations are facilitated through this policy.

2. No prohibitions have been laid by the Chilean Government on the movement of goods, either direct or indirect, to and from Axis countries or Axis occupied territories.

3. No control has been exercised by the Chilean Government over radio and other communication with Axis countries and occupied territories. The danger from this source of the conveying of vital information to the enemies of the American republics cannot be over-

⁹⁰ Not printed.

⁹¹ For correspondence regarding the conference at Rio de Janeiro, see vol. v, pp. 6 ff.

⁹² For text, see Department of State *Bulletin*, February 7, 1942, p. 124.

estimated. Ultimate communication to Axis submarines and other vessels of shipping movements may be cited as an instance.⁹³

4. Although foreign exchange transactions are technically under the supervision of an agency of the Chilean Government, questionable operations appear to be so freely conducted that inimical firms and individuals are able to carry on financial transactions with Axis countries and occupied territories.

These conditions, together with the continuance of diplomatic relations with the Axis powers, have the effect of facilitating the development of subversive activities and the dissemination of inimical propaganda in Chile.

The net effect of these factors is a menace to hemispheric defense which the Department and other interested agencies of this Government have viewed with growing concern. Alone among the American republics Chile has made no move to curb within her borders trading and financial transactions harmful to hemispheric interests or to prevent commercial intercourse with the Axis powers and at times has taken steps affirmatively beneficial to the enemies of the other American republics. In this latter connection there may be mentioned specifically the deliberate intervention of Chilean government agencies to compel the delivery to Proclaimed List firms of materials essential to their continued operation and also the numerous instances in which difficulty has been placed in the way of diverting shipments from Proclaimed List consignees.

The Department therefore agrees with the opinion expressed in your despatch no. 3376 that the time has come to take up with the Chilean Government the whole question of economic and financial control of Axis activities in Chile and the related problem of cooperation with our Proclaimed List policies, with specific reference to the implementation of Resolutions V and XL of the Rio Conference.⁹⁴ The time appears to be especially propitious since your representations would follow closely upon the recent Inter-American Conference on Systems of Economic and Financial Control⁹⁵ at which a strong program was adopted for dealing with Axis economic and financial activities in the American republics. A circular instruction⁹⁶ outlining the results of this conference is being sent to you concurrently with this instruction. Although the Chilean delegate to this conference made a general reservation to the resolutions which were adopted, such reservation stated merely that the "recommendations do not alter the obligations devolving upon my country as a result of Recommendation V" of the Rio

⁹³ For correspondence on efforts to counteract espionage activities in Chile, see vol. v, pp. 186 ff. *passim*.

⁹⁴ Department of State *Bulletin*, February 7, 1942, pp. 124 and 140.

⁹⁵ See vol. v, pp. 58 ff.

⁹⁶ Dated August 4, 1942, *ibid.*, p. 58.

Conference. For your information, the Department believes that the recommendations at the recent conference in Washington do not in any sense alter or extend the provisions of Resolution V of Rio, but that they merely specify in detail the manner in which the controls shall be placed in effect. Furthermore, the Chilean delegate made a general statement at the opening session of the conference in which he explained the reasons for Chile's failure to adopt any legislation on the subject, and expressed Chile's willingness to adhere to any recommendations made by the conference. A copy of this statement is enclosed.⁹⁷ It is hoped that this statement may be indicative of a more helpful attitude in the future than has been displayed in the past.

In agreeing with your observation that the time has come to re-view this whole question with the Chilean Government, the Department further agrees that in view of the factors outlined above, the problem can now be attacked by making representations directly to the Chilean Foreign Office about the over-all situation. However, it is suggested that, after the general representations have been made, the Embassy follow up such representations by continuing to discuss specific cases with the appropriate authorities. The Department's experience in the field of economic warfare has shown the value of continued consultation on specific cases, particularly because of the educational value to the other government.

You are accordingly requested to take up the subject with the Chilean Foreign Office in such manner as you deem appropriate. In so doing you may make such reference as seems desirable to the considerations set forth in this instruction. You should also point out that while we have every desire to assist in maintaining the continued operations of firms essential to the Chilean economy, it is impossible for us to justify to the people of this country, who are being asked to make increasingly severe sacrifices, the furnishing of goods and materials that may fall into the hands of enemy firms or firms in which there is an enemy interest, so long as no local control is exercised over the commercial and financial activities of such firms. It should be emphasized that, in the absence of appropriate controls, the United States Government will be compelled in its economic and financial relations with Chile, and specifically in the allocation of materials and commodities and in the provision of shipping facilities, to recognize that the continuance of shipments from the United States to Chile contributes directly or indirectly to aid the enemies of this country and of the other American republics.

The situation in Chile has been discussed in detail with the British Embassy in Washington, and the British Government has been informed of the step which this Government is proposing to take as

⁹⁷ Not printed.

outlined in the present instruction. As a result of these discussions the British Government already has instructed the British Ambassador in Santiago to make similar representations. It has been emphasized that the action taken is to be independent rather than concerted. Naturally, no reference should be made in any document delivered to the Chilean Government as to the discussions with the British or as to their proposals for action along these lines.

With particular reference to Osram⁹⁸ it is obvious that a solution can be found by the Chilean Government if it so desires. This Government certainly cannot be expected to sympathize with the apparent Chilean wish not to offend the German Government or the German interests involved. The United States Government would be glad to see the German interests in the company taken over by Chilean, provided the proceeds accruing to the German owners from such a step could be effectively blocked. As you know, the International General Electric Company has inquired as to the attitude of this Government in regard to the acquisition of Osram by W. R. Grace & Company. Such a purchase would not be viewed favorably, although there would be no objection to the participation of American capital in any new company that might be formed or to the employment of American technical experience in the operation of the company's plant.

With respect to Sociedad Lanera the position is essentially the same as with Osram. This Government would be pleased to see the company acquired by Chilean interests if payment is blocked.

In connection with the general question of taking over inimical firms in the other American republics by Government action, your attention is directed to Resolution VII adopted at the recent Inter-American Conference in Washington⁹⁹ and to the discussion thereof in the circular instruction concerning such conference which is being sent to you concurrently with this instruction. Particular reference is made to the statements therein concerning the general policy of this Government against removing enemy-owned firms from the Proclaimed List on the basis of provisional controls such as intervention. Our experience has shown that controls of this latter type are usually administered laxly, and they are subject to the further objection that they preserve intact the enemy interest.

You are requested to submit to the Department a copy of any note or *aide-mémoire* that may be transmitted to the Chilean Government

⁹⁸ See telegram No. 927, June 7, 5 p. m., from the Ambassador in Chile, p. 127.

⁹⁹ Resolution VII of the Conference on Systems of Economic and Financial Control provided for the forced transfer, liquidation, or blocking of firms acting against the security of the American Republics; for text, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942).

in connection with the above matters, and to keep the Department fully informed of any developments.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

811.51/5041

The Ambassador in Chile (Bowers) to the Secretary of State

No. 4194

SANTIAGO, August 17, 1942.

[Received August 22.]

SIR: I have the honor to refer to my telegram No. 1266 of August 7, 6 p. m. and to the Department's telegraphic reply No. 884 of August 8, 6 p. m., following the receipt of which I wrote a personal letter to the Foreign Minister. On August 5, 1942, Señor Barros Jarpa advised me orally that any idea of forcing American companies to loan their pesos to the Chilean Government had been abandoned following his opposition to the proposal in a cabinet meeting.

I now have received a letter from the Foreign Minister dated August 10, 1942, with which he enclosed a copy of a letter dated August 7, 1942, he received on the subject from the Finance Minister. Copies in translation of both letters are enclosed.¹ The letter of the Finance Minister gives assurance that the operation in question will not be forced on any American company. He appears to believe, however, that they would find it in their interest to accept since they would then be guaranteed the transfer of accumulated funds over a five year period. This conclusion might have been valid two or three years ago when Chile was having a hard time finding enough exchange to pay for the imports it considered essential. Now, due to greatly increased United States purchases of Chilean products, and reduced Chilean imports from the United States as a result of rationing, it is probable that Chile will find its current surplus of dollar exchange growing and from the exchange standpoint Americans with blocked funds should have every reason to hope that they will be able to transfer them over a relatively short period.

Although nothing was said about it in my interview with the Foreign Minister or in the letter of the Finance Minister, it is not unlikely that the whole scheme was prompted by a need to borrow peso funds, and not by any actual or anticipated shortage of foreign exchange. While one must have great sympathy for the difficulties of a Finance Minister in a period of rising prices and an expanding budget while some normal revenues are shrinking, the Chilean Government could, of course, apply the yield of the extraordinary copper tax to fill the gap if it so desired.

¹ Neither printed.

I shall take no further action regarding the matter unless I learn of direct pressure on American firms. By refusing to permit the release of exchange to firms not accepting his proposal the Minister of Finance can, of course, bring indirect pressure. Cabinet changes are not infrequent in Chile, however, and if some firms find that their refusal to accept the offer of the Minister prejudices their requests for exchange, it is not unlikely that in the normal course of events a new Finance Minister will assume office who lacks the incumbent's partiality for this particular scheme.

Respectfully yours,

CLAUDE G. BOWERS

811.51/5068: Airgram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, August 26, 1942—5:30 p. m.

[Received September 1—3:25 p. m.]

A-96. From several sources the Embassy has learned that many holders of American currency in Chile are unwilling to turn them over to the Central Bank because of a lack of assurance against loss. The form signed by the owner in surrendering currency (see enclosure No. 2 to my despatch No. 4131, August 8, 1942³) specifically exempts the Central Bank from all responsibility including loss or damage in transit and although Secretary Dávila of the Central Bank denied rumor that shipments will not be insured (last paragraph my Airgram A-81 August 20, 4 [6:30] p. m.³), persons turning over currency are not being told of blanket coverage of such remittances under British insurance. In fact the attitude of some of the Bank's employees meeting the public appears to be to discourage as far as possible the surrender of currency for collection. This is not surprising since the Central Bank from the start opposed the whole arrangement and is only concentrating and shipping American currency on Governmental orders.

If the whole program of control of American currency is not to be hampered in Chile the public in possession of American currency will have to be assured that they will be protected against loss during shipment. To force the issue I suggest that the Treasury Department offer to the Central Bank insurance covering all American currency shipped at as low a rate as possible. If such an offer is made whether accepted or not the Embassy could give wide publicity to the fact that owners of currency surrendered are protected against losses in transit.

BOWERS

³ Not printed.

811.51/5072 : Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, September 2, 1942—6 p. m.

[Received 9:12 p. m.]

1418. Department's No. 884, August 8, 6 p. m. Yesterday a decree was signed prohibiting the importation, (except for \$250 when approved by the Exchange Control Commission) and holding of dollar currency by private persons or transactions except with the knowledge and consent of the Central Bank. I am awaiting a copy of the decree promised by the Foreign Office and will send brief summary by cable. ⁴ Copy and translation by air mail. ⁵

BOWERS

811.51/5132 : Telegram

The Secretary of State to the Ambassador in Chile (Bowers)

WASHINGTON, September 30, 1942—10 p. m.

1149. Your 1529, September 22, midnight, your 1418, September 2, 6 p. m., and your 1438, September 5, 10 a. m. ⁶

(a) The Department agrees that some exemption is necessary whereby travelers from the United States to Chile may promptly convert a small amount of dollars into local currency. Accordingly, Treasury is prepared to release for free use in the United States small amounts (not in excess of \$250 to each traveler from the United States to Chile) purchased by the Central Bank. It would be preferable if the amount of such exemption could be established administratively and would be flexible instead of by decree and if the amount could be lowered to \$100. Similarly, the exemption for travelers from Chile to the United States should be lowered. For your information only, it is expected that the present exemption of \$250 which may be brought into the United States will soon be lowered. With respect to currency brought by travelers from the United States to Chile, Treasury would expect that the Central Bank would purchase only the amount exempted, specifying to Treasury the name of the traveler, the date and amount purchased, and that any excess over the exemption would be impounded and sent to the United States on a collection basis.

(b) The proposal for excluding Proclaimed List nationals from the benefit of the above-described exemption is approved on the as-

⁴ Telegram No. 1438, September 5, 10 a. m., not printed.

⁵ Despatch No. 4508, September 24, not printed.

⁶ Telegrams Nos. 1529 and 1438 not printed.

sumption that it may contribute to the recognition of the Proclaimed List by the Chilean Government.

(c) It is believed that a termination date for presenting currency to the Central Bank should be specified in the decree or by some other law and that only a few days should be allowed for such presentation in order to prevent currency movements from other countries into Chile. You may inform the Central Bank that Treasury will consider the failure to deposit currency within the time prescribed by Chilean law as a ground for denying the application for the release of such currency, in the absence of extenuating circumstances. However, it should be made crystal clear that Treasury makes no commitment whatever as to the treatment of currency before such date.

You should request the appropriate Chilean officials to make certain that all currency sent to the United States on a collection basis is consigned to the Federal Reserve Bank of New York, is fully documented, and is accompanied by appropriate instructions from the Central Bank.

The Chilean decree seems to be generally satisfactory but it is obvious that strict administration will be necessary and it should be made clear to the Chilean Government that the reaction of this Government to the decree will depend upon its administration.

HULL

811.51/5328

The Ambassador in Chile (Bowers) to the Secretary of State

No. 4958

SANTIAGO, November 16, 1942.

[Received November 23.]

SIR: I have the honor to refer to my despatch No. 4837, November 2, 1942,⁷ informing the Department of the action taken by the Embassy with a view to obtaining the publication of a supplementary decree modifying decree No. 3192 of September 1, establishing control over American currency.

There is enclosed herewith translation of the new decree⁷ which has been prepared by the Ministry of Hacienda with the cooperation of the Banco Central, embodying the suggestions submitted by the Embassy. This decree effects the following changes in the present situation: (1) The limit on the amount of American currency which can be carried by travelers entering or leaving Chile is reduced from \$250 to \$50; (2) persons possessing American currency must deliver it to the Banco Central within 15 days; (3) travelers arriving in Chile

⁷ Not printed.

must declare the amount of American currency they hold and deliver any amount in excess of \$50 to the customs authorities who will forward it to the Banco Central.

The text of the new decree was supplied to the Embassy by the Subsecretary of Hacienda⁸ who stated that although it had already been signed it could still be modified if necessary. After careful study it has been suggested by the Embassy that it would be desirable to broaden Article 2 which now refers only to persons "domiciled or resident in Chile" and to state that persons possessing American currency in Chile must deliver it to the Banco Central within 15 days. This would make the provision in question applicable to persons in other countries who might have currency in Chile in safe deposit boxes or otherwise. An attempt was made to have a shorter period than 15 days fixed but it was explained that this would not be possible on account of the extreme length of the country and the considerable time which might be required for the transit of currency from distant points such as Punta Arenas to Santiago.

In the second paragraph of Article 3 which now refers only to the establishment of regulations for the sale of American currency by travelers it has been suggested that the words "or purchase" be added since it is desirable to cover buying as well as selling operations. The Embassy is asking the Consejo Nacional to consult with it in the drafting of the regulations in question.

Assurances have been given by the Subsecretary of Hacienda that the Embassy's suggestions will be embodied in the final text of the decree before it is promulgated.

Respectfully yours,

CLAUDE G. BOWERS

811.51/5344: Telegram

The Ambassador in Chile (Bowers) to the Secretary of State

SANTIAGO, November 28, 1942—3 p. m.

[Received 5:35 p. m.]

2082. Department's telegram number 1442, November 25, 1942, 7 p. m.⁹ and my despatch number 4958, November 16, 1942. Subsecretary of Hacienda advises that decree, translation of which was enclosed in above despatch, will be published early next week probably on Monday in the *Diario Oficial* with the following change: 1. Article II is made applicable to all persons possessing American currency in Chile and 2, article III last paragraph now requires

⁸ Francisco Jorquera.

⁹ Not printed.

Consejo Nacional de Comercio Exterior to regulate both purchases and sales of American currency in amounts of \$50.

Subsecretary stated Chilean Government will issue directives to customs authorities to enforce law but no other steps other than those specifically mentioned in law will be taken for the present. Subsecretary says it appears impractical to ascertain information as to currency held in safety deposit boxes or otherwise hoarded and that there could be no censorship of mails until Chile adopted censorship laws.

Subsecretary suggests that United States Government announce through Embassy that dollar currency hereafter coming from Chile will be of no value unless turned over to Banco Central de Chile within the 15-day period specified in the decree. Unless instructed to the contrary, upon publication of decree the Embassy will issue a statement to the press embodying the points contained in the second and third sentences of section C of the Department's telegram number 1149 of September 10 [30] 10 p. m. which points have already been transmitted to the Foreign Office in my note number 1461, October 21, a copy of which was handed to the Secretary of the Central Bank late in October. Embassy deems such publicity essential on day following publication of decree.

Embassy has contacted representatives of Consejo and called their attention to article III of decree and they agreed to consult Embassy before drafting regulations pursuant to said article.

BOWERS

COLOMBIA

MILITARY COOPERATION OF THE UNITED STATES AND COLOMBIA AGAINST THE AXIS FORCES¹

810.20 Defense/2108

The Ambassador in Colombia (Braden) to the Secretary of State

No. 3709

Bogotá, February 18, 1942.

[Received February 21.]

SIR: I have the honor to report that, pursuant to his request, I called on the Minister for Foreign Relations, Dr. Luis López de Mesa, on the morning of February 14. Our conversation is summarized in the attached memorandum,² which I dictated immediately upon my return to the Chancery.

It will be noted that the Foreign Minister believes that the war will be long drawn out but that the democracies will finally win. Likewise, he fears a Japanese aggression on some one of the Latin American Republics. As a result, but without in the slightest committing himself to the accomplishment of any proposals which we may make, he nevertheless desires to know what steps the United States believes Colombia should take in the matter of hemisphere defense.

As will be observed from the enclosed memorandum, when replying to the Minister I divided the subject into two parts: (1) I urged the necessity for a continued and augmented activity in respect to Axis nationals in this country in order to prevent any subversive activity. (2) While emphasizing the complete dedication of the Department and this Embassy to respect for Colombian sovereignty and a consideration at all times for the sensibilities of these people, I mentioned several possibilities with which I was acquainted of action which might be taken by the Colombian Government of a military nature and which in my opinion would be considered desirable by the United States Army.

I was able to present to the Minister only the isolated suggestions so far advanced by our military and with which I am familiar; but it will be observed that what he really desires is a complete plan. There is thus presented to us an unusual opportunity to express our wishes

¹ For previous correspondence regarding cooperative military efforts of the United States and Colombia, see *Foreign Relations*, 1941, vol. VII, pp. 1 ff.

² Not printed.

frankly to the Colombian Government, and I request that I be instructed in the premises.

Respectfully yours,

SPRUILLE BRADEN

821.20/189a : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, February 18, 1942—midnight.

196. From Duggan.³ The Department proposes to send the War Department the letter quoted hereafter. Do you have any suggestions for its improvement? If not, will you please obtain President Santos' approval?

"With reference to the desire of the War Department, as conveyed in your letter of February 13,⁴ to station 3 single-engine observation planes and 9 officers and 3 enlisted men at Villavicencio, Colombia, Ambassador Braden has advised the Department that the President of Colombia is disposed to permit this Government to attach planes and personnel to the United States petroleum companies operating in Colombia for the conduct of air-surveillance activities in the Llanos area. This consent is given on the basis that the planes not carry military insignia or identification or armament and that the officers and men not wear uniforms. In order that the President of Colombia may be advised when the planes and their personnel enter Colombia, the War Department is requested to advise the Ambassador at Bogotá of the contemplated arrangements. This information may be conveyed, if desired, directly to the Ambassador by the Commanding General, Caribbean Defense Command."⁵

[Duggan]
HULL

740.00118 European War 1939/1080a : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, February 19, 1942—2 p. m.

198. Because of the potentialities of the Caribbean situation, the War Department desires to send officers at the earliest possible moment to Medellín, Barranquilla and Cúcuta to perform the functions of military observers as defined in the Department's telegram no. 114 of January 30, 1942.⁶

In view of the attitude of President Santos concerning military and naval observers, as reported by you, the Department proposes

³ Laurence Duggan, Adviser on Political Relations.

⁴ Not printed.

⁵ Lt. Gen. Frank M. Andrews.

⁶ Not printed; it stated that the status of the men was to be that of military observers and not secret agents.

that the Army officers sent to Medellín and Barranquilla be designated "Assistants to the Consul" at these two posts. They would not use their Army titles; would wear civilian dress; and would otherwise endeavor to avoid attracting attention as Army personnel.

To meet the known views of President Santos, the Department proposes to open a Consulate at Cúcuta at once and assign a career Foreign Service Officer there so that the Army officer concerned may also be designated "Assistant to the Consul".

The Department recognizes that this arrangement may not be precisely what President Santos had in mind when he stated that there would be no objection to the establishment of whatever number of consulates this Government had need for. It is, however, not a feasible procedure for the officers of the War Department to be taken in to the Foreign Service. It is hoped, therefore, that the President, in view of the impossibility of attaining exactly what he wanted, will go along with the arrangement hereinbefore described.

You are requested to ascertain whether the foregoing proposals would be acceptable to the Colombian Government and to report to the Department by telegraph promptly as the matter is extremely urgent.

HULL

740.00118 European War 1939/1075 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

Bogotá, February 19, 1942—10 p. m.
[Received February 20—4: 54 a. m.]

232. The program outlined in Department's telegram no. 198, February 19, 2 p. m., entirely coincides with President Santos' desires. The only conditions in addition to an intimation mentioned in Department's telegram under reference which should be clearly understood by the army officers appointed are that so far as the Colombian Government is concerned they will be regarded as members of our consular organization and the respective Consulates and this Embassy will be responsible before the Colombian Government for them and their activities. The President is not concerned as to whether or not our army officers are actually taken into the Foreign Service.

Since the President thoroughly understands this entire situation and the objectives we seek and in order that the Department may not be delayed in its arrangements, I consider it preferable not to inquire from him whether this program is acceptable but instead simply to inform him at the earliest opportunity of the action being taken.

It is requested that until the Department instructs the Embassy to ask for permission to open Consulate at Cúcuta, and until such permission has been granted, no publicity there to be given and no Foreign Service Officer or "Assistant to the Consul" for that post arrive in Colombia.

Subject to the foregoing there is no reason why the Assistants to the Consuls at Medellín and Barranquilla should not proceed to these posts immediately, telegraphic advice being given this Embassy so that I may formally notify Foreign Office.

BRADEN

810.20 Defense/2101a : Telegram

*The Acting Secretary of State to the Ambassador in Colombia
(Braden)*⁷

WASHINGTON, February 20, 1942—3 p. m.

201. The recent attack by hostile submarines against Aruba and oil tankers in that vicinity has struck at the very heart of inter-American defense interests in the Caribbean area and within about 700 miles of the Canal. I understand the attack occurred before our recently arrived ground troops had had time to set up their guns to provide the additional defense which was considered of great importance.⁸

Further attacks of this nature are to be expected which may prove very serious in their effects upon our vital interests as well as those of all of the other American republics, particularly those geographically most adjacent.

The present staff agreements with Colombia and of [*with*] Venezuela contemplate that the United States will assist with armed force when requested to do so to repel attacks made by non-American powers. In submarine operations of the character under reference such request for assistance in most cases will come too late to permit timely and vigorous action.

I believe that it is an imperative necessity in order that effective and immediate counteraction can be taken that the Governments of Venezuela and Colombia agree with the Government of the United States that in emergency cases of this character, the commanding general of the United States Caribbean Defense Command be prepared to take such action as may be necessary to repel future hostile attacks throughout the Caribbean area wherever and whenever they may fall and to request that a basis for the necessary speed of action be

⁷ The same to the Ambassador in Venezuela as telegram No. 138.

⁸ For correspondence regarding the concern of the United States over the defense of Aruba and Curaçao, see *Foreign Relations*, 1941, vol. vii, pp. 607 ff.

arranged by the establishment of liaison officers of the Governments of Colombia and of Venezuela at the headquarters of General Andrews in the Panama Canal Zone with the authority to confirm emergency arrangements of this character without the delay which will ensue from the need for consultation between the Governments most directly concerned.

It is proposed that the action under reference would only be resorted to in the case of extreme emergency where prompt action alone would serve to safeguard the Canal and the common interests of the three countries most directly involved.

Please take this matter up immediately with the President of the Republic, or should you deem it preferable, with the Minister for Foreign Affairs. In essence what is proposed is that the government to which you are accredited agree to send as liaison officer to General Andrews' headquarters in the Panama Canal Zone an officer of the highest possible rank and responsibility who would be able to agree at a moment's notice with General Andrews upon the need for the taking of emergency action which might involve the coastal areas or the territorial waters of the Republics of Venezuela and of Colombia. The utmost speed is necessary in cases of this character as I am sure the government to which you are accredited will agree.

The liaison officers whom it is suggested be sent to cooperate with General Andrews in the Panama Canal Zone would, of course, be furnished accommodations and quarters and all facilities commensurate with their rank. They would be treated as distinguished guests of the Government of the United States.

In view of the extreme urgency of this problem, please telegraph a reply as promptly as possible and do everything that may be within your power to convince the government to which you are accredited of the need in its own interest of an arrangement of this character.

WELLES

821.20/190 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

Bogotá, February 20, 1942—11 p. m.

[Received February 21—2: 12 a. m.]

239. Department's telegram 196, February 18, midnight. I suggest that at end of antepenultimate sentence of proposed letter the following be inserted: "or that their military status otherwise be indicated in any manner whatsoever".

American companies now exploring concessions in the Llanos are Texas Petroleum Company and Richmond Petroleum Company (subsidiary of Standard Oil of California). Those exploring but not

having concessions are Tropical Oil Company (subsidiary of Standard Oil of New Jersey) and Socony Vacuum. I suggest that planes be distributed among these companies and that arrangements to this end be made with their executive officers in the United States and that their representatives here be instructed through the Department and this Embassy.

I have again discussed this matter with the President who gives his complete approval.

BRADEN

810.20 Defense/2103 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTÁ, February 21, 1942—5 p. m.
[Received February 22—3:50 a. m.]

242. For the Acting Secretary. After discussing subject of your telegram No. 201, February 20, 3 p. m. with the President this morning he consulted with Ministers of Foreign Relations and War⁹ following which the latter informed me as follows:

As the President had stated to me, the Colombian Government is completely and wholeheartedly in agreement with your proposal.

Under Colombian constitution it is impossible for the President and Minister of War to delegate their powers as amply as they would like (i. e. give the liaison officer *carte blanche*) but they feel that all that we seek will be accomplished by the following:

(1st) General Pablo López, presently Assistant Chief of Staff, accompanied by one or two other officers will proceed to Panama by airplane during the coming week to serve as liaison and to cooperate in every way possible with General Andrews. To this end he will be appointed Military Attaché in Panama and will report directly to the President or Minister of War here.

(2d) He will be instructed to review with our military every possible contingency which may require: (a) unilateral action by the Colombian forces; (b) cooperation with our forces; or (c) a request for our military, naval or air forces to come into Colombia or its territorial waters. As rapidly as plans to meet these various contingencies are developed López will be given directives empowering him to take immediate action and in particular if need to request action or assistance by our forces. His directives will be so broadly phrased as to cover any contingency even though it had not been previously contemplated in his discussions with our military at Panama.

(3d) Simultaneously with the issue of directives to General López corresponding ones will be issued to several Colombian commanders located throughout the country so that in the event of any emergency they may give an immediate word by prearranged code from the

⁹ Luis López de Mesa and Gonzalo Restrepo, respectively.

liaison officer at Panama informing them that a particular directive or plan is being put into operation forthwith.

(4th) The General will take with him to Panama the outline of Colombian war and defense plans for discussion and comment by General Andrews.

(5th) López' agreement to a given action or his request for our assistance will be definite. However, he will then radio the President or Minister of War and they will by return radio give their confirmation.

(6th) Army radio communication with zone is now being made in from 2 to 5 minutes but in order still further to facilitate it the Ministry of War will be put on a war basis with 24 hour service indicating a direct private telephone communication from the radio room to the President and Minister's homes.

(7th) The Minister indicated that General López would be glad to accept the hospitality as indicated in the penultimate paragraph of your telegram.

In discussing the foregoing with the Minister of War I took the liberty of arranging that the liaison officer at a moment's notice could agree to emergency action by our forces at any interior point such as the Llanos as well as along coastal areas or territorial waters.

BRADEN

740.00118 European War 1939/1075 : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, February 23, 1942—11 p. m.

212. Your 232, February 19, 1942. While the War Department has no objection to its officers' attached to the consulates in Colombia wearing civilian dress, it believes they should have with them a set of uniforms for emergency use. The War Department proposes to send the uniforms to the Military Attaché in Bogotá for storage. It would be left to your discretion when and if these uniforms should be worn.

The Department perceives no objection.

Please telegraph your views.

HULL

810.20 Defense/2581 : Telegram

The Ambassador in Colombia (Lane)¹⁰ to the Secretary of State

BOGOTÁ, April 30, 1942—1 p. m.

[Received 5:47 p. m.]

574. For the Under Secretary. With reference to your letter of April 18,¹¹ to Keith,¹² I discussed with General Andrews and Admiral

¹⁰ Arthur Bliss Lane presented his credentials as Ambassador on April 30, 1942.

¹¹ Not printed.

¹² Gerald Keith, Chargé in Colombia.

Van Hook,¹³ on April 21, the position of General Pablo López as Colombian liaison officer with the United States military authorities in the Canal Zone.

As the Department is aware, the problem at present is that General Andrews in the event of an emergency would wish to obtain immediate approval direct from General López for the immediate despatch of airplanes, troops or other craft to Colombian territory and, on the other hand, President Santos under the constitution cannot delegate authority to General López to give such permission. As the time element would be all important in the event of an anticipated attack on the Canal Zone or on Colombian territory, it would be impracticable from our point of view for General López to communicate with his Government in order to obtain authority for United States forces to enter Colombian territory on the request of the United States Commanding Officer in the Canal Zone. For obvious reasons, it would be impracticable to advise General López long in advance of the specific military or naval plans which we might contemplate in the event of a hypothetical enemy invasion.

After discussing the situation with the Military and Naval Attachés and with Lt. Colonel Hersum of the War Department, now temporarily in Bogotá, I recommend for the Department's consideration the following procedure.

1. The United States military and naval authorities should draw up a general plain [*plan*] for submission to the Colombian Government which would embrace such general movements as might be contemplated in the event of an anticipated attack against the Canal Zone or Colombian territory, such as the flight of military and naval planes over Colombian territory, the landing of troops necessary to prevent hostile invasion of Colombia, the entry of vessels into Colombian waters and the right to follow enemy planes or naval craft into Colombian waters under the doctrine of hot pursuit. The foregoing is in harmony with the step which is envisaged in paragraph 2 of Ambassador Braden's telegram number 242, of February 21, 5 p. m., to you and which apparently has not as yet been taken.

2. Once such a plan were formulated, it would be presented by the Embassy to the President of Colombia with the request that he authorize General López that, in the event of an emergency, United States military or naval forces might act in accordance with the general provisions of the plan adopted. It would be understood that, at the time of making the request as a result of an emergency, specific information would be immediately furnished to General López by the United States authorities in the Canal Zone regarding the number of planes, men, vessels, etc., and the exact destination and scope of the movement. Assurance would have to be given by the Embassy that military or naval steps along the foregoing lines would be

¹³ Rear Adm. Clifford C. Van Hook, Commander, Panama Sea Frontier and Commandant 15th Naval District.

taken only in the event of extreme danger to Colombia or Canal Zone territory, and that the operations would be withdrawn as soon as the danger had subsided.

I recommend that the Department discuss this situation with the War and Navy Departments with a view to issuing joint instructions this Embassy and to the Army and Navy commanders in the Canal Zone in order to insure complete understanding and agreement in the future. From what I was able to learn in the Canal Zone General López' mission is under present conditions of little value to our military authorities unless he can act with authority in an emergency. It seems advisable therefore to regularize the situation at the earliest possible moment, especially in view of telegram received by the Military Attaché from General Andrews on April 27 requesting permission for two army planes to arrive here on April 29, with permission to make various reconnaissance flights in Colombia. Minister of War has informed Keith that these flights would be "inadvisable" at the present moment (probably due to forthcoming election). The Minister's decision has been conveyed to General Andrews by the Military Attaché.

LANE

810.20 Defense/2610 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 5, 1942—9 p. m.

[Received May 6—5:33 a. m.]

601. For the Under Secretary. My 574 April 30, 1 p. m. In the course of conversation today with Minister of War he spontaneously brought up question of General López and said that instructions have been issued to the latter not to make any issue with the United States military authorities in event of an emergency necessitating our forces entering Colombian territory. Restrepo said if Japanese submarine entered Colombian waters it must be sunk at all costs. Consequently, Colombian Government wished to lend us every facility to enable us to do so. Subsequent to our taking action against the enemy the matter of permission for our forces to fly over or land in Colombia could be discussed through diplomatic channels.

I informed Minister I proposed to discuss this question with President Santos on Thursday¹⁴ or Friday.

Repeated to Panama.

LANE

¹⁴ May 7.

810.20 Defense/2653 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 11, 1942—8 p. m.
 [Received May 12—1:25 a. m.]

628. In accordance with telegram of May 10 received by Naval Attaché from Chief of Naval Operations, stating Department concurred and requesting permission to establish air fueling base on Old Providence Island to combat submarine activities, I obtained oral permission today from Ministry of War. Restrepo requested, however that gasoline barrels be consigned to Pan American Airways at Old Providence Island stating that permission granted would be in favor of Pan American Airways. While the Minister did not specifically so state, I assume that consignment to Pan American Airways is to avoid possible charge of violation of Colombian neutrality.

Minister confirmed that United States planes may fly over and land on that Island without restriction.

LANE

810.20 Defense/2659 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 12, 1942—1 p. m.
 [Received 3:29 p. m.]

634. While discussing enemy submarine activities in Caribbean area yesterday with Minister of War Restrepo said he would greatly appreciate it if a United States Naval vessel could be assigned to patrol waters adjacent to Goajira Peninsula especially due to temporary absence for repairs of Colombian Naval vessels. Naval Attaché has informed Chief of Naval Operations of foregoing.

In view of the large number of requests which we are continually making of the Colombian Government on military and naval matters I recommend that favorable consideration be given to this request from the Colombian Minister of War.

LANE

810.20 Defense/2610 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 16, 1942—11 p. m.

575. Your 601, May 5, 9 p. m. Are we correct in assuming on the basis of the Minister of War's instructions to General López not to make any issue with United States military authorities in the event

of an emergency necessitating our forces entering Colombian territory, that General Andrews may without prior and specific permission from the Colombian Government dispatch United States Army task forces to cope with any situation which might arise in Colombian waters or territories through enemy action? If this understanding is correct, the War Department is entirely satisfied and does not feel that it will be necessary to conclude an agreement formalizing the right of United States armed forces to take whatever action is indicated to cope with unforeseen emergencies. If, however, you feel that a useful purpose would be served by concluding an agreement with the Colombian Government providing that the two countries may undertake operations on or over the lands and in or over the territorial waters of the other country for the purpose of hemisphere defense, when such action is urgently necessary, a draft of such an agreement will be sent you for your consideration.

The Department is of the opinion that existing arrangements and understandings with the Colombian Government are such that a formal agreement is not necessary and perhaps would be undesirable.

HULL

810.20 Defense/2690 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 18, 1942—5 p. m.

[Received 9:35 p. m.]

666. Refer to Department's 575, May 16, 11 p. m.

First—my assumption based on my conversation with Minister Restrepo May 5¹⁵ is that United States authorities in command in Canal Zone may without prior or specific permission from Colombian Government despatch United States Army or Navy forces to cope with any situation which might arise in Colombian waters or territories through enemy action.

Second—as statement made to me by Minister of War has not been confirmed by Santos I do not feel we should accept Restrepo's statement as binding until [apparent omission] with Department's 515 and my 602¹⁶ I did not discuss with Santos Restrepo's remarks in my interview with Santos May 8.

Third—unless instructed to contrary I shall endeavor obtain confirmation from Santos in interview which I am requesting for Thursday¹⁷ or Friday of this week.

LANE

¹⁵ See telegram No. 601, May 5, 9 p. m., from the Ambassador in Colombia, p. 149.

¹⁶ Neither printed.

¹⁷ May 21.

810.20 Defense/2581 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 20, 1942—8 p. m.

591. The War Department and this Department are satisfied with the procedure suggested in your 666 of May 18, 5 p. m. When you have seen President Santos it is suggested that you inform General Andrews as well as the Department of the substance of the understanding you may reach.

HULL

810.20 Defense/2706 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 22, 1942—7 p. m.

[Received May 23—4:12 a. m.]

687. Department's No. 591, May 20, 8 p. m. When I informed President this afternoon of my conversation with Minister Restrepo on May 5th I inquired whether Restrepo's statement was purely personal or whether it represented opinion of the President.

Without directly answering my question the President said that "of course" our Army or Navy forces may enter Colombian waters at any time in pursuit of enemy craft. The only exception he made was that in the event of submarines entering Colombian harbors such as Cartagena where the craft could be immobilized by Colombian forces we would not follow into port. He emphasized he wishes to give us every possible facility to take action against the enemy not only in our interest but in interest of Colombia as well.

President Santos said he would prefer to have no written agreement as diplomatic instruments are often susceptible to misinterpretation on the part of functionaries. He said he considered that a gentleman's agreement now exists between United States, that we have permission in event of an emergency to send our forces into Colombian territorial waters.

I replied that in my opinion a gentleman's agreement would be preferable to a written agreement but inquired whether this would be binding on his successor. Santos said López¹⁸ will follow Santos' international policies. He suggested, however, that prior to López' assumption of office the three of us should confer so as to bind all personal arrangements now existing between Santos and this Embassy.

¹⁸ Alfonso López was elected on May 3, 1942, to succeed Santos as President of Colombia; he took office on August 7.

From my conversation I consider the arrangements approved by Department's No. 591, May 20, 8 p. m., now to be in effect.

Repeated to Panama for the information of General Andrews.

LANE

810.20 Defense/2708 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 23, 1942—10 a. m.

[Received 12:51 p. m.]

692. I failed to state in my 687 yesterday: It was also agreed between President Santos and me that in event of necessity of General Andrews ordering United States Army or Navy craft to enter Colombian territorial waters General López would be immediately notified in detail regarding destination, description et cetera of the forces involved so that he in turn could at once advise the President.

Repeated to Panama for General Andrews.

LANE

810.20 Defense/2659 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 23, 1942—5 p. m.

603. Your 634, May 12. You are authorized to inform the Minister of War that the Navy is and will continue to make every effort to patrol adequately the waters adjacent to the Goajira Peninsula. It is not feasible to assign one particular vessel to this area since the patrol is carried out by many vessels carrying out other objectives as well.

HULL

810.20 Defense/2721 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 26, 1942—3 p. m.

[Received 6:54 p. m.]

700. My 687, May 22, 7 p. m. In conversation with President-elect López last evening I referred to oral arrangement with President Santos to permit our forces enter Colombian waters in event of emergency. López expressed approval of this arrangement and said he would gladly continue it during his administration as well as any

other arrangements which we might have with Santos for efficient prosecution of the war.

Repeated to Panama for information of General Andrews.

LANE

810.20 Defense/2721 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 29, 1942—8 p. m.

627. The War Department and this Department have assumed that your reference to entry of our forces in Colombian waters in your recent telegrams (687 and 700) still means "Colombian waters or territories" as in the first paragraph of your 666, approved in the Department's 591.

HULL

810.20 Defense/2758 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 30, 1942—4 p. m.
[Received May 31—2:54 a. m.]

725. Department's 627, May 29, 8 p. m. From my conversation with Santos on May 22, I understood that there was to be no restriction regarding the type of United States forces which might enter Colombian territory. Therefore in addition to territorial waters Colombian land would also be included in the arrangement.

President-elect López was less specific than the President as is understandable from the fact that at present López has no authority to make commitments. The fact, however, that he said he would approve any arrangement made between Santos and me would imply that he too would approve assumption mentioned in Department's 627.

LANE

810.20 Defense/3068

Memorandum by the Ambassador in Colombia (Lane), Temporarily in the United States

Memorandum of conversation between President-elect López¹⁹ of Colombia and Under Secretary of State Welles at the above address²⁰ on July 24, 1942, from 6 to 7 p. m. Ambassador Lane was also present at the interview.

¹⁹ On a visit to the United States during most of July 1942.

²⁰ The Waldorf-Astoria Hotel.

1. Mr. Welles referred to the oral understanding which we now have with President Santos to permit, in the event of an emergency, United States forces to enter Colombian territory and Colombian territorial waters and expressed the hope that this arrangement could be continued with the government of Dr. López. Mr. Welles said that Mr. Lane had fully explained to him Dr. López' views and added that we wished to follow the President-elect's wishes as to the manner in which the arrangement should be worked out. Dr. López then explained that . . . he preferred to take Congress and the nation into his confidence so that in case the necessity should arise he could state that he had consulted Congress, or at least the Committee on Foreign Relations. He expressed the conviction that the Colombian people, regardless of party affiliations, enthusiastically supports the present policy of collaboration with the United States but in order to avoid possible future criticism of his government and of the United States he would prefer to have either authority from Congress to take emergency measures or an informal understanding with the Foreign Affairs Committee to take the action which President Santos had taken at our request. Mr. Welles enquired whether the present arrangement with President Santos could be considered to be in effect until such time as a new arrangement were made with the government of Dr. López. The President-elect replied in the affirmative.

2. Dr. López said that he had been somewhat worried by the status of military and naval observers attached to some of the American Consulates in Colombia. These observers were known officially as assistants to the consuls but this subterfuge was generally public knowledge. Mr. Lane said that the Army and Navy would prefer to come out into the open in any way desired by the Government of Colombia. The present arrangement had been made between President Santos and Ambassador Braden. Mr. Welles then emphasized that the activities of all representatives of other United States Government departments should be known to the American Ambassador and should be entirely under the latter's control; furthermore that Mr. Lane should keep the Colombian Government completely informed regarding such activities. Mr. Welles also specified that all the information obtained by our agents should be put at the disposition of the Colombian Government; that the names of all agents would be furnished to Dr. López after his inauguration; and that all agents would cooperate with the Colombian authorities in such manner as Dr. López might indicate. Mr. Welles assured Dr. López that our activities had only one aim: the defense of the hemisphere.

3. Mr. Welles said that we had just received a request from General Andrews to endeavor to obtain permission from the Colombian Government to establish a base in Colombia, on the Caribbean, for the pur-

pose of refueling and servicing PBY flying ships. Mr. Lane said that he had recommended to Mr. Bonsal²¹ that no action be taken on this request until after Dr. López' inauguration, as an unfortunate impression might be created if action were taken during the last few remaining days of the administration of President Santos. Mr. Welles then requested the Ambassador to ascertain from General Andrews, on his way through Panama, the details of the project and discuss them with Dr. López after his inauguration. Dr. López said that a project of this importance should be discussed with Congress so as to allay possible criticism. He again pointed out his complete support of our objectives but in order that his support could be of the most practical type, he wished it to be entirely constitutional and with the advice and consent of the representatives of the people. Mr. Welles observed that such procedure would be entirely consistent with democratic principles and that he could well appreciate the wisdom of Dr. López' point of view.

A[RTHUR] B[LISS] L[ANE]

NEW YORK, July 25, 1942.

810.20 Defense/3072 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, July 31, 1942—6:30 p. m.

[Received August 7—noon.]

A-25. With reference to Mr. Keith's telegram No. 956 of July 21, 4 p. m.,²² regarding the request received through Brigadier General H. C. Ingles, Chief of Staff, Headquarters Caribbean Defense Command, for the establishment of an emergency operating base for Navy PBY airplanes in the vicinity of Cartagena, Colombia, I have the honor to state that this project was discussed by me with Lieutenant General F. M. Andrews, Rear Admiral Van Hook, and Ambassador Wilson in Balboa on July 28, 1942. Admiral Van Hook explained the need for such a base in order to lessen the distance of flights of planes making reconnaissance surveys in that part of the Caribbean traversed by convoys, as well as the detailed needs which would be requested of the Colombian Government for the operation of this base.

On my arrival in Bogotá I discussed the matter in general terms with President Santos on July 29, stating that we are not yet prepared to make the request for the base, but that I wished him to know of our intentions.

This morning in a conversation with the Minister of Foreign Relations on other subjects, I adverted to our desire for such a base, point-

²¹ Philip W. Bonsal, Chief of the Division of the American Republics.

²² Not printed.

ing out that it would be to the advantage of Colombia for us to take the most adequate steps possible to disrupt Axis submarine activities in the Caribbean. As I had previously spoken to Dr. López de Mesa regarding the shipping situation, which is to be made the subject of an interpellation in Congress this afternoon, I pointed out the importance to Colombian economy that this base be established.

In speaking to President Santos and to the Minister of Foreign Affairs, I expressly did not refer to the project as the establishment of a "base" but stated that we merely wished to have the privilege of facilities for landing and servicing our planes including permission to maintain sufficient personnel, supplies, radio station, and other necessary equipment. I pointed out that all expenses in connection with the establishment of the proposed installation would be borne by the United States Government.

As agreed upon with the Department and with President-elect López, no direct request of the Colombian Government for the establishment of the foregoing base will be made until after the inauguration of Dr. López.

A copy of this airgram has been forwarded to Panama for the information of General Andrews.

LANE

810.20 Defense/3159 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, August 6, 1942—4 p. m.

[Received August 17—4:30 p. m.]

A-29. Reference my airgram No. A-25, July 31, 6:30 p. m. Last evening I discussed with President Santos at some length the proposed project at Cartagena. He said that in his opinion it was of the highest importance to Colombia to have such a base in operation and that there should be no reason whatever why the government of Dr. López should not approve the project. I advised the President that although I had informed Dr. López regarding our intention, we had not made a formal request of Dr. Santos' government as we feared an unfortunate impression might be created if permission were granted during the last days of his administration. He expressed a hearty concurrence and said that he appreciated our position as it would be embarrassing for him to be called upon to pass on the project at this time. I said that Dr. López had asked me to take the matter up with him immediately following his inauguration.

A copy of this airgram has been forwarded to Panama for the information of General Andrews.

LANE

821.00/1434 : Telegram

*The Ambassador in Colombia (Lane) to the Secretary of State*BOGOTÁ, August 10, 1942—10 p. m.
[Received August 11—4: 35 a. m.]

1030. Reference my 1024, August 10.²³ President López informed me this afternoon he was much gratified by favorable reception given his inauguration address. He said in drafting it he had in mind prime [apparent omission] for Colombia's more active participation international affairs and intimate to Congress he intended to take it into his confidence. He said because of foregoing and of Turbay's²⁴ familiarity with developments Washington he decided to appoint him Minister Foreign Affairs as it would not be necessary for Turbay "to attend school" here on international matters.

In presence Echandía,²⁵ newly appointed Minister of Gobierno, President expressed to me opinion with reference to two specific matters I brought up (establishment naval base Cartagena and our intelligence activities in Colombia) that it would be preferable within next 2 or 3 days for him to have a general conversation with members of Foreign Relations Committee of Senate and House "to sound them out". After taking this first step López said he would summon me and discuss advisability as to next procedure. Echandía expressed agreement with López highly advisable from internal point of view to have an understanding with congressional leaders regarding oral agreement reached between President Santos and ourselves (and latter [later] confirmed by talk between López and Under Secretary Welles in New York July 24²⁶) regarding permission for us to enter Colombian territorial waters and territory in event of an emergency.

Echandía and López both expressed agreement most delicate matter we had raised is establishment naval seaplane base in Cartagena. They indicated delicacy is due to internal political conditions in that district. As President indicated he would turn matter over to Secretary General Ministry Foreign Affairs for study. I am fairly sanguine there should be no outstanding difficulty, González Fernández already having expressed himself confidentially to me as being in favor of project. Both President and Echandía indicated their full under-

²³ Not printed.

²⁴ Gabriel Turbay, Colombian Ambassador in the United States, took office as Colombian Minister for Foreign Affairs October 31, 1942.

²⁵ Darío Echandía, Colombian Minister of Government and Minister for Foreign Affairs.

²⁶ See memorandum by Ambassador Lane, p. 154.

standing of necessity for establishment of base at Cartagena, in Colombia's own interest, in combatting submarine activities in Caribbean.

Repeated to Panama for General Andrews.

LANE

810.20 Defense/3148 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, August 14, 1942—7 p. m.
[Received August 15—2:19 a. m.]

1049. My telegram No. 1030, August 10, 10 p. m. and my 1050, August 14, 8 p. m.²⁷ I informed President López and Minister Echandía today regarding conversation reported in my 1050. I expressed the opinion that the request of Minister of War should greatly facilitate granting of our request for permission to maintain naval airplane facilities at Cartagena which should also give Government, provided Government agreed with us as to importance of maintaining such facilities, an excellent argument with Congress in obtaining approval.

Obviously the maintenance of air service between Cartagena and San Andrés would be primarily for the benefit of Colombian population.

The President replied that he agreed with my point of view and would call Commission of Foreign Affairs of Congress for tomorrow morning and would advise me as soon as conversation had taken place.

Both López and Echandía gave me to understand they approve in principle our request for emergency seaplane base at Cartagena although they did not so explicitly state.

LANE

810.20 Defense/3149 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, August 14, 1942—8 p. m.
[Received August 15—4:07 a. m.]

1050. Yesterday Military and Naval Attachés had conversation with newly appointed Minister of War²⁸ at latter's request during which the Minister made following requests:

(1) That we establish hydroplane service between Cartagena and San Andrés to provide at least one round trip a week for the purpose

²⁷ For telegram No. 1050, see *infra*.

²⁸ José Joaquín Castro Martínez.

of furnishing certain vital items of food and medical supplies required by Colombian army troops and civilian population there.

(2) That we furnish aerial transportation for Colombian officer to San Andrés and return to mainland for the purpose of surveying present situation and needs of Archipelago.

(3) That at least part of Colombia's order for six Catalina flying boats be filled at once.

When it was pointed out to the Minister that such a service would necessitate arrangements at Cartagena for refueling and maintenance of aircraft employed in this service the Minister stated that he would wish us to take advantage of this situation to patrol coast line of Colombia and thus make airplane serve double purpose to mutual interest of our two countries.

I recommend that no action be taken on these requests pending approval of our request mentioned in my telegram No. 1049, August 14, 7 p. m.

LANE

821.20/214 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, August 21, 1942—4 p. m.
[Received August 22—4:22 a. m.]

1085. For Under Secretary. My 1072, August 19, 5 p. m.²⁹ President López informed me this afternoon Senate Foreign Affairs Committee this morning "substantially approved" project for emergency naval seaplane base at Cartagena as well as maintenance of our military and naval observers in different sections of the country. López said he expects to obtain concrete approval at meeting of Commission to be held tomorrow.

. . . López said he informed Commission that our Government had made no intimation whatever regarding steps which he should follow and had made no requests of him, and that purpose of his trip was merely to discuss matters of mutual interest. President said that Commission expressed itself very much satisfied by this statement and by our attitude of not having attempted to force Colombia to follow our wishes.

As to Cartagena base, López said it would be most useful from internal political standpoint if this could be operated in connection with sending supplies by plane to San Andrés and Providence Islands, which are critically in need of foodstuffs and medicinal supplies. I made no definite commitment on this point but expressed the hope that some arrangement might be worked out. López said he hoped General

²⁹ Not printed.

Andrews might shortly visit Colombia to discuss with local officials, technical aspects of our proposed operations in Colombia (I had already invited General Andrews to visit me, at his convenience, to enable him to talk with the President and other officials of this Government). As to military and naval observers, López said that now that we have the virtual approval of the Senate and other persons in Colombia, it will be a simple matter in deciding with us on titles which they will use, but not "Assistants to the Consul".

Copy by courier to Panama for information of General Andrews.

LANE

821.20/218 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, August 28, 1942—9 p. m.
[Received August 29—5:47 a. m.]

1115. Personal for Under Secretary. My telegrams 1049, August 14 and 1110, August 26.³⁰ Secretary General of Foreign Office who is virtually in charge of Ministry pending arrival of Turbay informs me President López who is still ill requested him to advise me as follows: The institution of weekly United States airplane service between Cartagena and San Andrés for purpose of providing food and medical supplies to Archipelago would greatly assist Government in its efforts to obtain permission for maintenance of seaplane base in Cartagena. I was asked to believe López does not desire to obtain plane service to San Andrés without our obtaining *quid pro quo* and naval facilities at Cartagena. González said it is not a question of condition but one of practical politics. If Government can show conservative opposition that it is obtaining vital civilian aid from the United States there should be no difficulty in obtaining authority for establishment of military and naval facilities in Colombia.

As I have told you I believe in the sincerity of López. I do not believe he would ask our assistance on San Andrés situation which all well-informed persons describe as desperate unless he were willing to grant us base in Cartagena. My informant gave me to understand in fact President had already expressed his desire to have Cartagena project established but for internal political reasons he does not wish to have the two projects coming too closely associated or as having been granted conditionally.

I have repeated my invitation to General Andrews to visit Bogotá.

May I suggest you urge on War and Navy Departments great desirability of establishing seaplane service between Cartagena and

³⁰ Latter not printed.

San Andrés and that if this is not granted negotiations for establishment of seaplane base at Cartagena will be prejudiced.

I have not repeated this telegram to Panama.

LANE

810.20 Defense/3234 : Airgram

The Acting Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 1, 1942—6:50 p. m.

A-79. In a communication dated August 22, 1942³² the War Department has informed this Department that it considers it highly desirable that on matters of military cooperation with Colombia General Andrews should communicate direct with you. The War Department suggests that should you believe in any particular case that it would be unwise to transmit to the Colombian Government any request received from General Andrews, you should inform General Andrews to that effect and endeavor to reach an agreement with respect to the action to be taken prior to referring the matter to Washington in order to avoid the necessity for consultation between the State Department and the War Department.

This Department concurs with the War Department's proposal for direct communication between you and General Andrews but desires that, in the event that you do not deem it advisable to follow the course of action proposed by General Andrews in any given case, you should transmit to the Department all of the pertinent correspondence in order that the Department may inform you of its views.

WELLES

811.34521/13 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, September 9, 1942—1 p. m.

[Received 8:12 p. m.]

1169. The President informed me this morning that as a result of meeting yesterday of Foreign Relations Committee of Senate the President is now authorized to grant us the facilities for an emergency naval base at Cartagena. Memorandum of Committee which President showed me stated that as a result of resolutions adopted at Havana Conference,³³ which had been approved by Colombian Congress,

³² Not printed.

³³ For correspondence regarding the Habana Conference in July 1940, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for text of resolutions adopted, see Department of State Treaty Series No. 977, or 54 Stat. (pt. 2) 2491.

the President is authorized to adopt all necessary measures for defense of the continent.

The President then specifically informed me that he approved the following projects.

1. Permission to pursue the enemy into Colombian territory and into Colombian territorial waters;
2. Establishment of an emergency naval base at Cartagena.
3. Assignment of military and naval observers at various Consulates to be known openly as "military or naval observers".
4. Stationing of a seaplane tender in Cartagena as requested in General Andrews' letter of September 3.

The President, although emphasizing that we could go ahead with all these projects "in the manner most convenient" to us, stated that he would prefer if I should address a note to the Minister of Foreign Affairs requesting the permission outlined in points 1 to 4 inclusive.

Please telegraph whether I may address such a note covering the types of permission desired.

Repeated to Panama for information of General Andrews.

LANE

811.34521/15 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, September 12, 1942—3 p. m.

[Received 7:47 p. m.]

1191. For the Under Secretary. My 1169, September 9, 1 p. m. President López informed me today that since my last talk with him on September 9 he had sent [*seen?*] Ascon President of Council of State, who had advised him that in case he wished to refer matter of base at Cartagena to Council for its opinion, opinion would be favorable but that it was not necessary for López to do so.

He said that after further consideration he would prefer if my proposed note to Foreign Office would be confined merely to request for base at Cartagena. He said that as permission for our forces to enter Colombian territory or Colombian waters remains in force as agreed with you in New York, there is no present necessity to include this request and he would prefer to await arrival of Turbay who is competent official to explain matter to the Senate. President said that matter of military observers is mere formality which can be arranged by me directly with Foreign Office, he having already signified his approval.

President said that he would arrange a meeting on Monday³⁴ to discuss our mutual problems in detail with General Andrews, Admiral Van Hook, Minister of Gobierno, Minister of War and myself.

In the meantime I would appreciate Department's authorization to address note to Foreign Office on Cartagena base.

LANE

811.34521/13 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 12, 1942—7 p. m.

959. Your 1169, September 9, 1 p. m. You are authorized to address a note to the Foreign Minister along the following lines:

"Under instructions of my Government, I have the honor to submit the following requests to Your Excellency, for the purpose of attaining the maximum efficiency of joint cooperative measures between our Governments in matters of hemisphere defense, protection of Colombian, United States and friendly shipping, and the security of the Panama Canal:

1. Permission for the armed forces of the United States under the commanding officer, Caribbean Defense Command, when in pursuit of the enemy, to enter and fly over Colombian territory and to enter Colombian territorial waters without prior special authority. Notification of such action would be immediately made by the Caribbean Defense Command to the liaison officer of the Colombian Government stationed at the headquarters of the Command.

2. Permission for the establishment at Cartagena of emergency fueling services and repair facilities for land airplanes and seaplanes of the United States Army and Navy and for the garrisoning of such facilities with such personnel as may be required for these activities and for the protection of aircraft and installations.

3. Permission for the assignment of military and naval observers of the United States in Colombian territory attached to the principal United States consular officer in each case and under his general supervision. The desire of this Government to appoint each such observer would be notified to Your Excellency's Government.

4. Permission to station seaplane tenders at Cartagena.

If Your Excellency's Government is favorably disposed General Andrews, Commanding Officer, Caribbean Defense Command, or his Deputy, will be pleased to come without delay to Bogotá to work out the specific details with the appropriate Colombian military and naval authorities of the arrangements in which he has a direct concern."

The War Department has shown the Department a telegram from Colonel Pate³⁵ along the lines of your telegram under reference but adding that the Colombian Government desires General Andrews, ac-

³⁴ September 14.

³⁵ Col. Joseph B. Pate, Military Attaché in Colombia.

accompanied by appropriate aides, including a naval officer, to proceed to Bogotá to discuss matters of his interest; and the Department heartily approves.

The above text is for your guidance but you are authorized to make appropriate changes in your discretion to meet any special local requirements.

HULL

811.34521/15 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 15, 1942—10 p. m.

967. Your 1191 of September 12, 3 p. m. Your authority is contained in the last paragraph of the Department's telegram 959 of September 12.

HULL

811.34521/16 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, September 15, 1942—11 p. m.

[Received September 16—5:33 a. m.]

1199. Department's 959, September 12, 7 p. m., which crossed my 1191, September 12, 3 p. m. In presence of General Andrews, Admiral Van Hook, General Inglés and Ministers Echandía and Galvis,³⁶ President López today advised me that permission for establishment at Cartagena of emergency service as outlined in point No. 2 in Department's 959 is definitely granted. As Echandía said that possible constitutional objection might be raised regarding stationing of seaplane tender and as Admiral Van Hook stated that, in view of granting of other facilities at Cartagena, this point is not of pressing urgency, no definite decision was taken on this point.

I showed President draft note based on Department's 959 as well as alternative draft which omitted point No. 1 in view of the President's request transmitted in my 1191.

President suggested that we transmit note along lines of draft transmitted in Department's 959 with following changes:

1. Note would commence with reference to conversation of today in which permission for establishment of facilities mentioned at Cartagena were granted.

³⁶ A. Galvis, Colombian Secretary of War.

2. Preamble of note as transmitted by Department would then follow together with request for permission of our forces to enter Colombian territory and waters, in event of enemy action.

President said his intention would then be to obtain consent of the Senate for permission for our forces to follow enemy into Colombia. Echandía expressed opinion that there would be no constitutional or political objection in view of benefits accruing to Colombian defense as result of arrangement and in view of Colombia's definite interest in our measures against our enemies. Echandía said that unless resolutions adopted at Habana and Rio ³⁷ are mere scraps of paper the Senate must appreciate necessity for Colombia's taking definite steps pursuant to its obligations contracted there and approved by Congress. Echandía said there was no necessity to obtain Senate approval for Cartagena facilities.

Foregoing approved by General Andrews.

LANE

811.34521/14 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 17, 1942—6 p. m.

972. The President requests you to deliver the following message from him to President López :

"During your recent visit to the United States, we exchanged views regarding measures which our two Governments might take in order to contribute to continental security. I have just had the great pleasure of learning from Ambassador Lane that your Government has taken a number of decisions which will enable the carrying out of these measures. I wish you to know how deeply I appreciate the friendly and helpful attitude which has made it possible to translate our conversations into effective action.

Please accept, my dear Mr. President, my warmest good wishes. Franklin D. Roosevelt."

HULL

811.34521/19 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, September 23, 1942—noon.

[Received 4:44 p. m.]

1231. For Under Secretary. My despatch 816, September 18 and telegram 1201 September 16.³⁸

³⁷ For correspondence regarding the Third Meeting of the Foreign Ministers of the American Republics held at Rio de Janeiro, January 15-28, 1942, see vol. v, pp. 6 ff.

³⁸ Neither printed.

Echandía handed me yesterday draft of note to be sent by me to him substantially in accordance with that transmitted as enclosure 1 despatch 816 but also stating that permission to station tenders at Cartagena had been granted by Colombian Government.

Only important discrepancy with our draft note is that Echandía's draft refers to permission for "aerial and naval forces of the United States" to enter Colombian territorial waters to fly over Colombian territory, while we refer to permission for "armed forces of the United States" to enter and fly over Colombian territory and to enter Colombian waters. Change in phraseology undoubtedly due to constitutional stipulation that Senate must give approval for permission for foreign troops to pass "in transit" through Colombian territory. General Andrews informs me by telegraph that the change in phraseology is acceptable him.

Draft note also states that we are prepared to defray cost of repairs to the camp of the Cartagena base in event that Colombian Government permits us to use it for beaching sea planes for overhauling and repairs.

Echandía said that [he?] has advised the President that it will not be necessary to request approval of the Senate with respect to concessions to be granted in note which will answer ours. I have accordingly addressed note³⁹ marked strictly confidential to Foreign Office along lines of Echandía's draft sending copies to Department and General Andrews by next courier.

Echandía stated that he will answer my note immediately and that subsequently the Foreign Relations Commissions of Congress will be advised in general terms of Government's policy based on resolutions adopted at Habana and Rio justifying action in this case.

Repeated to Panama for General Andrews.

LANE

811.34521/21

*The American Ambassador in Colombia (Lane) to the Colombian Minister for Foreign Affairs (Echandía)*⁴⁰

No. 96

BOGOTÁ, September 23, 1942.

EXCELLENCY: Under instructions of my Government, I have the honor to confirm to Your Excellency that for the purpose of attaining the maximum efficiency of cooperative measures between the Governments of Colombia and of the United States of America in matters

³⁹ See *infra*.

⁴⁰ Copy transmitted to the Department by the Ambassador in his despatch No. 840, September 23; received September 29.

of hemisphere defense, protection of Colombian, United States, and friendly shipping in the Caribbean Sea, and the security of the Panama Canal, the Caribbean Defense Command considers it necessary to be able to rely, in Cartagena, on emergency fueling services and repair facilities for airplanes and seaplanes of the Army and the Navy of the United States. With the same objectives and in order to obtain these facilities without loss of time for United States planes, my Government has had the honor to request that while the necessary installations are being completed, Your Excellency's Government permit that tenders for seaplanes of the United States Navy may enter Cartagena and remain in that port for such period of time as may be indispensable to effect the necessary refueling.

In accordance with the conversations which I have had the honor to have with Your Excellency, the Government of Colombia has granted permission to organize these emergency services with the assignment of the necessary personnel for the proper protection of the airplanes and pertinent installations. The cost of these services will be at the expense of the United States, the number and category of personnel to be determined in agreement between the two governments.

My Government will also defray the expense of repairing the ramp for seaplanes of the Base of Cartagena, if the Government of Colombia agrees that it may be occasionally used, when it may be necessary to beach its airplanes to overhaul or repair them.

In order that movements in pursuit of enemy ships or airplanes may be more rapid and efficient, my Government also requests that the naval and aerial forces of the United States under the Commanding Officer of the Caribbean Defense Command be permitted to enter Colombian territorial waters and fly over Colombian territory without prior special authority, it being understood that the Caribbean Defense Command will immediately give notification of such action to the liaison officer of the Colombian Army stationed at the Headquarters of the Command.

If Your Excellency is favorably disposed, General Andrews, Commanding Officer of the Caribbean Defense Command, or his deputy, will be pleased to arrange with the military and naval authorities of Colombia the specific details, in order to carry out the arrangements mentioned above.

I avail myself [etc.]

ARTHUR BLISS LANE

811.34521/27

*The Colombian Minister for Foreign Affairs (Echandía) to the
American Ambassador in Colombia (Lane)*⁴¹

[Translation]

No. S-1025

BOGOTÁ, September 30, 1942.

MR. AMBASSADOR: I have the honor to refer to Your Excellency's kind note No. 96 of the 23rd of the present month, in which, following the instructions of your Government, there were requested, in development of the conversations which had taken place for the purpose of giving a maximum efficacy to the joint measures of cooperation between our Governments for the defense of the hemisphere, the protection of the navigation of the shipping of Colombia, the United States, and friendly nations, and the security of the Panama Canal, certain facilities for the naval and aerial forces under the command of the Chief of the Caribbean Defense Command.

After carefully studying the measures which the Government of Your Excellency proposes, my Government finds that it can cooperate in developing them in accordance with the pacts of continental solidarity, and particularly the Resolution XV of La Habana,⁴² approved by Law 20 of 1941 and Decree 2261 of the 22nd of December of the same year, by means of which Colombia recognized the non-belligerent character of the American countries at war. In consequence, I have the pleasure of communicating to Your Excellency that as a contribution to continental defense and as a demonstration of friendship and of cooperation, my Government gladly grants to that of the United States of America the facilities requested under the terms specified by Your Excellency.

It will be very agreeable to the Colombian military and naval authorities to enter into communication with General Andrews, Chief of the Caribbean Defense Command, for the purpose of working out the details relative to the realization of the points mentioned above.

I avail myself [etc.]

DARÍO ECHANDÍA

⁴¹ Copy transmitted to the Department by the Ambassador in his despatch No. 889, October 1; received October 12. Substance reported by telegram No. 1264-bis, September 30, midnight, not printed.

⁴² For text of Resolution XV, see Department of State *Bulletin*, August 24, 1940, p. 136.

AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA REGARDING MILITARY MISSION TO COLOMBIA, SIGNED AT WASHINGTON MAY 29, 1942

[For text of agreement, see Department of State Executive Agreement Series No. 250, or 56 Stat. (pt. 2) 1483.]

AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA CONTINUING IN EFFECT THE NAVAL MISSION AGREEMENT OF NOVEMBER 23, 1938

[For text of the agreement effected by exchange of notes signed at Washington September 22 and November 5, 1942, see Department of State Executive Agreement Series No. 280, or 56 Stat. (pt. 2) 1775.]

NEGOTIATION OF AN AGREEMENT BETWEEN THE RUBBER RESERVE COMPANY AND COLOMBIA FOR THE PURCHASE OF COLOMBIA'S EXPORTABLE SURPLUS OF RUBBER

811.20 Defense (M) Colombia/42a : Telegram

The Secretary of State to the Chargé in Colombia (Keith)

WASHINGTON, March 23, 1942—11 p. m.

350. Rubber Reserve Company⁴⁴ is prepared to enter into commitment with Colombian Government to purchase entire production of rubber in Colombia except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at 35 cents per pound c & f United States continental ports for usual good quality Colombian scrap as understood in New York. It is understood that any Hevea type rubber produced in Colombia is presumably exported through Brazil and loses its identification as Colombian rubber. Purchases would be paid for on basis of cash against shipping documents endorsed "on board" ocean carrying vessel at Belém and such other places as may be deemed advisable by Rubber Reserve and Colombia and subject to final price adjustment based on quality inspection and net certified weights determined at port of entry in United States. The term of the agreement would be to December 31, 1946, unless sooner terminated by mutual consent, price paid being subject to change after expiration of first 2 years if conditions change. The Government of Colombia would agree to restrict export licenses to Rubber Reserve Company or its nominees. The exportation of manu-

⁴⁴ An agency of the United States Government.

factured rubber, if any, would be restricted to the United States. Colombia would agree to use its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some governmental agency, if desirable, would be designated as the single buying agency, otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

Foregoing proposal is similar to agreements entered into with Brazilian Government on March 3.⁴⁵

For your information we understand certain American republics are negotiating to acquire rubber production in some of the other American countries. Please consult immediately proper Colombian authorities and request their immediate consideration of proposal. If Colombian authorities agreeable in principle to sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately to acquire it. Upon consummation of purchase agreement we would be prepared to discuss with Colombian authorities any useful joint arrangements to increase the production of rubber.

Canadian Government has indicated desire to collaborate in development of rubber in Colombia, and that may be done although no decision has been reached.

Matter has not been discussed with Turbay.⁴⁶

You may consider it desirable to discuss program in strictest confidence with Parrish,⁴⁷ in view of memorandum attached to his letter to Braden⁴⁸ of March 7. Department prefers to contract directly with Colombian Government, Parrish's activities to be worked out with Rubber Reserve who will have general responsibility for development program, but would like to have your views after discussion with Parrish as to practicality and recommendations as to procedure which will procure greatest amount of rubber.

Department has now approved instructions for Carlton.⁴⁹ In substance his activities are, at least for the present, limited to investigation and study. You will be given fuller information shortly to communicate to Carlton.

HULL

⁴⁵ See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

⁴⁶ Gabriel Turbay, Colombian Ambassador.

⁴⁷ Robert H. Parrish, of the Office of the Coordinator of Inter-American Affairs.

⁴⁸ Spruille Braden, Ambassador in Colombia, departed from that country about March 9, 1942, and George Keith assumed charge of Embassy as Chargé.

⁴⁹ Marshall Carlton of the Rubber Reserve Company.

811.20 Defense (M) Colombia/43 : Telegram

The Chargé in Colombia (Keith) to the Secretary of State

BOGOTÁ, March 25, 1942—11 p. m.

[Received March 26—3:27 a. m.]

414. The plan proposed in the Department's telegram No. 350, March 23, 11 p. m. was submitted today to Minister for Foreign Affairs⁵⁰ who stated that he was deeply interested and that he would transmit the contents of my note immediately to Minister of National Economy.⁵¹

I have discussed the matter in strict confidence with Parrish who was of mixed opinion as to plan and intimated possible lessened interest of his colleagues and himself.

Airmail report follows.

KEITH

811.20 Defense (M)/5924a : Circular telegram

*The Acting Secretary of State to the Diplomatic Representatives in Certain American Republics*⁵²

WASHINGTON, March 28, 1942—9 p. m.

In order to give you background regarding the extreme urgency of the rubber situation, which has led this government to request you to institute immediate negotiations for the acquisition of the entire rubber production of the country to which you are accredited, you are advised of the following factors:

1. With the shutting off of far eastern sources of rubber (excepting only the Island of Ceylon) the nations which are directly producing armaments and implements of war,—namely, the United States, the United Kingdom and Canada,—are dependent for new crude rubber supplies entirely on the American republics and Africa—sources which have produced only a fraction of our needs.

2. Existing stocks of crude rubber are wholly inadequate to meet military requirements and synthetic rubber plants are being rushed. Nevertheless, synthetic production will not be at full capacity before 1944, and in any event it is not at all certain that the use of crude rubber in tires and tubes can be entirely dispensed with.

3. A realistic analysis of the situation requires the conclusion that both the United States and the American countries united with us must dispense with all non-military uses of rubber not absolutely essential to the conduct of the war.

⁵⁰ Luis López de Mesa.

⁵¹ Marco Aurelio Arango.

⁵² Sent to representatives in Colombia, Bolivia, Peru, Ecuador, Guatemala, Panama, Mexico, Venezuela, Costa Rica, and El Salvador. With the exception of the prefatory paragraph, the same was sent to Argentina and Brazil.

4. Careful and expert consideration is being devoted continuously in this country to methods of saving crude rubber in manufacture and of developing substitutes, and the advantages of these improvements may be fully realized only if the maximum amount of crude rubber is turned over to this country.

5. It is highly desirable that no one of the American Republics should acquire or use an amount of rubber disproportionate to the respective war or defense needs of that country and of the other American Republics, including the United States; likewise that articles manufactured from rubber should be allocated to the American republics on the basis of the contribution to be realized thereby to the winning of the war. Argentina, which we understand has on hand a stockpile sufficient for 8 or 9 months' normal production for civilian needs in addition to supplies available for military needs, should not have the opportunity of amassing further stocks at the expense of the war effort.

The practical application of the foregoing means that it is absolutely necessary for the United States to acquire from producing countries all available crude rubber, including stocks on hand and rubber hereafter produced. It also means that the producing countries must cooperate with us in limiting internal consumption. Among measures which would achieve these ends, aside from the sale of rubber to us, are the limitation of exports (both of crude and manufactured rubber) to the United States, limitation of rubber manufacture within the country, limitation of rubber products in the country to uses essential to the conduct of the war, and the prevention of hoarding.

These steps are a practical carrying out of Resolution II of the Rio conference⁵³ calling for an economic mobilization of the American republics and requiring positive action to that end. Any system under which the United States is put in the position of competing as to price with other American Republics for the acquisition of a commodity which should be allocated on the basis of war or defense needs, aside from any question of cost in dollars, will cause confusion in the negotiation of contracts and may result in a failure to make available to the conduct of the war the maximum amount of rubber and rubber products needed for that purpose. If the United States, in order to acquire crude rubber in the American republics, is required to negotiate from country to country at varying prices, none of the producing countries will be satisfied. There is no hesitation on the part of the United States in paying amounts necessary to procure the rubber under an orderly method, and our government is prepared to take into consideration all local features affecting price.

⁵³ For correspondence concerning the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro January 15-28, 1942, see vol. v, pp. 6 ff.; for text of Resolution II, see Department of State *Bulletin*, February 7, 1942, p. 119.

The United States has carried out, and is continuing to carry out, substantial and important plans for the development of resources and for aiding in the maintenance of internal economies in the American Republics. The allocations agreed upon and the priority treatment now being accorded to the other American Republics with respect to many tight products are relatively much less severe than the treatment accorded to civilian users of the same products within the United States. This Government expects that there will be a parallel development in which the American republics will cooperate fully in all measures designed to allocate to the various republics the maximum amount of rubber products on the basis of respective war or defense needs. Arrangements through barter or otherwise which obtain for a particular country a disproportionate amount of rubber products will in the end only deter the common cause.

WELLES

811.20 Defense (M) Colombia/45 : Telegram

The Chargé in Colombia (Keith) to the Secretary of State

BOGOTÁ, March 30, 1942—11 p. m.

[Received March 31—3 : 20 a. m.]

429. With reference to my telegram no. 414 March 25, 11 p. m. This afternoon when seeing the President⁵⁴ I referred to the note submitted the Foreign Office on rubber emphasizing its urgency and importance. The President stated he would study the matter carefully this week and I would have some response by April 8. He added, "You can count on my aid."

KEITH

811.20 Defense (M) Colombia/65 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 5, 1942—7 p. m.

[Received May 6—5 : 28 a. m.]

599. With reference to Department's telegram no. 350 March 23, 11 p. m. and my telegram 593, May 4, 9 p. m.⁵⁵ The Foreign Minister would like to know whether provision could be made within the terms of the rubber purchase program for the supply to Colombia of necessary equipment for the establishment of a tire manufacturing plant to satisfy at least in part this country's requirements. He also wishes to know if technical experts could be supplied by the United States.

⁵⁴ Eduardo Santos.

⁵⁵ Latter not printed.

It is possible that the plant would be operated by a Colombian Government agency.

In this connection as reported in my despatch 4143 of April 30⁵⁶ Minister of Economy has informed Embassy that a number of American tire companies have been discussing with authorities possible establishment of a plant.

I would appreciate instructions if possible by noon, May 7.

LANE

811.20 Defense (M) Colombia/65a : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 5, 1942—8 p. m.

514. Your 588, of April [*May*] 2.⁵⁷ The procedure suggested with respect to No. 2 is approved. The Department suggests that you make very clear to the President the urgency of our Government's obtaining Colombia's exportable rubber. Favorable arrangements along the lines of the offer made to Colombia have now been entered into with Brazil, Peru and Nicaragua, and an agreement in principle has been reached with Ecuador and Costa Rica. The price in all these agreements has been based upon the price agreed upon with Brazil of 39¢ f.o.b. Belém for Upriver Acre Fine on a washed and dried basis with appropriate differentials for other types and grades. The offer made to Colombia is for the quality understood to be the most common in Colombia; any other types and grades would be purchased at differentials based upon past usage. In addition Rubber Reserve is prepared to expend up to \$500,000 for increasing amount and improving quality of wild rubber produced in Colombia.

It is contemplated that the agreement would provide for the export to this country of all rubber not required for essential needs and that essential needs would be determined on the basis of use of rubber products in this country, and the amount needed would be specified. This Government also desires to obtain from Colombia an agreement to sell to us all exports of manufactured products. Both of these points are considered very important here, and represent a practical carrying out of Resolution II of the Rio conference. It is suggested that you explore with the President the possibility of an embargo on rubber contracts and rubber exports pending the negotiations.

⁵⁶ Not printed.

⁵⁷ Not printed; in this telegram Ambassador Lane proposed that in his coming interview with the President of Colombia, he concentrate on the proposed rubber agreement (810.20 Defense/2585).

In connection with the foregoing, it is suggested that you review the Department's circular telegram of March 28, 9 p. m.

A form of contract is being prepared and will be transmitted shortly. It is desirable, however, that there should be no delay in reaching an agreement in principle.

HULL

811.20 Defense (M) Colombia/65 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 6, 1942—8 p. m.

521. Your 599, May 5, 7 p. m. United States tire companies have been stimulating interest in rubber plants in practically all of the American republics and complicating our entire rubber purchasing program thereby. It is the Department's preliminary view on very scant consideration of your telegram that in general it would not be feasible to furnish the equipment to Colombia for the establishment of a tire plant. Nevertheless, the whole situation with reference to all the other American republics is being surveyed by the Department, and you will be instructed further during the course of the next few days.

HULL

811.20 Defense (M) Colombia/66 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 8, 1942—11 p. m.

[Received May 9—5:54 a. m.]

617. Referring to Department's 514, May 5, 8 p. m. I went over the rubber situation in detail with Santos this afternoon and emphasized the great importance which the United States Government attaches to it.

The President said that he could not give me a final commitment as to the best refiner price without discussing the matter with the Minister of Economy. He hopes to inform the Department, however, that he accepts our proposal in principle namely, to sell all surplus rubber and manufactured rubber goods to the United States and to place an embargo on rubber exports pending negotiations. He specifically stated that under no condition would Colombia sell rubber output to any country other than the United States.

He said that while the López⁵⁸ Administration would of course honor any commitments made by Santos government he felt that as he

⁵⁸ Alfonso López was elected on May 3, 1942, to succeed Eduardo Santos as President of Colombia; he took office on August 7.

has only 3 months more in office it would be only fair to the President-elect if I should discuss the matter also with him. He said he would summon López at once and tell him that he had agreed in principle to our proposal. I have an appointment to see López Monday.⁵⁹

LANE

811.20 Defense (M) Colombia/68 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGORÁ, May 11, 1942—midnight.

[Received May 12—1:29 a. m.]

632. My 617, May 8, 11 p. m. President-elect López informed me today that he had not seen the President since my interview with Santos on May 8. Although I explained the rubber situation to López in some detail he made no comments on this specific question.

He emphasized, however, that his administration would continue wholeheartedly the policy of the present Government in cooperating fully with the United States. In fact he said that no other policy would be supported by the Colombian people.

LANE

811.20 Defense (M)/6802a : Circular telegram

*The Secretary of State to the Diplomatic Representatives in Certain American Republics*⁶⁰

WASHINGTON, May 18, 1942—midnight.

This Government has concluded negotiations with Brazil and certain of the other American Republics producing wild rubber assuring to the United States their entire production other than the amount required for essential needs. Negotiations are nearing conclusion in a number of the other producing countries.

Brazil, the biggest potential producer, has been subject to heavy pressure from other Republics for assurances to supply their essential needs, either for crude rubber or rubber products. Under Brazil's agreement with the United States all its production, both raw and manufactured, is contracted for to us, and Brazil is accordingly unable to comply with the requests.

It has not been the intention of this Government, in entering into these contractual arrangements, to deprive the other Republics of their sources of supply for necessary products. However, it has been

⁵⁹ May 11.⁶⁰ Sent to representatives in Colombia, Argentina, Chile, Uruguay, Peru, Mexico, Cuba, Panama, Brazil, Bolivia, Paraguay, Ecuador, Guatemala, Honduras, Costa Rica, Nicaragua, and El Salvador.

considered unwise to postpone negotiations pending the determination of the various essential wartime requirements of the other republics and of the methods by which these requirements might most efficiently be satisfied. Up-to-date information has not been available here as to the extent to which methods of manufacturing tires and tubes achieve as great a degree of conservation of crude rubber as is the case here, where reclaiming and recapping facilities are in use. The manufacture of a great number of rubber products has been discontinued in this country and drastic measures for the conservation of rubber have been instituted.

This Government is prepared to give assurances that, on the basis of the foregoing factors and having in mind the great shortage of rubber, this Government will endeavor repeat endeavor to satisfy the essential wartime requirements for rubber products, including tires and tubes of the country to which you are accredited.

The question of whether these requirements will be satisfied by shipment from here or from Brazil or from some other manufacturing country will not be determined by any motives of commercial gain in this country but solely on the basis of efficiency from the point of view of availability of shipping, potential risk of loss in shipping, and of the amount of crude rubber consumed. It appears logical that a substantial part of these requirements should be furnished from stocks contracted for by this Government in Brazil. Existing Venezuelan manufacturing capacity might best be used for supplying nearby countries. But in any event the contractual rights obtained by this Government will not be used to deny to the other Republics their essential requirements of rubber products.

You are requested to bring the substance of the foregoing to the attention of the proper officials of the government to which you are accredited.

HULL

811.20 Defense (M) Colombia/74 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, May 25, 1942—8 p. m.

[Received May 26—12:40 a. m.]

698. My 691, May 22, 11 p. m.⁶¹ The following is a brief summary of statements made to me today by Minister of National Economy:

The Colombian Government is prepared to enter into an agreement with the United States Government giving us the right to purchase all rubber in excess of Colombian internal needs at a price to be based

⁶¹ Not printed.

upon price already fixed with the Government of Brazil, for a period of 2 years, subsequent price to be fixed year by year.

2. Because of the dependence of Colombian economy on automobile transportation and consequent necessity of maintaining adequate supply of tires and tubes, the Colombian Government considers it essential that automobile tire plant be constructed here to take care of current needs. The Minister said that he had under consideration offers from United States Rubber, Firestone, Goodrich, and Good-year. Colombian Government would assure us that no tires would be exported from Colombia without prior consent on our part.

3. In any event Colombian Government would undertake not to export rubber or rubber products to any country other than the United States and he reaffirmed the policy expressed to me by the President that as this war is also Colombia's war the Colombian Government does not under any condition desire strategic materials to reach the enemies of the United States.

4. Assuming that Colombian requirement for tires and other domestic needs would be 1000 tons of rubber per annum there would still be available at least 3000 tons of crude rubber for export to the United States. (Our estimates for tires and tubes alone for Colombian consumption are 600 tons of rubber per annum).

In order to assist me to proceed in a general way with negotiations, I should welcome the Department's instructions on the following points:

(a) Would the Department still object (as indicated in Department's 521, May 6, 8 p. m.) to the establishment of an American plant in Colombia for the manufacture of this [*tires?*] and tubes?

(b) If not, would it be possible to obtain priorities for machinery for this purpose?

(c) As local press indicates that a higher price has been agreed upon between Brazilian and United States Governments for purchase of Brazilian rubber, would that automatically increase our offer for Colombian wild rubber?

. . . I suggest that the Department telegraph me its views at the earliest date possible.

LANE

811.20 Defense (M) Colombia/74 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 30, 1942—6 p. m.

632. Your 698 of May 25.

1st. Rubber Reserve Company would prefer to have a fixed price for the 5-year period in order to encourage making investment in

rubber production. The Brazilian and Peruvian agreements provide for such change in the price at end of the first 2 years as is mutually agreed upon as appropriate by reason of changed circumstances affecting the world price of rubber. Such a provision in the Colombian agreement would be satisfactory, but a fixed price for the 5 year period is preferred. There are real advantages to Colombia in having the price fixed for 5 years; if, for instance the war should end in 2 years, Colombia would nevertheless have a market for its rubber at this price regardless of what other sources of rubber should then be available, such as Far Eastern or synthetic rubber. However, Rubber Reserve would not be inclined to take a firm stand on the point if it is considered important by the Colombian Government.

2d. While under ordinary circumstances this Government would consider with the greatest sympathy the construction of a tire plant in Colombia, such a project is impossible at the present time. In many of the American republics such projects have been put forward and the policy of the Department has been uniformly against them except in the case of Peru where special considerations were believed to exist. In spite of the fact that it is stated by proponents of these plants that second-hand machinery will be used, investigation reveals that some new equipment is generally required which is of the tightest priority. Moreover, it is difficult if not impossible to be assured that such plants will be as efficient in limiting the amount of crude rubber used in manufacture or in adopting other conservation methods as is the case here.

This does not mean that there is any failure to recognize the desirability of saving shipping space and risks involved in the delivery of crude rubber to this country and sending tires back to the producing country, or to recognize the necessity for satisfying Colombia's essential requirements for rubber products. The Department's circular telegram of May 18 sets forth this Government's attitude in this respect.

The Department is engaged in obtaining complete information on rubber manufacturing capacity in Central and South America. Until and unless this investigation establishes that there now exists insufficient capacity for supplying essential requirements in these countries, and taking into consideration the factors referred to above, the Department will not favor any additional construction or expansion of existing facilities in Central or South America. It is repeated, that this Government will, however, endeavor to satisfy Colombia's indispensable requirements for rubber products.

3d. The information available here indicates that Colombia's indispensable requirements are between 500 to 1,000 tons per annum.

You are authorized to agree on any amount between these two figures which appears to you to be reasonable having in mind your estimate of 600 tons for tires and tubes and the fact that presumably Colombian requirements for miscellaneous products should be small.

4th. A price of 33 cents for castilloa was offered to Colombia as compared with the price of 24 cents agreed on with Brazil. In order to equalize the situation, Brazil has been offered and has accepted an increase in all prices, both for castilloa and hevea, of approximately 15 percent, 7½ percent to be passed on to the producers and 7½ percent to be retained by the Instituto Agronomico do Norte, such increase to be effective for the first 2 years of the contract. Accordingly, while no increase in the price for Colombian castilloa is in order, Rubber Reserve will agree to pay Colombia, for the first 2 years of the contract, 39 cents plus approximately 15 percent for the equivalent of Upriver Acre Fine, on a washed and dried basis, with appropriate differentials for other types and grades. The exact increased price agreed on with Brazil is not yet known here. You will be advised when it is available, and in the meantime you may discuss it on the basis of a 15 percent increase over the 39 cents price.

A draft agreement is going forward by airmail.

HULL

811.20 Defense (M) Colombia/78 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, June 1, 1942—2 p. m.

[Received 5 : 51 p. m.]

729. Department's telegram number 632, May 30, 6 p. m. I shall hope to discuss the matter with the President or the Minister of National Economy during the next few days.

In an interview with the Foreign Minister this morning I mentioned the subject matter of the Department's telegram in a general way. The Minister said that the general view of the Minister of Foreign Affairs is as follows:

1st. For reasons of economic policy he approves in principle reaching an agreement with the United States Government regarding the purchase of Colombian rubber as the United States is the most stable market for rubber; also for political reasons Colombia desires to accede in every practicable way to our wishes in connection with winning of the war.

2d. While fully appreciating our point of view regarding the establishment of a tire plant in Colombia, he considers that it would be

“madness” for Colombian rubber to be manufactured into tires in the United States and then reshipped to Colombia for consumption here.

I transmit the foregoing merely to give the Department the point of view of the Foreign Office. The objection raised by López de Mesa in paragraph number 2 need not necessarily be considered as representing the final view of the Colombian Government.

LANE

811.20 Defense(M) Colombia/84 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, June 5, 1942—7 p. m.

[Received June 6—12:50 a. m.]

755. Department's No. 632, May 30, 6 p. m. Following is the substance of remarks made to me this afternoon by Minister of National Economy:

1. Colombian Government would be prepared to conclude purchase agreement for rubber with us for 5-year period but would prefer after a 2-year period to have an option to discuss price if conditions should warrant.

2. Colombian Government although not absolutely insisting on construction of a tire plant would prefer this arrangement for production of tires for they are absolutely essential for maintenance of national economy. Colombian Government has already in force severe restrictions regarding use of tires and regarding reclamation of rubber. Colombia has until now refused to supply rubber to Venezuela and Argentina for manufacture of tires and will continue to do so unless unable to obtain tires from (a) local manufacture or (b) from our excess stocks understood to be now in Brazil (he said that about 2 weeks ago Brazil refused to sell tires to Colombia on the ground that an agreement with us precluded exportation).

3. Maximum of 1,000 tons per annum of rubber products including tires would be sufficient.

4. The question of price is not all important. (I did not discuss the matter of price more fully in the absence of reply to my telegram no. 748, June 4, 1 p. m.⁶²) I am going to see the President tomorrow morning and will endeavor to obtain firm agreement to go ahead with definite negotiations on the basis of the foregoing.

LANE

⁶² Not printed.

811.20 Defense (M) Colombia/85 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, June 6, 1942—5 p. m.

[Received 9:37 p. m.]

761. Department's 653, June 5, 7 p. m.⁶³ The President said to me this morning the Colombian Government does not insist on immediate installation of tire plant fully appreciating that because of shipping crisis it is not possible for us to grant priority for machinery at this moment. The Colombian Government would, however, like to have an assurance that once the crisis is alleviated we will assist in establishing a plant which is necessary for Colombian economy on a long range basis. Both the President and the Minister of National Economy emphasized that severe restrictions regarding the rise of rubber have been in force here for 2 months and that we will be guaranteed that output of plant would be only for Colombian essential needs. President and Minister also confirmed that embargo is now in effect prohibiting the exportation of rubber to any party other than the United States Government pending the conclusion of present negotiations.

As the President indicated that he is not familiar with the technical details regarding prices I shall discuss Department's No. 653 with the Minister of National Economy early next week.

LANE

811.20 Defense (M) Colombia/86 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, June 8, 1942—5 p. m.

[Received June 9—9:48 p. m.]

773. My telegram 761, June 6, 5 p. m. Following is a summary of statements made to Pocklington⁶⁴ and to me this afternoon by Minister of National Economy.

1. Colombian Government is anxious to fix a price over a period of 5 years for purchase of rubber; price to be fixed by Caja de Crédito with the approval of Ministry of National Economy. Price would be determined by price agreed between Brazil and the United States. No definite decision will be taken until receipt of draft agreement which we expect to receive from the Department shortly.

2. Colombian Government still attaches great importance to construction of tire plant. Urgency of matter was not stressed, how-

⁶³ Not printed.⁶⁴ Ronald Pocklington, rubber technician in Colombia making survey for the Office of the Coordinator of Inter-American Affairs.

ever, but dependence of Colombia on automobile transportation was emphasized.

3. Colombian Government would appreciate a loan of approximately \$500,000 to cover purchase of 10 or 12 river launches and construction of truck roads for the purpose of opening up rubber territory in the Amazonas district.

4. Colombian Government would appreciate receiving priority for 3 or 4 retreading machines which are urgently needed here to continue essential automobile transportation.

5. Colombian Government is greatly interested in enlarging Hevea nursery program and encouraging plantations both by Colombian Government colonial scheme and private enterprise.

6. Colombian Government trusts that we will allocate to Colombia tires now in Brazil to fill urgent present requirements here.

LANE

811.20 Defense (M) Colombia/87b

The Secretary of State to the Ambassador in Colombia (Lane)

No. 135

WASHINGTON, June 9, 1942.

SIR: There is enclosed a draft of agreement⁶⁵ between Rubber Reserve Company and the Republic of Colombia providing for the purchase by Rubber Reserve Company of the exportable surplus of wild rubber produced in Colombia. The agreement has been drafted on the basis of the telegrams recently exchanged between the Embassy and the Department of State.

It will be noted that under paragraph 6 of the agreement a development fund of \$500,000 is to be expended by Rubber Reserve Company. Promptly upon the execution of an agreement, Rubber Reserve Company plans to establish an agency in Colombia in order to correlate all plans of this Government with respect to rubber development work in Colombia. Such agency would, of course, operate under the supervision of the Embassy and only to the extent approved by the Government of Colombia. This agency would be under an administrative head, would furnish all necessary technical and advisory assistance, and would make and carry out all necessary arrangements relating to the purchase of rubber by Rubber Reserve Company.

It will be noted that certain provisions of the contract are given in general terms. In other countries it has been found desirable to commence operations on this basis and to work out the details as the matter proceeds. The organization which it is planned to send to Co-

⁶⁵ Not attached to file copy.

Colombia will be prepared to discuss and decide these matters, which include the price differentials to be paid for various grades of rubber.

Paragraph 3 of the draft agreement provides for the fixing of an amount as sufficient to satisfy the essential requirements of Colombia for rubber products. On the basis of information available here, it appears that this amount should be somewhere between 500 and 1,000 tons per annum, and you are requested to determine the amount within these limits which you would consider reasonable. It will be noted that the agreement contemplates an increase in this amount for justifiable causes.

It will be noted that the price fixed for rubber of the equivalent of Upriver Acre Fine runs for the term of the contract rather than being limited to the first 2 years of the contract as stated in the Department's telegram no. 632 of May 30, 1942. It is believed desirable to have the price for both this type and for castilloa scrap in effect for the same period of time.

It is suggested that the Ambassador request the appropriate officials of the Colombian Government to limit to the United States the export of crude rubber and rubber products pending the signature of the agreement.

It is also suggested that when an agreement on the form has been reached, the contract be signed by the Republic of Colombia and forwarded to the Colombian Embassy here for delivery to the Department to obtain the signature of Rubber Reserve Company. At that time notes will be exchanged here between the Department and the Colombian Embassy concerning the execution of the agreement.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

811.20 Defense (M) Colombia/86 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 12, 1942—7 p. m.

678. Your 761, June 6 and 773, June 8.

1. Provision that price shall be effective for 5 years is satisfactory; accordingly strike last sentence of Article 4 in draft forwarded. Price for equivalent of Upriver Acre Fine to be inserted in Article 4 has now been fixed at 45 cents. Brazil is being paid 39 cents, plus approximately 15%, half of which goes to Government to be used in development work and half to producers. Rubber Reserve prefers in Colombia to have entire price of 45 cents go to producers. Price for Castilloa rubber to be paid Colombia is substantially higher than Brazilian price; it is assumed Colombia will have no objection.

2. In principle there is every desire to meet Colombia's wish for a tire plant. However, in addition to the shipping factor mentioned by you, there is problem of obtaining priority for any new machinery required, and, as pointed out in Department's telegram 632 of May 30, it generally turns out that some new machinery of the highest priority is required. Preliminary studies indicate Colombia's requirements can be furnished from Venezuela using existing capacity and shipped overland. It is hoped that execution of the rubber agreement does not have to wait a final answer to this question.

3. This Government is most anxious to provide for every expenditure reasonably designed to increase rubber production. However, it is impossible to give blanket approval to any specific project without further information. This question can best be handled by the Rubber Reserve representatives planning to go to Colombia after signature of the agreement.

4. This is another aspect of the problem of supplying Colombia's indispensable requirements for rubber products. A study will be begun immediately as to its feasibility, but it is trusted that execution of the agreement will not be delayed.

5. This proposal is viewed sympathetically by the Department, and it will be referred to appropriate agencies for consideration.

6. While final decision not yet reached on request of Colombian Government for Brazilian tires, Department thinks it probably will be granted.

HULL

811.20 Defense (M) Colombia/88 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, June 15, 1942—9 p.m.
[Received June 16—3:17 a. m.]

794. Department's 678, June 12, 7 p. m. I informed the President today that draft agreement for purchase of Colombian rubber had been received this afternoon (Department's instruction no. 135, June 9) and that I propose subject to the approval of the President to discuss it tomorrow in detail with the Minister of National Economy.

The President frankly said that while he wishes to cooperate with us in every way in this and other matters in relation to the war, he was not familiar with rubber situation and would therefore prefer that I conduct negotiations with the Minister.

LANE

811.20 Defense (M) Colombia/94 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, June 18, 1942—6 p. m.
[Received June 19—3:43 a. m.]

814. My 794, June 15, 9 p. m.; and 809, June 17, 9 p. m.⁶⁶ Minister of National Economy made following comments to Pocklington and me today regarding draft agreement dated June 5, 1942 between Rubber Reserve and Republic of Colombia.

1. Colombian Government has received an offer from an Argentine for 50 tons of Castilloa rubber, ex-Buenaventura at 50 cents per pound to be returned equal tonnage manufactured tires. In accordance with previous oral agreement with me Colombian Government will not make any deal on this matter pending outcome of our negotiations but he admitted difficulty of explaining satisfactorily to Congress his concluding agreement with us at a price lower than Argentine offer.

2. As to paragraph 3 of draft agreement it is proposed that amount of rubber for domestic use or consumption be fixed at minimum 1,000 tons a year 60 percent reserved for tires. Amount of crude rubber corresponding to this reserve of 60 percent would be released for export to the United States from Colombia's maximum internal requirements in the event that we would furnish them this tonnage in tires. Colombian Government will not require construction of a tire plant for one year or one year and a half provided that it can obtain tires from Venezuela or Argentina in the meantime. It requires 20,000 tires at once and 30,000 more within a year. Can we guarantee that amount to Colombia?

3. As to the last sentence of paragraph 4 of draft agreement which the Department instructed to delete Minister of National Economy would prefer that minimum prices should be studied and adjusted after 2 years from the date of agreement.

4. Colombian Government hopes that development fund may be increased from 500,000 to 750,000 dollars so as to provide for construction of roads and acquisition of launches in connection with rubber production in Colombia.

5. Although Minister stated that Minister of Foreign Affairs is sending me memorandum in reply to draft agreement it is agreed that we shall continue negotiations orally with Arango so as to save time. Arango said that he will be leaving office shortly and would like to conclude negotiations and sign agreement within a week. He concluded interview with assurance that if we would guarantee supply of tires required pending construction of a tire plant, contract could be signed at once.

⁶⁶ Latter not printed.

Urgent telegraphic reply on foregoing would therefore be deeply appreciated.

LANE

811.20 Defense (M) Colombia/94 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 20, 1942—8 p. m.

706. Your 814 of June 18.

1. It should of course be remembered that Rubber Reserve's commitment is for a 5-year period. This assurance of a long term market should easily counter-balance a 50-cent price for 50 tons. In addition so far as known nothing comparable to the fund being provided by Rubber Reserve is being offered by Argentina.

2. In general satisfactory. It is assumed that Colombia is satisfied that its retention of 1,000 tons is sufficient without any commitment on part of this Government to see that tire plant is made available, because no such commitment can be given, except on basis outlined in Department's 678 of June 12. Guarantee can be given of prompt delivery of 20,000 tires and of 30,000 more within a year, subject of course to the availability of proper sizes and types and of shipping and to the international situation.

3. Assume language in contract as originally sent you satisfactorily covers this point.

4. Agreeable if Colombian Government agrees on other points.

5. Very desirable to sign agreements during coming week. Please telephone Finletter or Cissel⁶⁷ when contract has been signed, as prompt announcement is desired here. Pocklington is authorized to sign on behalf of Rubber Reserve.

HULL

811.20 Defense (M) Colombia/111

*The American Ambassador in Colombia (Lane) to the Colombian Minister for Foreign Affairs (López de Mesa)*⁶⁸

No. 32

BOGOTÁ, July 1, 1942.

EXCELLENCY: With reference to the contract between the Rubber Reserve Company and the Caja de Crédito Agrario, which was ini-

⁶⁷ Thomas K. Finletter, Special Assistant to the Secretary of State, in charge of the Division of Defense Materials; and T. Ross Cissel, Jr., Assistant Chief of the Division of Defense Materials.

⁶⁸ Copy transmitted to the Department by the Chargé in Colombia in his despatch No. 384, July 2; received July 7. Ambassador Lane departed for Washington on July 2.

tialed today by Dr. Miguel López,⁶⁹ Mr. Ronald Pocklington, and myself, I have the honor to confirm to Your Excellency that the Government of the United States expresses its willingness, consistent with the exigencies of the present international emergency, to cooperate with the Government of Colombia in establishing a tire plant in Colombia.

I avail myself [etc.]

ARTHUR BLISS LANE

811.20 Defense (M) Colombia/108 : Telegram

The Chargé in Colombia (Keith) to the Secretary of State

BOGOTÁ, July 2, 1942—9 p. m.

[Received July 3—1 : 29 a. m.]

907. Embassy's telegram No. 888, July 1, noon.⁷⁰ Rubber agreement signed July 1 by Caja and Pocklington and approved by Minister of National Economy and Ambassador Lane. Copy being taken to Washington by the Ambassador.⁷¹

KEITH

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND
COLOMBIA, SIGNED MARCH 17, 1942⁷²

821.24/3-1742

Agreement Between the United States and Colombia Regarding Principles Applying to Mutual Aid in the Prosecution of the War, Signed at Washington March 17, 1942

WHEREAS the undersigned Sumner Welles, Acting Secretary of State of the United States of America, has been duly authorized by His Excellency Franklin Delano Roosevelt, President of the United States of America, on behalf of the United States of America pursuant to the Act of the Congress of the United States of America of March 11, 1941,⁷³ and Gabriel Turbay, Ambassador Extraordinary and Plenipotentiary of the Republic of Colombia to the United States of America, has been duly authorized by His Excellency Eduardo Santos, President of the Republic of Colombia, on behalf of the Republic of Colombia pursuant to Laws 20 and 128 of 1941, to con-

⁶⁹ Manager of the Caja de Crédito.

⁷⁰ Not printed.

⁷¹ No copy of rubber agreement found in Department files.

⁷² For previous correspondence respecting Lend-Lease agreement, see *Foreign Relations*, 1941, vol. VII, pp. 1 ff.

⁷³ 55 Stat. 31.

clude an agreement for the supplying of defense articles and defense information; and

WHEREAS, in conformity with the Declaration of Lima of December 24, 1938⁷⁴ and Declaration XV approved July 30, 1940 at the Second Meeting of Foreign Ministers of the American Republics held in Habana,⁷⁵ the United States of America and the Republic of Colombia have expressed their desire to cooperate in the defense and maintenance of the peace, the security and integrity of the American Continent against any act of aggression which is planned or directed against any of the American Republics and having decided that the defense of each of the American Republics is essential to the defense of all of them;

They have for that purpose agreed upon the following:

ARTICLE I

The United States of America, at the request of the Government of the Republic of Colombia, will supply to the Republic of Colombia, in accordance with the terms of this Agreement, defense articles to a value of about \$16,200,000.

ARTICLE II

The Government of the United States of America agrees to accord to the Government of the Republic of Colombia a reduction of 55.56 percent in the scheduled cost of the materials delivered in compliance with the stipulations of the present Agreement; and the Government of the Republic of Colombia promises to pay in dollars into the Treasury of the United States of America 44.44 percent of the scheduled cost of the materials received by the Republic of Colombia. The Republic of Colombia shall not be required to pay

more than a total of \$1,200,000 before June 30, 1943,
 more than a total of \$2,400,000 before June 30, 1944,
 more than a total of \$3,600,000 before June 30, 1945,
 more than a total of \$4,800,000 before June 30, 1946,
 more than a total of \$6,000,000 before June 30, 1947, or
 more than a total of \$7,200,000 before June 30, 1948.

The obligations of the Government of the Republic of Colombia resulting from the present Agreement shall not bear interest.

⁷⁴ For text, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

⁷⁵ For correspondence on this Meeting, see *Foreign Relations, 1940*, vol. v, pp. 180 ff.; for Declaration XV, see Department of State *Bulletin*, August 24, 1940, p. 136.

ARTICLE III

The Government of the United States of America and the Government of the Republic of Colombia shall keep a record of all the defense articles transferred under the terms of this Agreement and not less than every ninety days lists of such defense articles shall be exchanged and reviewed.

ARTICLE IV

In conformity with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the Republic of Colombia similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the Republic of Colombia, the defense needs of the Republic of Colombia or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE V

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Government of the Republic of Colombia is in a position to supply, the Government of the Republic of Colombia will make such defense articles and defense information available to the United States of America, to the extent possible without harm to its economy and under terms to be agreed upon.

ARTICLE VI

The Republic of Colombia undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Colombia.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the Republic of Colombia, transfer title to or possession of any defense article or defense information received in accordance with Article V of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

ARTICLE VII

If, as a result of the transfer to the Republic of Colombia of any defense article or defense information, it is necessary for the Republic of Colombia to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the Republic of Colombia will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Colombia who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the Republic of Colombia.

ARTICLE VIII

The Government of the United States of America and the Government of the Republic of Colombia agree, in conformity with the principles set forth in Resolution XXV on Economic and Financial Cooperation approved at the Second Meeting of the Ministers of Foreign Affairs of the American Republics held at Habana July 1940, to cooperate in the negotiation of fair and equitable agreements designed to alleviate, within the possibility of the available resources of the contracting parties, the sufferings caused by the war wherever and in so far as such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IX

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Wherefore the undersigned plenipotentiaries of the two Governments sign and seal this Agreement in the English and Spanish languages, in duplicate, at Washington this seventeenth day of March, 1942.

For the United States of America:

SUMNER WELLES

For the Republic of Colombia:

GABRIEL TURBAY

PURCHASE BY THE UNITED STATES OF TWO ITALIAN TANKERS
REQUISITIONED BY COLOMBIA

800.85/521 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTÁ, January 2, 1942—11 p. m.

[Received January 3—1 : 12 a. m.]

5. My telegram number 122 [722], December 25, 6 a. m.⁷⁶ On December 31, Tropical Oil Company representative received instruction stating that his company was authorized by the United States Maritime Commission, subject to my approval, to negotiate directly with Colombian Government for purchase or charter of two Italian tankers. I recommended his taking the matter up with the Foreign Office. He did this morning and was advised that Colombia could not negotiate because it was already committed to Argentina.

This afternoon President Santos stated to me that he was annoyed by the delay in this matter and had instructed the Minister of Foreign Relations with all courtesy to terminate negotiations elsewhere, to prepare a decree unilaterally taking ownership of the vessels that we had discussed (and to turn them over to us at cost).

I therefore hope that so soon as the holidays are over we can obtain definite action on this matter.

BRADEN

800.85/523 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTÁ, January 9, 1942—3 a. m.

[Received 5 : 10 a. m.]

33. My telegram No. 5 of January 2, 11 p. m. President Santos yesterday afternoon informed me that negotiations with Argentina regarding tankers have been terminated and Colombia is now ready to take ownership and to transfer immediately to us.

He suggests that price to be paid be left to arbitration between Colombia and Italy after war and that we then reimburse Colombia without profit to this country.

In response to President's inquiry, and in view of Department's circular telegram of January 3, 10 p. m.,⁷⁷ I said I assumed we were anxious to get possession of tankers as soon as possible.

⁷⁶ Not printed; in this telegram Mr. Braden reported he had recently discussed with Foreign Minister López de Mesa and President Santos the importance of putting the Italian tankers immobilized by Colombia into service (800.85/512).

⁷⁷ Not printed.

We will, of course, have to supply crews to remove the vessels from Cartagena.

President is particularly anxious as part of this deal to obtain two merchant ships. I expressed great doubt this could be done for a considerable time; certainly not until our shipbuilding program reached a point where all war requirements were cared for. He said he understood this thoroughly but hoped it could be worked out in order to insure transportation of cargoes to and from Colombia during the war.

The Minister of Foreign Relations is formally to confirm the foregoing to me tomorrow morning. Therefore, I would appreciate receiving telegraphic instructions as soon as possible.

BRADEN

800.85/525 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

Bogotá, January 9, 1942—3 p. m.

[Received 5 : 36 p. m.]

38. My telegram No. 33 January 9, 3 a. m. . . . Minister of Foreign Relations this morning after lengthy explanation placing blame for delays so far on Argentina said Italians asked \$2,850,000 for two tankers or approximately 2 million dollars more than our evaluation, a sum which Colombia could not afford and he therefore requested us to make an offer for the vessels, including therein delivery to Colombia of either one large (up to 8000 tons) or two small (about 4000 tons each) merchant vessels.

I pointed to discrepancy between his proposal and that of President Santos in that latter had suggested arbitration of price after the war and our taking possession of tankers immediately without making delivery of merchant vessels by us a condition but merely a facility which the President earnestly hoped we could give when possible.

The Minister argued that arbitration in any case would be an ultimate measure and Colombia had learned from sad experience that a small country always lost in arbitration with a large one. I replied that this objection could be eliminated by the United States as a party in interest joining Colombia in the arbitration.

The Minister had no further comeback excepting to say Italy would be enraged by Colombia's action and in fact already Colombian Minister in Rome was being discriminated against by being confined to the Legation whereas Mexican and other American diplomats were at liberty. Moreover he said Colombian merchants and industrialists are so alarmed at possibility of not being able to make shipments

that the Government would have to satisfy them by at least demonstrating every effort had been made to obtain merchant vessels.

Since Santos of course has the final decision I recommend any proposal the Department may care to make be based on his statement to me and if at all feasible include as definite a proposal as possible looking to the delivery of one or two merchant vessels.

The Standard Oil Company of New Jersey representative has not been informed of my conversations with the President and Minister.

BRADEN

800.85/525 : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, January 17, 1942—3 p. m.

60. Your 38, January 9, 3 p. m. and your despatch no. 3468, January 3, 1942.⁷⁸ Maritime Commission suggests the following: That Colombia take over the Italian tankers and deliver them to the Commission which in turn agrees to full and just compensation for the Italians in accordance with the principles of international law.

The Commission is unwilling to agree to the suggestion of arbitration. There is no objection either on the part of the Department or the Commission to Standard Oil's negotiating with the Colombian Government for these tankers. It is not yet definitely known whether the Commission will be able to make available any cargo vessels for Colombia. It is therefore suggested that you do not go beyond your previous statements on this subject.

If you perceive objection to replying to Colombians in this sense please report to the Department together with such recommendations as you may have in the premises.

HULL

800.85/561 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGORÁ, February 9, 1942—6 p. m.

[Received 9:30 p. m.]

166. My telegram 154, February 6, midnight.⁷⁹ Turbay⁸⁰ before leaving told me today that he was instructed by the President to propose in the Subcommittee of the Inter-American Economic Advisory Committee that the Italian tankers be turned over to the United

⁷⁸ Latter not printed.

⁷⁹ Not printed.

⁸⁰ Gabriel Turbay, Colombian Ambassador in the United States.

States in accordance with the resolutions approved by the Subcommittee. Turbay hopes in this way Colombia in return for the vessels will be assured of certain shipping—but not acquisition of merchant steamers—and thus the transaction can be made to appear as a mutually beneficial one and not the unilateral transfer of the tankers with Colombia receiving no benefit therefrom.

BRADEN

800.85/561 : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, February 10, 1942—7 p. m.

159. Your 166, February 9, 6 p. m. Please determine if possible to whom and under what terms the tankers are to be turned over. In your opinion would a statement by the Maritime Commission in the nature of the following suffice for the purposes indicated in your telegram: Sympathetic consideration will be given to the needs of Colombia for shipping, within the limits imposed by the exigencies of war.

The Maritime Commission will not interpret this statement to mean that Colombia will receive preferential treatment.

HULL

800.85/565 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGORÁ, February 11, 1942—10 p. m.

[Received February 12—5 a. m.]

183. Department's telegram 159, February 10, 7 p. m. The President this afternoon confirmed information given to me by Turbay that sale of tankers should be handled in the Shipping Subcommittee of the Inter-American Economic Advisory Committee. He frankly stated that his principal object was as soon as possible to make delivery of the vessels to the United States and in return to get the best possible assurances that this country's shipping needs would be cared for either by allocation of sufficient tonnage to Colombian trade or by purchase of one or two merchant vessels. . . .

He does not know to whom in the United States or under what terms the tankers should be turned over; therefore, these are matters which can best be worked out with Turbay. The same applies to the nature of the statement to be made by the Maritime Commission. In my opinion it would strengthen Santos' hand were it possible to make a stronger statement than that suggested in the Department's telegram under reference.

BRADEN

800.85/576 : Telegram

The Chargé in Colombia (Keith) to the Secretary of State

Bogotá, March 13, 1942—9 p. m.
[Received March 14—3:04 a. m.]

356. Referring to the Embassy's No. 33, January 9, 3 a. m. Foreign Minister remarked to me yesterday that the question of the Italian tankers was causing him a great deal of anxiety. He again expressed a lack of confidence in arbitration after the war reiterating that his experience had shown that a small country often stood to lose in arbitral proceedings with a large country. He also felt that Italy was perhaps trying to handicap the transaction by claiming such a high price for the tankers which I agreed was most likely.

I assured him my Government would be glad if the matter might be settled soon and he said he would at once discuss it further with President Santos. He promised to keep me informed although negotiations are now being handled in Washington.

KEITH

800.85/576 : Telegram

The Acting Secretary of State to the Chargé in Colombia (Keith)

WASHINGTON, March 14, 1942—11 p. m.

311. Your 356, March 13. A proposal for the purchase of the two Italian tankers has been submitted to the Colombian Ambassador. It is substantially as follows:

(1) A payment of \$1,500,000 for the two tankers. Although it was originally proposed that extraordinary repairs would be deductible from this total, the proposal now stands that no such provision will be included if the tankers are in approximately the same shape as they were when the survey by Standard Oil was made. Colombia must take title first, however.

(2) War Shipping Administration (Maritime Commission) will endeavor to use these tankers for the transportation of oil from Colombia. Recognizing the needs of Colombia for the transportation of its exports and imports, the War Shipping Administration will also endeavor to keep in the Colombian foreign trade merchant tonnage equivalent to the tonnage of the Italian tankers.

The Colombian Ambassador stated he felt point (2) should be somewhat stronger, but he has been informed that this is impossible in view of wartime conditions and that point (2) represents full recognition of the needs of Colombian foreign trade by the War Shipping Administration.

WELLES

800.85/576: Telegram

The Secretary of State to the Chargé in Colombia (Keith)

WASHINGTON, April 28, 1942—8 p. m.

484. Department's 311, March 14, 11 p. m. No reply has yet been received to our proposal. Turbay states he is awaiting word from Bogotá. It is impossible to overemphasize the need for tankers at the present time. Will you please make whatever efforts you can to determine whether the Colombian Government has given Turbay instructions and, if so, what they are?

HULL

800.85/595: Telegram

The Chargé in Colombia (Keith) to the Secretary of State

BOGOTÁ, April 29, 1942—8 p. m.
[Received April 30—3:02 a. m.]

570. Reference to Department's telegram 484. The Foreign Minister informed me this morning that Colombian Government had offered to Phyllis [?] the sum of 1,500,000 for the two tankers but this was not accepted as latter insists on price of \$250 per ton for the *Anteo* and \$200 per ton for the *Rapallo*. Subsequently no action has been taken and Turbay has received no instructions.

The Minister fears that if they take over the tankers on the basis of our offer Italy will claim the difference between our price and its own which will have to be settled by arbitration at the end of the war. He requested I "sound out" whether our Government would be ready to guarantee that, if as a result of arbitration following the war Italy were awarded a sum greater than that now offered, the United States Government would assume the responsibility of paying the difference. He said this would help him on presenting the matter again to the Council of Ministers. He remarked that it would be assuming a considerable risk to place the Government open to claims after the war for "15 minutes use of the two boats" (it is not possible to dissuade him from an apparent conviction that if Colombia takes the boats there will be a special effort made to sink them immediately).

He then told me Argentina, Chile and Uruguay were all interested in obtaining these ships and that he was convinced that Argentina would pay the amount Italy was demanding although he added that possibly the former would be able to obtain a rebate from Italy after that step were taken.

My reaction is that it is not actually a lack of the Minister's desire to cooperate but rather an unwarranted caution to prevent the Gov-

ernment's being caught for a large sum as a result of future arbitration. Following the presidential elections May 3 the solution here will probably best result from conversations with the President on this subject, with reminders being given to Turbay by the Department as to the urgency of the matter.

KEITH

800.85/576 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 6, 1942—10 p. m.

524. Department's 311, March 14, 11 p. m. and your 588, May 2, 2 p. m.⁸¹ Colombian Ambassador has informed the Department that his Government accepts the proposal contained in first telegram under reference. He also states the Colombian Government desires to have the exchange of notes on the subject take place in Bogotá for various technical governmental reasons. The notes to be exchanged will be gone over here with the Colombian Embassy and satisfactory drafts will be sent to you as soon as possible.

HULL

800.85/598 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 8, 1942—midnight.

[Received May 9—4:19 a. m.]

618. My No. 610, May 7, 9 p. m.⁸² President Santos confirmed published report today that he had instructed Ambassador Turbay to agree to the Department's proposal for the two Italian tankers, notes to be exchanged in Bogotá at Turbay's request.

The President repeated suggestion made by Minister of Foreign Affairs to Keith as reported in Embassy's telegram No. 570, April 29, 8 p. m. to the effect that should Italy make a claim for difference in our price and the price asked by Italy and should this claim be sustained by an arbitral tribunal the United States would guarantee to reimburse Colombia for this amount. I informed the President that I would transmit his suggestion to the Department. As Colombian Government is now complying unreservedly with our wishes despite pressure from the Argentine Government and the Chilean Government which Santos said was at the instance of Axis I feel it only reason-

⁸¹ Letter not printed.

⁸² Not printed.

able that we should agree to reimburse Colombia for any loss which it might suffer as a result of its cooperation with the United States.

The President said that he is prepared to turn over tankers immediately and that funds received in payment would be deposited in a Colombian bank until after the war. He urges that the United States officials who are to take over the ships arrive at Cartagena at the earliest possible and confidentially so as to minimize possibility of sabotage. Please telegraph whether Department will comply with the President's request.

LANE

800.85/598 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 18, 1942—11 p. m.

582. Your 618, May 8, midnight, and 570, April 29, 8 p. m. The proposal contained in the Department's 311 of March 14 was designed to avoid the question of arbitration between Colombia and Italy regarding the price to be paid for these tankers. This was carefully explained to the Colombian Ambassador here. The Maritime Commission does not consider it advisable to have the price to be paid for the tankers determined in this manner. It suggests, however, if the Government of Colombia is willing to turn the vessels over to the United States, that the latter would pay the Italians a price similar to that which it is obliged to pay when it requisitions vessels under our law.

It is hoped, however, that you can obtain acceptance of our proposal referred to above without further recourse to the matter of arbitration.

HULL

800.85/606 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 22, 1942—8 p. m.
[Received May 23—3 : 26 a. m.]

688. Department's 582, May 18, 11 p. m. The President told me during past week Italian Government, with a view to preventing sale of tankers to the United States, had stiffened its terms for the two tankers: \$4,000,000 payable in gold coins—that is \$6,800,000; and Italy to have the right to re-purchase vessels after the war. The President said that these terms are unreasonable.

On my persuading the President we are as anxious as Colombia to avoid litigation as a result of Colombia's good offices and that we are

prepared to pay Italians a price in accordance with requisitioning of vessels under the laws of United States, he agreed not to insist on his former point provided we would assume responsibility for consequences.

By this he meant, he said, not that we should guarantee any sum to the Colombian Government but that we should consider it our moral responsibility to relieve Colombia from any consequences which might ensue as a result of Colombian action.

When I suggested that, as in the case of our general military problems (see my telegram 687, May 22, 7 p. m.⁸³) we might consider a gentlemen's agreement to exist along the lines suggested by him, he agreed and said that he would immediately instruct the Minister for Foreign Affairs to issue a decree to permit sale of two tankers to the United States Government, on our terms.

While I admit that this informal agreement regarding our moral responsibility may be too general to be entirely satisfactory to the Department, I believe it is the best arrangement we can now make and therefore, I recommend its acceptance because of the urgency of the matter.

Please telegraph whether Department approves.

LANE

800.85/620 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 3, 1942—8 p. m.

645. Your 688, May 22, 8 p. m. and 740, June 2, 7 p. m.⁸⁴ Following from War Shipping Administration:

"The Government of the United States offers to purchase from the Government of the Republic of Colombia the two Italian tankers, the *Anteo* and the *Rapallo*. The Government of the United States offers through the War Shipping Administration a total of \$1,500,000 for the two tankers. Furthermore, it is understood that the Government of the United States will take delivery of the tankers in their present location and present condition as soon as possible after the consummation of the foregoing arrangement.

The Government of the United States also offers satisfactory assurance to the Republic of Colombia that, in the event that the Republic of Colombia is held liable to the owners of the tankers or to the Italian Government for an aggregate amount in excess of \$1,500,000 by post-war arbitration or other international determination held in accordance with proceedings mutually satisfactory to the United States and the Republic of Colombia, the United States will pay to the Republic of Colombia the amount of such excess. If these terms

⁸³ *Ante*, p. 152.

⁸⁴ Latter not printed.

are satisfactory to the Republic of Colombia, the United States is prepared to execute a mutually satisfactory purchase agreement within the next 10 days. Appropriate officials of the Republic of Colombia in Washington should be authorized to execute such an agreement."

It would be extremely desirable to have some understanding as to how soon we may place these tankers into operation if the above message is satisfactory to the President.

HULL

800.85/623 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

[Extract]

BOGOTÁ, June 6, 1942—8 p. m.

[Received June 7—12:07 a. m.]

762. Department's 645, June 3, 8 p. m. President Santos said to me today that the proposal suggested in Department's telegram seems entirely acceptable. He promised to submit it to the Cabinet Monday or Tuesday and would inform me immediately regarding final decision which he felt would be favorable although reservation had been suggested by one Cabinet Minister that tankers should be under Colombian registry and should be used exclusively for inter-American trade.

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LANE

800.85/623 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 12, 1942—6 p. m.

676. Your 762, June 6, 8 p. m. The reservations mentioned in your telegram would not be satisfactory for the following reasons: (1) Although it is hoped to keep these tankers in inter-American trade it is impossible under wartime conditions to give any firm assurances to this effect; (2) Colombian registry raises the practical problem of the availability of skilled personnel; your comments on other problems involved in operating under Colombian registry would be appreciated; (3) The War Shipping Administration is assuming certain responsibility with respect to these tankers and it believes that it should have freedom of action as to their use if at all possible.

The administration has been unable to locate the firm mentioned in your telegram and is inclined to believe it may be an effort on the part of Argentina to secure the vessels.

HULL

800.85/642 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, June 23, 1942—7 p. m.
[Received June 24—9 : 30 a. m.]

832. My 824, June 22, 3 p. m.⁸⁵ The President sent for me today to inquire whether I had any reply from the Department as to when the crews of the two tankers may be expected. I was obliged to reply in the negative.

The President said that his assurances of the past are still binding but that as he would prefer the transaction not to be between the two Governments he suggests that the transfer be made from the Federación Nacional de Cafeteros, acting as trustee, to the United States Maritime Commission. He is prepared to suggest the transaction at any time agreeable the United States Government. (Exchange of notes mentioned in the Department's 524 May 6, 10 p. m. has never been received by this Embassy.) The President again emphasized desire to turn over the tankers without any publicity being attached until they have left Colombian waters. For this reason he emphasizes the necessity for keeping the matter including the arrival of the crews extremely secret.

I should appreciate Department's urgent instructions as to whether form of transfer satisfactory and when crews may be expected.

LANE

800.85/642 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 25, 1942—midnight.

724. Your 832, June 23, 7 p. m. With reference to the suggested form of transfer the War Shipping Administration prefers that the transfer be made directly from the Colombian Government to the United States represented by the War Shipping Administrator. If determination to make transfer on these terms is final, War Shipping Administration is prepared to send crews as soon as it can arrange transportation by air.

HULL

⁸⁵ Not printed.

800.85/655a : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 27, 1942—9 p. m.

739. From the War Shipping Administrator. Confirming telephone conversation War Shipping Administration will accept transfer of vessels from Federación Nacional de Cafeteros in accordance with agreement referred to in our No. 645 of June 3, 8 p. m. and will send down crews as soon as air transportation can be arranged. Will transmit check for payment to you upon receiving documents transferring title to War Shipping Administrator together with opinion by Foreign Minister or other equally responsible official of Colombian Government to the effect that requisition was valid, that title was validly transferred by Colombia to Federación Nacional de Cafeteros and that documents transferring title from Federación Nacional de Cafeteros to War Shipping Administrator are valid, all in accordance with laws of Colombia. Please confirm.⁸⁸

HULL

GOOD OFFICES OF THE DEPARTMENT OF STATE IN NEGOTIATIONS REGARDING THE RESUMPTION OF PAYMENTS ON THE COLOMBIAN FOREIGN DEBT⁸⁷

821.51/2684

Memorandum of Telephone Conversation, by Mr. James H. Wright of the Division of the American Republics

[WASHINGTON,] January 3, 1942.

Mr. Wright called Señor Salazar⁸⁸ to inquire if he had received any instructions from the Agricultural Mortgage Bank of Colombia which would enable him to continue the exploratory conversations which had been started some months ago looking to the settlement of the Government-guaranteed dollar bonded indebtedness of the Bank. Señor Salazar said that he had been in touch with the Bank and at its request had last week forwarded an exhaustive report to Bogotá explaining a number of points. Unless there was an unexpected delay in the air mail, he hoped to have a reply from the Bank sometime around January 5, but he could not, of course, guaran-

⁸⁸ On July 2, 1942, the Ambassador in Colombia reported to the Department that the Colombian Minister for Foreign Affairs had informed him the preceding day that the arrangement was satisfactory, and that he would take up immediately with the Government departments concerned the question of issuing the necessary documents to legalize the transfer of the vessels. The transfer of the tankers took place on August 6, 1942.

⁸⁷ Continued from *Foreign Relations, 1941*, vol. VII, pp. 55-81.

⁸⁸ Fernando Salazar, representative of the Agricultural Mortgage Bank of Colombia, then in New York.

tee this. Señor Salazar evidenced a complete willingness to resume the conversations (in so far as he was personally concerned) and stated that he had written Mr. Walmsley⁸⁹ in the matter some eight days ago. He promised to let me know when he had anything concrete. . . .

821.51/2689

*Memorandum of Conversation, by the Chief of the Financial Division
(Livesey)*

[WASHINGTON,] January 15, 1942.

Participants: Dr. Fernando Salazar, representative of the Agricultural Mortgage Bank of Colombia;
Mr. Livesey, FD;
Mr. Walmsley and
Mr. Wright, RA.

Dr. Salazar made his excuses for his long silence since his visit of October 31⁹⁰ but said he had not been idle during this time. He had reported that conversation by a long cable and subsequently had much correspondence with the Mortgage Bank concerning the suggestions developed in that conversation. The Bank and the Ministry of Finance had made a thorough study of the Bank's condition and had decided that its income was not sufficient to permit it to pay the interest and amortization on the lines then suggested, viz., comparable for the guaranteed bonds with the settlement made of the Colombian National Bonds and, in the case of the non-guaranteed bonds, comparable with the payments made of the sterling bonds.

There had been much consultation at Bogotá and by exchange of letters with him. Unhappily these had not resulted in any new proposals. However, the suggestion has come up that the Colombian Government could issue National Bonds, that is, three percent dollar bonds of the same type recently offered in the settlement of the dollar bonds of the Government of Colombia and offer these in exchange for the dollar bonds of the Colombian Agricultural Mortgage Bank. Dr. Salazar had not been informed of the terms on which this exchange would be made. He had been asked, however, to consult his friends in the Department of State as to (1) whether objection was seen to this method of settlement, and (2) whether it could legally be done from the point of view of laws of the United States.

⁸⁹ Walter N. Walmsley, Jr., Assistant Chief of the Division of the American Republics.

⁹⁰ See memorandum by Mr. James H. Wright, *Foreign Relations*, 1941, vol. VII, p. 75.

In discussion Dr. Salazar insisted that he had not been informed as to the terms on which National Bonds might be offered the holders of the Bank's bonds. He thought it might be in mind to offer less favorable treatment of arrears of interest than had been given the holders of National Bonds in the recent settlement. This was with reference to guaranteed bonds. For the non-guaranteed bonds he thought that the holders might be offered a reduced capital amount. But on these points he had not been informed. All he was to do was to ask questions as to how this means of settlement was regarded in principle and as to any legal difficulties which could be foreseen.

On the basis of personal opinions he was told that no objection in principle was perceived to a type of settlement in which the Colombian Government would offer to exchange dollar bonds of its own for dollar bonds of the Agricultural Mortgage Bank. The idea might even be regarded as a favorable point of departure. On the legal side it was not perceived that there was any difficulty, although the offer of a settlement of this kind would, of course, have to be registered with the Securities and Exchange Commission in conformity with whatever requirements the Commission may establish, which would probably call for full information regarding Colombian finances and regarding the finances of the Agricultural Mortgage Bank.

It was suggested that on the legal question he might also want to speak to trustees of the Bank's bonds and to the Fiscal Agent of the National Loan. Mention was also made that American counsel who have been retained in the recent adjustment of the Colombian National Bonds must be highly qualified in such matters as S. E. C.⁹¹ procedures, etc., and fully familiar with the question of the Agricultural Mortgage Bank bonds. Dr. Salazar indicated that part of the procedure might be for the Mortgage Bank to sell internal *cédulas* and pay the proceeds to the Government for assuming the Bank's foreign debt. He did not define just what advantages would be derived from this but evidently from the Colombian point of view it is regarded as one of the attractive elements in the procedure.

Dr. Salazar expects to return to Colombia early in February and has long since asked the Bank to name his successor. He has never received a reply on this point. He said that if the procedure of the Government taking over the debt is followed, the negotiations might possibly be entrusted to the Embassy, although Colombia had no one here highly qualified to handle such a matter.

Dr. Salazar said that he would at once telegraph Bogotá the expressions of personal opinions which he had been given. He made it very clear that he understood that these conversations were not direct

⁹¹ Securities and Exchange Commission.

negotiations between two parties but that the State Department was merely offering its friendly assistance and good offices in his mission here.

He said that he would urge Bogotá to send him a detailed proposal with which he could again approach the Department of State. However, . . . he hardly expected that he would receive a new proposal before he leaves for Bogotá.

821.51/2691

*Memorandum of Conversation, by the Chief of the Financial Division
(Livesey)*

[WASHINGTON,] January 27, 1942.

Participants: Dr. Fernando Salazar, Representative of the Agricultural Mortgage Bank of Colombia;
Mr. Walmsley,
Mr. Wright,
Mr. Livesey

Dr. Salazar came down from New York to report developments since his visit of January 15, 1942. He said that immediately after that conversation he telegraphed a report to the Bank. He received a reply jointly signed by the Colombian Minister of Finance⁹² and the Bank. They stated that after very full consideration of the matter they found that it would not be possible to make a proposal which would provide any payment in respect of arrears of interest on the Bank's bonds. They did, however, regard a settlement which would give the bondholders bonds of the National Government of Colombia as very favorable to the bondholders in giving them a readily marketable security bearing the name of the Government of Colombia and no longer tied to the vicissitudes of the fortunes of the Bank, which, Dr. Salazar observed, might possibly again run into serious difficulties at the end of the world war. Dr. Salazar explained that the instructions he had first received from Bogotá were to offer 70 per cent of the capital amount of the outstanding bonds in new bonds bearing 2½ per cent interest. However, the Colombian Ambassador⁹³ and he had insisted that a proposal involving the reduction of capital should not be submitted to the Department of State. He was then authorized to offer par for par of 2½ per cent bonds. The present proposal was par for par of 3 per cent bonds and these bonds had

⁹² Carlos Lleras Restrepo.

⁹³ Gabriel Turbay.

the added advantage of being an issue established in the American market. Thus Colombia had yielded on three points. The Bank considered that its fiscal position was such as to preclude its yielding further and proposing payments in respect of arrears of interests. (All this related to the guaranteed bonds.)

Dr. Salazar said that his new instructions authorized him to submit these considerations to the Department of State and to say that if the Department indicated no adverse opinion and he so reported to Bogotá, he might be authorized to submit a formal proposal before he leaves for Bogotá on February 4.

In discussion, Mr. Walmsley asked whether Dr. Salazar had received any further information regarding the Bank's holdings of its own bonds, regarding which inquiry had been made in an earlier interview with Dr. Salazar. Dr. Salazar said that although he had asked for it several times he had not received this information, but that he had been told that it could be furnished the Department if and when a formal proposal was made to the Department. In reply it was suggested that to carry out the new proposal would probably require the filing of a registration statement with SEC, submitting all material facts respecting the Bank's position, the number of its own bonds in its possession, the estimated number owned by Americans, and all other pertinent data regarding the Bank's position. (Possibly registration could be avoided if a bank would handle the exchange and charge only for the costs of handling the papers.) The Department has no way of knowing what showing would be made in the registration statement in response to the inquiries SEC would undoubtedly make on such points. It would be very difficult for the Department to take any favorable attitude toward an adjustment proposal in the absence of information such as SEC would require, which might have a very important bearing on the public reception given any proposal.

It was pointed out that a settlement already made on the Government's own bonds would be self-explanatory, and would minimize adverse comment. Anything less than this would invite adverse comment and be difficult for the Department to defend.

Dr. Salazar said that he recognized this but that the Bank's position was as he had stated. He referred to the fact that direct appropriation by the Government would be a matter requiring congressional action and would thus be dragged into public debate. As a practical matter, therefore, the settlement had to be within the Bank's and executive branch's power of accomplishment without recourse to congress.

Dr. Salazar inquired about further procedure. Should further action await his return to Bogotá, where he proposes to continue his interest in the matter? There was discussion as to whether the Department might not telegraph Ambassador Braden a report of the status of the matter with a view to his discussing it on a personal basis with the Minister of Finance. Dr. Salazar said that he did not know whether the Minister would be prepared to appear in the matter in this form, although he is also a director of the Bank and is interested in the matter in that capacity. He suggested that the initiative as to any discussions with the Ambassador should be left to the Minister of Finance, and said that he would immediately cable the Minister. If he finds the Minister favorably disposed to such conversations he will advise the Department of State would [*which?*] could instruct the Ambassador in the matter.

821.51/2691

The Secretary of State to the Ambassador in Colombia (Braden)

No. 1275

WASHINGTON, February 5, 1942.

The Secretary of State encloses for the information of the Ambassador and the files of the Embassy, a memorandum of conversation of January 27, 1942⁹⁴ between officers of the Department and Dr. Fernando Salazar, representative of the Agricultural Mortgage Bank of Colombia. It will be noted that Dr. Salazar felt that it would embarrass the Minister of Finance for the Ambassador to approach him concerning the settlement of the defaulted bonds of the Agricultural Mortgage Bank. Since Dr. Salazar felt that the initiative in these discussions should come from the Minister rather than from the Ambassador, no discussion should be undertaken without the previous approval of the Department. However, if the Minister of Finance brings the matter up the Ambassador is fully at liberty to discuss it.

821.51/2693 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTÁ, February 13, 1942—3 p. m.

[Received 9:30 p. m.]

196. My telegram no. 593, December 1, noon.⁹⁵ From informal conversations with the Ministry of Finance, Turbay, National City

⁹⁴ *Supra.*⁹⁵ *Foreign Relations*, 1941, vol. VII, p. 81.

Bank attorney, and that institution's supervisor for Colombia, it would appear that this matter can be promptly settled on the basis of liquidation over 15 years which I understand is satisfactory to all group participants excepting Bank of Manhattan Company and Continental Illinois Bank of Chicago who demand a 10-year period.

The Colombian Government is strongly opposed to anything less than 15 years as too heavy burden on the budget. Failure to reach an agreement under the existing special authorization granted by Congress will carry it into succeeding administration thus probably entailing its being debated in Congress which in turn might mean the deferment of a settlement for several years. In my opinion, the two aforementioned institutions will better protect their interests by acceding to Colombian proposal.

BRADEN

821.51/2710

Memorandum by Mr. Emilio G. Collado, Special Assistant to the Under Secretary of State (Welles),^{95a} to the Under Secretary of State

[WASHINGTON,] February 28, 1942.

MR. WELLES: Mr. Lancaster ⁹⁶ has called me twice with respect to the latest developments in the attitude which the New York and Chicago banking group wishes to take with respect to extension of the Colombian banking debt matter. You will recall that last December the debt was extended for six months on the old terms, and that the Colombian Government has authority to enter into a definitive agreement provided the period of amortization is not less than ten years. It is obviously desirable to settle this matter prior to the expiration of the present extension about the first of June.

The debt amounts to about \$15,000,000; interest has been paid at three percent. Ambassador Braden has been suggesting a fifteen year amortization period, while the Colombian Government has been talking in terms of eighteen years. The banking group had not wished to exceed twelve to twelve and one-half years.

Annual payments of amortization and interest over a fifteen year period would amount to \$1,199,000; over eighteen years to \$1,040,000. Mr. Lancaster states that the United States banking group would be willing to accept annual payments on the basis of the fifteen year period—that is \$1,199,000 per year, the entire arrangement to mature

^{95a} Mr. Collado was also Executive Secretary, Board of Economic Operations, Department of State.

⁹⁶ W. W. Lancaster, Counsel for National City Bank, New York City.

in about twelve and one-half years leaving a final payment—known in banking circles as a balloon—of between \$2,000,000 and \$3,000,000. In order to insure flexibility the banking group would be prepared to accept \$1,000,000 during the first years to be stepped up to something over \$1,200,000 in the final years.

Mr. Lancaster asks that if this proposal commends itself to the Department you advise him on how to proceed. He would be very happy if you would discuss the matter with Ambassador Turbay.⁹⁷

In my opinion the proposal made by Mr. Lancaster is not a bad one. Colombia has wished to pay only \$1,000,000 a year, but I believe that Colombia is interested primarily in the present and not in the long run, and that it would agree to the banking terms. Undoubtedly when the end of the twelve and one-half year period approached, Colombia would then renegotiate with the bankers to extend the period for the final payments. I believe that it would not be inappropriate to indicate informally to the Ambassador the views of the banking group and suggest that he take them up with Bogotá. I do not believe that the Department of State should take a formal position in the matter, but it might informally facilitate discussions which will undoubtedly be somewhat protracted, and consequently should begin at once to meet the June 1st deadline.

Mr. Lancaster will telephone again on Monday⁹⁸ or Tuesday.

E. G. COLLADO

821.51/2712

Memorandum by Mr. Emilio G. Collado, Special Assistant to the Under Secretary of State (Welles)

[WASHINGTON,] March 6, 1942.

In accordance with Mr. Welles' suggestion of March 2,⁹⁹ the Colombian Ambassador was asked to come in on March 3 to discuss with Messrs. Hooker,¹ Wright, and myself the banking debt, and the proposal made by Mr. Lancaster in the third paragraph of the memorandum of February 28, which is attached,² was transmitted to the Ambassador.

⁹⁷ In an appended note, dated March 2, to Mr. Collado, the Under Secretary stated: "I suggest that you speak entirely informally with the Colombian Ambassador yourself. You may say that you are doing so at my request."

⁹⁸ March 2.

⁹⁹ See footnote 97, above.

¹ John S. Hooker, Assistant Executive Secretary, Board of Economic Operations of the Department of State.

² *Supra.*

The Ambassador stated that he had been for some time advocating a fifteen year period and that he would continue to do so. He asked whether the proposal could not be changed to a straight fifteen year basis with the debt to be paid in the earlier years of the period or, alternatively, following the precedent set in some Export-Import Bank transactions, the balloon might be paid off during an additional two and one-half or three years providing all other payments had been met when due during the twelve and one-half year term. The Ambassador stated that if the banking group was prepared to accept either of these proposals, he would personally write to the President of the Republic and the Finance Minister urging immediate settlement of the matter.

I telephoned Mr. Lancaster regarding this the following day and he stated that he had received a message from the National City Bank manager in Bogotá stating that the Finance Minister had made the following proposal:

The debt would be settled on a ten-year basis with payments as follows:

First year	\$800,000 (as compared with total payments of \$630,000 now)
Second year	\$900,000
Third year	\$1,000,000
Fourth year	\$1,200,000
Fifth year	\$1,200,000
Sixth year	\$1,300,000
Seventh year	\$1,300,000
Eighth year	\$1,400,000
Ninth year	\$1,500,000
Tenth year	\$1,500,000

This would leave a balloon at the end of the period of \$5,500,000 and the Minister of Finance would expect to enter into an understanding that this could be serviced over an additional period of years.

Mr. Lancaster remarked that the two alternatives of Ambassador Turbay and the Minister of Finance were substantially alike and that he would take them up immediately with the banking group and inform the Department. He stated that only Lazard Freres³ was holding out.

Mr. Lancaster pointed out that a number of officials of the Department have been calling many officials of the National City Bank with respect to this matter, and requested that all communications be concentrated in himself.

³ French banking company.

821.51/2724

*Memorandum of Conversation, by the Chief of the Financial Division
(Livesey)*

[WASHINGTON,] March 6, 1942.

Participants: Dr. Gabriel Turbay, Colombian Ambassador;
Mr. Livesey;
Mr. Walmsley;
Mr. Wright;
Mr. Hooper.⁴

The Ambassador said that on his recent visit to Bogotá he had inquired very carefully into the Agricultural Mortgage Bank bond situation. He had seen all Mr. Salazar's correspondence concerning his conversations with the Department of State from last October through January. He had discussed the matter with the Government and with the officers and Board of Directors of the Bank. He had been asked, in view of his past work on the adjustment of the Colombian National Bonds, to carry on with the conversations which Mr. Salazar had begun. He was not charged to negotiate a settlement. His position was the same as that of the others present, namely that of an intermediary helping to bring about an adjustment between the debtor and the creditors.

At Bogotá he had said that he could not do anything with the matter unless he knew the facts with which he was dealing. Before he could say that a proposal was good, he would have to be sure that it was good. He had therefore obtained a balance sheet of the Mortgage Bank, which showed both the published figures and the real figures. He handed a copy of this to Mr. Livesey.

Mr. Livesey said that the Department had been very anxious to have this information. Looking at the memorandum handed him by the Ambassador, he found on page two the breakdown of the assets item entitled "Valores Diversos", which included dollar foreign bonds of the Bank in the face amount of \$4,670,500 of guaranteed bonds and \$6,503,000 of non-guaranteed bonds, a total of \$11,173,500. On the last page, which the Ambassador has indicated as giving the real figures, he found on the liabilities side an item: dollar foreign bonds \$10,939,000. The Ambassador commented that this means the Bank holds about \$11,000,000 of its total dollar bond indebtedness of some \$20,000,000, leaving about \$5,000,000 of guaranteed bonds and about \$5,000,000 of non-guaranteed bonds outstanding in the hands of the American public.

⁴ Apparently reference is to Mr. John S. Hooker, of the Board of Economic Operations, Department of State.

The Ambassador said that the Department would want to examine the balance sheet figures. In the meantime he wished to discuss several points.

At Bogotá everybody concerned felt that a settlement must comprise all the dollar bonds of the Bank, whether guaranteed or non-guaranteed. A settlement limited to the guaranteed bonds would not clear up the Bank's situation and have the favorable credit effect which everybody desires.

He found the Bank entirely unable and unwilling to make any payment for arrears of interest. He had discussed the matter before the Board of Directors in the presence of the Minister of Finance. The Bank officials insisted that the income of the Bank was insufficient to permit payment of arrears. The net income of the Bank is some 600,000 or possibly at extreme limits 700,000 pesos, say \$400,000 United States currency. The debt settlement, outlined in the Salazar conversations, on the basis of giving the guaranteed bonds the same treatment given Colombia National Bonds and giving the non-guaranteed bonds treatment comparable to that given the sterling bonds of the Lazard issue, would require \$600,000. The Bank did not deem it possible to make any payment on arrears of interest.

Any settlement reached must depend on the backing of the Colombian Government. There were two ways by which the Government might directly back a settlement. One would be for the Government to make up the \$200,000 per annum shortage by appropriation and another would be for the Government to issue its own bonds in substitution for the Bank's dollar bonds. Either of these would require approval by Congress. If either proposal were submitted to the Congress by the Executive, it could no doubt be carried through but only after prolonged debate—which among other things would revive the taking over by the Agricultural Mortgage Bank, a Government institution, of the assets and the liabilities of the private mortgage banks. The Government bank had taken over the private banks to meet emergency conditions during the depression. This action has always been attacked particularly by the Conservatives as burdening the taxpayers with the indebtedness of private institutions. The debate would be long and bitter. If either of the proposals were put to the Congress with all this debate and the formalities of registration with S. E. C., no adjustment of the debt could become effective at a date earlier than January 1, 1943. The Government hopes that it may be practical by other means without going to the Congress to reach a settlement effective by June 30 of this year.

The Government can acquire some \$5,000,000 of the new issue of 3% National Bonds from petroleum, banking and industrial concerns in Colombia. A San Francisco firm, whose name he did not recall,

has offered the Government at a price slightly above the market, \$3,000,000 of the old defaulted issue which it has not converted into the new bonds, the proceeds to be used for certain investments in Colombia, with assurances that earnings may be transferred into dollars, etc. A Chicago firm, Welch and Greene, has a block of \$2,000,000 of the new bonds which the Colombian Government can acquire. The Government also has the right to purchase its bonds in the open market and can do this even if the purchases force the price to par. It has been suggested that the Agricultural Mortgage Bank with the cooperation of the Colombian Government could acquire bonds of this outstanding issue in amounts sufficient to retire its own dollar bonds held by the public, financing the acquisition through the sale of its own internal obligations within Colombia. It could then offer to exchange these bonds of the Colombian Government for its own dollar bonds. This transaction can probably be put through within two or three months, if no objection to it were found.

The Ambassador produced the Prospectus of the Argentine Republic guaranty of bonds of the Province of Santa Fe, a debt adjustment negotiated by the Foreign Bondholders Protective Council in which holders of 7% bonds were offered an addition to the principal amount of the bonds of a sum equal to 11% of such principal in satisfaction of over-due interest due September 1, 1932 to March 1, 1934. He produced the Prospectus of the Republic of Cuba debt adjustment bonds to show that holders of some bonds were offered \$1,100 principal amount of bonds for each \$1,000 while holders of certain other bonds were offered a par for par exchange. What he was attempting to show was that the Council had recommended settlements on the basis of allowing about 10% on arrears of interest. He also said, and this he wished to be treated confidentially, although if the matter ever came up for debate in the Colombian Congress the Government might have to use the information, that Mr. Traphagen of the Foreign Bondholders Protective Council in a letter to the Ambassador in January 1940 had suggested an adjustment of the guaranteed dollar bonds of the Bank by an annuity of \$250,000 which for the first five years would provide, on the basis of \$5,000,000 of bonds outstanding in American hands, \$150,000 for payment of interest at 3%, \$50,000 for purchase of past due coupons at \$10 per coupon, and \$50,000 for sinking fund; after the first five years the interest rate would be stepped up to 3½% and the sinking fund would absorb the difference between the interest and the \$250,000 annuity.

The Ambassador said that holders of guaranteed bonds could be offered \$1,100 par value of national bonds for each \$1,000 par value of Agricultural Mortgage Bonds. This would require \$5,500,000 of National bonds. For the non-guaranteed bonds he had not worked

out the amount that would be offered. He submitted a copy of the text of the agreement made some years ago with Lazard Bros. concerning the sterling bonds and said that, all things considered, a comparable settlement in 3% Government bonds might be to offer 700 or 750 dollars of the latter for \$1,000 par value of non-guaranteed bonds of the Bank.

The Ambassador asked whether an exchange of securities offer of this kind could not be made without registration with S. E. C. Mr. Wright referred to a recent Argentine exchange of securities which had been handled by J. P. Morgan and Company without registration. Mr. Livesey said that if an exchange of securities could be handled without an underwriter and without solicitation on the part of any American financial house by employing such a house to handle merely the physical exchange of securities for a fee strictly commensurate with such limited service, apparently no registration was required by our laws. The banking house would no doubt seek to protect itself by consulting S. E. C. and giving such information and assurances as S. E. C. might ask with regard to its limited functions and fees. However, the Embassy should consult private counsel on the S. E. C. matter. Mr. Wright inquired whether Mr. Laylin, who had served as counsel for the Embassy in the National Bond adjustment and whether he or another attorney could be consulted. The Ambassador said he supposed the Embassy might still consult Mr. Laylin.

The Ambassador referred to the Foreign Bondholders Protective Council and said he hoped that the Agricultural Mortgage Bank matter might be handled without attack by the Council. Mr. Livesey said that he had gathered from Mr. Francis White⁵ that the Council would probably regard the settlement already made with the holders of direct bonds of the Colombian Government as the standard of comparison, not expecting the Colombian Government to treat holders of bonds guaranteed by the Colombian Government better than holders of direct Government bonds. This might leave some basis for questioning details of the proposed offer. However, if, as contemplated, the offer was made in the name of the Agricultural Mortgage Bank and not of the Government, there would be less direct occasion for the Council to attack the exchange proposal. The Ambassador said that the proposal would offer holders of the Bank bonds \$100 principal amount of bonds in satisfaction of past due coupons whereas the holders of National bonds had been given \$150 principal value of bonds in satisfaction of past due coupons. However, the guaranteed bonds of the Agricultural Mortgage Bank are selling at \$26 and will be exchanged for bonds which are selling at \$34, thus giving the bondholders an immediate increase in value of

⁵ President of the Foreign Bondholders Protective Council.

\$80, which should compensate for the \$50 less of principal amount that they receive. He said that since observing that in the eight months during which the National Bond adjustment has been on offer, it has been accepted by 80% of the American holders of National bonds (though only by 70% of all holders of the bonds including those in Great Britain, the Netherlands, etc.,) the Colombian authorities attach less importance to the Council's attitude than they did at the time the offer was announced under the auspices of the Departments of State, Treasury, and Commerce, when there had been considerable doubt whether American bondholders would accept or reject the offer. Colombia attaches more importance to the attitude of the United States authorities and public than to that of the Council.

Mr. Livesey said that it appeared to be the feeling of those members of the American public who were present that an offer on the part of the Bank to exchange Colombian National bonds for its own bonds on a basis comparable in the case of guaranteed bonds with the treatment already given Colombian National bonds, and in the case of non-guaranteed bonds with the treatment already given other holders of such bonds was not objectionable or unreasonable. It was of course possible that some consideration had been overlooked and it would be the function of higher officers of the Department to determine the Department's attitude toward the proposal.

The Ambassador said that he thought the Council was unreasonable and unfair in its attacks on the adjustment of the National Bonds. He thought it would be unreasonable for it to attack the proposal he had outlined, and in this connection Mr. Traphagen's letter of January 1940 might be useful either in persuading Mr. Francis White or in rebutting any published attack by the Council. He would send Mr. Livesey a copy of the full text of the letter. Mr. Wright suggested that possibly the Department might take up the matter with Mr. White and smooth the way for the eventual proposal.

The Ambassador said the Department might want several days to examine the papers he was leaving, after which he would take up the matter again. In these unsettled times it is very desirable to complete projects rapidly.

821.51/2708

*Memorandum of Telephone Conversation, by Mr. Emilio G. Collado,
Special Assistant to the Under Secretary of State (Welles)*

[WASHINGTON,] March 9, 1942.

Mr. Lancaster called from New York to state that the National City Bank was disposed to accept in principle the proposal of the Co-

Colombian Minister of Finance for a ten years settlement of the banking debt, which would leave a balloon of about \$5,500,000 at the end of the period, with an understanding that this would be further financed. Mr. Lancaster stated that in view of my previous discussion with Ambassador Turbay the Bank felt somewhat reluctant to accept the Minister of Finance's schedule of payments beginning at \$800,000 in the first year, but rather would like to receive \$1,000,000 at the outset. One million dollars has been the basis of all previous discussions.

I called Ambassador Turbay and informed him of Mr. Lancaster's conversation. The Ambassador stated that he had previously telegraphed the Minister of Finance suggesting that the banking group might be disposed to accept some arrangement with a balloon to be further financed, and that the Minister of Finance had cabled to him the proposal which he had made to the National City Bank. I indicated that the bankers hoped to receive \$1,000,000 in the first year and that all previous discussions had been on a basis of at least \$1,000,000. The Ambassador stated that he would telegraph the Minister of Finance indicating that the banking group would probably accept the proposal if the initial payments were stepped up to \$1,000,000, and recommending such basis of settlement. I thanked the Ambassador.

I subsequently informed Mr. Lancaster in general terms of the proposed telegram from the Ambassador to the Minister of Finance, and he stated that the bankers would proceed on that basis, being probably willing to recede a little on the initial payments if the Minister of Finance remained firm.

821.51/2744

The Department of State to the Colombian Embassy ⁶

MEMORANDUM

In accordance with the informal conversations carried on between His Excellency the Colombian Ambassador and representatives of the Department of State, it is considered that the following formulae offer acceptable bases of solution of the defaulted obligations of the Agricultural Mortgage Bank of Colombia in respect of dollar bonds:

(1) *Government-guaranteed Issues of 1926, 1927, and 1928.* For each \$1,000 principal amount of dollar bonds of the Agricultural Mortgage Bank of Colombia guaranteed by the Government of the Republic of Colombia now outstanding in the hands of the public, together with all unpaid coupons thereon including those past due, there would be exchanged \$1,100 principal amount of bonds of the Re-

⁶ Handed to the Colombian Ambassador on March 20, 1942.

public of Colombia external 3 per cent sinking fund issue of October 1, 1940, together with the coupons not due on the date of the offer.

(2) *Bonds not guaranteed by the Government of Colombia.* For each \$1,000 principal amount of dollar bonds of the following issues now outstanding in the hands of the public, together with all unpaid coupons thereon including those past due, there would be exchanged \$750 principal amount of bonds of the Republic of Colombia external 3 per cent sinking fund issue of October 1, 1940, together with the coupons not due on the date of the offer :

Bank of Colombia	7% due	April 1, 1947
Bank of Colombia	7% due	April 1, 1948
Mortgage Bank of Bogotá	7% due	May 1, 1947
Mortgage Bank of Bogotá	7% due	October 1, 1947
Mortgage Bank of Colombia	6½% due	October 1, 1947
Mortgage Bank of Colombia	7% due	November 1, 1946
Mortgage Bank of Colombia	7% due	February 1, 1947

WASHINGTON, March 19, 1942.

821.51/2734

*Memorandum of Telephone Conversation, by Mr. James H. Wright
of the Division of the American Republics*

[WASHINGTON,] April 6, 1942.

Ambassador Turbay called me to say that he had just received a reply from Bogotá stating that the memorandum⁷ handed to him by the Department looking to the settlement of the Colombian Agricultural Mortgage Bank dollar bonds was fully acceptable to the Bank. He was sending along to me a formal memorandum in this sense and the Department need not make any reply to this memorandum since he considered it a reply to the Department's memorandum to him.

The Ambassador was delighted with the Bank's acceptance and said that he wanted to express to the Department his sincere and whole-hearted appreciation for its assistance. He said that steps were already being taken to work out the legal details and other formalities and that he had entrusted this to John Laylin, who had been the attorney in the settlement of the Republic of Colombia bonds. He would want to get together with the appropriate officers of the Department soon to discuss any further necessary action and would let us know when he was ready.

The Ambassador requested that for the time being this settlement be kept on a strictly confidential basis so that public knowledge would

⁷ *Supra.*

not interfere with acquiring the bonds necessary to complete the operation.

821.51 Mortgage Bank of Colombia/66

*Memorandum by the Chief of the Financial Division (Livesey) to
Mr. James H. Wright of the Division of the American Republics*

[WASHINGTON,] June 10, 1942.

MR. WRIGHT: I have looked over the texts supplied by Ambassador Turbay appertaining to the offer to be made by the Agricultural Mortgage Bank. It will offer 3 per cent bonds of the Government of the Republic of Colombia which are already outstanding and listed on the New York Stock Exchange in amounts (\$1100 face value of Government bonds for \$1000 face value of guaranteed bonds and \$750 face value of Government bonds for \$1000 par value of non-guaranteed bonds) which at yesterday's closing price on the New York Stock Exchange for the Government bonds would give a market value of \$407 for every \$1000 guaranteed bond and \$277.50 for every \$1000 non-guaranteed bond. Of course the bonds to be surrendered have some ten years of unpaid coupons attached but still I think the offer will leave holders not too dissatisfied.

One irritant to holders will be that in almost every case they will have to receive "Certificates" for the parts of the \$1100 and the \$750 of Government bonds which cannot be paid in bonds of \$500 or \$1000 par value. They will have to sell these certificates or buy others over the counter to make up \$500 amounts which they can convert into Government bonds, or else wait until 1945 and then be paid in cash drawn from the proceeds of sale of the Government bonds not theretofore claimed under the Bank's offer. This will be a nuisance but there is no help for it. The low price at which these certificates (which are not listed on the Stock Exchange) will sell will somewhat diminish the above stated market values of the offer so far as concerns most holders.

Any statement the Department makes in support of the offer need not touch on these particulars. A statement of approbation or gratification in very general terms seems entirely warranted and likely to be in line with the reaction of bondholders and the interested public to the offer. The persons who will remain dissatisfied are the holders of Colombian departmental and municipal bonds who still await in vain for any offer from the debtors. In this connection it will be noted that the offer is entirely in the name of the Agricultural Mortgage Bank and that any statement which the Department may make relating to the good offices of the Colombian Govern-

ment in bringing about the offer should be phrased to attribute credit but not responsibility.

821.51 Mortgage Bank of Colombia/66

The Under Secretary of State (Welles) to the Colombian Ambassador (Turbay)

WASHINGTON, June 13, 1942.

MY DEAR MR. AMBASSADOR: I have received and wish to thank you for your cordial letter of June 10, 1942, transmitting the text of an offer the Agricultural Mortgage Bank of Colombia will make to the holders of its defaulted dollar bonds to exchange these for Republic of Colombia 3% dollar bonds. I was also glad to receive copies of the pertinent banking contract which you likewise enclosed.⁸

This sequel to the adjustment by the Government of Colombia in December 1940 of its own defaulted bonds is further concrete evidence of Colombia's determination to adjust its foreign indebtedness on an equitable basis. I understand that in your discussions of this matter during the past several months with Messrs. Livesey and Wright it had been understood that once an adjustment of this indebtedness were announced some appropriate and helpful statement to the press would be made by the Department. The Department will be glad to make such a statement⁹ and would appreciate receiving from you an indication of the date on which the statement should be given to the press.

With assurances [etc.]

SUMNER WELLES

AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA REGARDING COOPERATIVE HEALTH AND SANITATION PROGRAM FOR COLOMBIA

821.12/36a : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 19, 1942—2 p. m.

982. Your 1159 of September 7.¹⁰ The Department is informed that Mr. Rockefeller¹¹ during his forthcoming visit to Bogotá proposes to discuss with you and with the Colombian Government the possibility of undertaking a program of health and sanitation work

⁸ Letter of June 10 and enclosures not printed.

⁹ For statement issued June 25, see Department of State *Bulletin*, June 27, 1942, p. 565.

¹⁰ Not printed.

¹¹ Nelson Rockefeller, Coordinator of Inter-American Affairs.

in collaboration with the Government of Colombia. While the Department is fully aware of the widespread opportunities for constructive work of this type which exist throughout the hemisphere, the necessary supplies and in particular the trained personnel needed for this type of work are becoming increasingly scarce in this country and would have to be diverted from the immediate war effort or from the already reduced services available to civilians and defense workers in this country. The Department would therefore be most reluctant to approve any project for health and sanitation work unless it is clearly necessary in connection with obtaining strategic materials of prime necessity to the war effort and would have a direct and substantial bearing on the securing of such materials. In its appraisal of the necessity of a health and sanitation program for this purpose the Department would be guided primarily by your views and by the opinions of the agencies of the United States Government most directly concerned such as the Board of Economic Warfare and the Rubber Reserve Company.

In view of the foregoing it is not considered desirable that the Colombian Government be encouraged by formal or informal steps on your part or on the part of other representatives of this government to request that a health and sanitation program be undertaken by this government until the need therefor as defined above has been fully agreed upon by the U.S. Government agencies concerned. Before advising the Department of your opinion in this matter you may wish to discuss the situation with the representative of the Board of Economic Warfare who is to arrive shortly in Bogotá.

You are requested to convey to Mr. Rockefeller and those members of the Coordination Committee who have interested themselves in this proposal the sense of the Department's views as expressed in this telegram. Please report any further developments by cable.

HULL

821.12/37 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, September 21, 1942—10 p. m.
[Received September 22—4:05 a. m.]

1225. Referring to Department's 982, September 19. Dr. Bugher of the Rockefeller Foundation who is head of the Division of Special Studies of the Ministry of Labor and Hygiene has worked out in conjunction with officials of that Ministry a health and sanitation program for presentation to President López. From the beginning one of the principles emphasized has been that such a program would be undertaken with the absolute minimum of professional or technical help from the United States since it was realized not only that it

would be difficult to obtain such help under war conditions but also that it would be preferable as far as possible to use Colombian doctors, a number of whom have been trained in the United States under grants given by the Rockefeller Foundation specifically for this purpose. Dr. Bugher has also discussed the proposed plan with the military authorities in the Canal Zone since it has a direct relation to sanitation of areas of possible military activity in Colombia. . . . While the program has been discussed with Pocklington of the Rubber Reserve it has not been possible to ascertain from him or from Clark of the Coordinator's Office whether additional funds for the sanitation of areas in which the Rubber Reserve is interested have been transferred from the Rubber Reserve to the Coordinator's Office or are otherwise available. Clarification of this point would be appreciated.

President López has evinced keen interest in the nutritional program outlined in Dr. Lay Martin's telegram to the Coordinator (No. 1039 of August 12, 11 p. m.¹²) and has expressed the hope that General Dunham¹³ will come here shortly from Rio de Janeiro. I believe that it would be definitely to our advantage to cooperate in a project of this nature which would be the first move of social significance undertaken by the López Government.

I shall discuss the matter fully with Rockefeller on his arrival September 23.

LANE

821.12/38 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, September 25, 1942—1 p. m.

[Received 10:53 p. m.]

1237. With reference to my cable no. 1225, September 21, 2 [10] p. m. I have had full discussion with Nelson Rockefeller and McClintock¹⁴ concerning proposed health and sanitation program for Colombia. Rockefeller has had discussions in my company with President López and with Minister of Trabajo, Higiene y Previsión Social, Londono Palacio, and McClintock has had discussions with Pocklington, Rubber Reserve representative. A draft agreement has been prepared which has met with the approval of Minister of Trabajo and President López which calls for the following program :

(1) Improvement nutrition utilizing existing services of Minister of Trabajo, Higiene y Previsión Social.

¹² Not printed.

¹³ Brig. Gen. George C. Dunham, Director of the Health and Sanitation Division of the Office of the Coordinator of Inter-American Affairs.

¹⁴ John C. McClintock, Executive Director of the Office of the Coordinator of Inter-American Affairs.

- (2) Malarial control.
- (3) Control of rickettsiasis.
- (4) Control of bartonellosis.
- (5) Sanitation of ports and strategic areas.
- (6) Establishment of public health centers.
- (7) Training of Colombian personnel in medicine, public health, sanitary engineering, nursing, and hospital administration.

This agreement is modeled identically upon the health and sanitation agreement signed with Brazil¹⁵ and, therefore, should be in conformity with Department's policy. In view of the interest expressed by President López and request made by Minister of Trabajo it is requested that I be authorized to sign agreement for health and sanitation program calling contribution of one million dollars on the part of Coordinator's office and for an initial budget of one million pesos on the part of Colombian Government. It is my recommendation that this agreement be signed in Bogotá by appropriate representatives of Colombian Government and myself. It would be appreciated if the Department would expedite approval so that maximum value may be secured from announcement of the cooperative program locally.

LANE

821.12/41

The Ambassador in Colombia (Lane) to the Secretary of State

No. 853

BOGOTÁ, September 26, 1942.

[Received October 5.]

SIR: I have the honor to refer to my telegram no. 1237 of September 25, 1 p. m., 1942, and to enclose a draft of the proposed agreement with the Colombian Government which was drawn up after conferences between Mr. Rockefeller and Mr. McClintock and President López and the Minister of Labor.

Respectfully yours,

ARTHUR BLISS LANE

[Enclosure]

MEMORANDUM OF AGREEMENT FOR THE EXECUTION OF A PROGRAM OF
PUBLIC HEALTH AND SANITATION IN COLOMBIA

Reference is made to the request of the Colombian Government, through the Colombian Ambassador in Washington, for assistance in the execution of a cooperative program of public health and sanitation

¹⁵ See agreements effected by exchange of notes signed March 14 and July 17, 1942, Department of State Executive Agreement Series No. 372 and No. 373, or 57 Stat. (pt. 2) 1322 and 1325.

in Colombia and to the conversations of September 24 had between the American Ambassador in Bogotá, the Coordinator of Inter-American Affairs, and the Minister of Trabajo, Higiene y Previsión Social, concerning such a program.

Reference is also made to the notes exchanged between the Government of Colombia and the Government of the United States on rubber development in Colombia, with particular reference to a program of health and sanitation in connection with rubber production in Colombia.¹⁶

The United States Government, through the Office of the Coordinator of Inter-American Affairs, is prepared to send at once to Colombia, under request of the Colombian Government, to cooperate with the corresponding officials of the Colombian Government and its Ministry of Trabajo, Higiene y Previsión Social, such experts as the Colombian Government desires in order to collaborate in developing a specific program for the improvement of health and sanitation conditions in Colombia. This program will be designed to improve health and sanitation conditions in Colombia in accordance with the memorandum prepared by the Minister of Trabajo, Higiene y Previsión Social presented to the American Ambassador and to the Coordinator of Inter-American Affairs in Bogotá on September 24.

For the purposes of this program, the Government of the United States, through the Agency of the Coordinator of Inter-American Affairs, will provide an amount not to exceed One Million Dollars to be expended for the execution of the program. The expenditure of these funds may be applied not only to the health and sanitation program, but also in the discretion of the Government of Colombia for such medical, scientific, and technical training as the Government of Colombia may wish undertaken by Colombian specialists.

It is understood that the Government of Colombia will furnish such expert personnel, services, and funds for local expenditures as it may consider necessary for the efficient development of the program. The group of United States doctors and sanitary engineers which will be sent to Colombia by the Office of the Coordinator of Inter-American Affairs shall be under the direction of the Chief Medical Officer of that Office, who in turn will be under the supervision of the appropriate officials of the Colombian Government. It is understood that a special service of public health and sanitation will be established within the Ministry of Trabajo, Higiene y Previsión Social under the direction of the American Chief Medical Officer of the Coordinator's Office, and that detailed arrangements for the establishment of such a special service will be carried out between Brigadier General George

¹⁶ Notes not printed; for correspondence regarding rubber development in Colombia, see pp. 170 ff.

C. Dunham, Director of the Health and Sanitation Division of the Coordinator's Office, and the Minister of Trabajo, Higiene y Previsión Social.

The expenditure of United States funds for the purposes of this program will be handled through the Institute of Inter-American Affairs, of which the Coordinator of Inter-American Affairs is President and of which General George C. Dunham is Director of the Health and Sanitation Division. Detailed arrangements for the execution of each project will be discussed and agreed to between the Chief Medical Officer and the appropriate officer of the Colombian Government in the area of the proposed project.

It is understood that the Government of Colombia is particularly interested in including in the program projects aimed at continuing and extending measures and services which the public health and sanitation agencies of the Colombian Government have been carrying out with efficiency and success. The measures and services embodied in the health and sanitation program are included under the following headings:

1. The improvement of nutrition in a general program for the improvement of the public health of Colombia, utilizing the services already established by the Ministerio de Trabajo, Higiene y Previsión Social.
2. Assistance in the control of malaria, with particular reference to the eradication of malaria in the ports of Barranquilla, Cartagena, Santa Marta, Buenaventura, Tumaco, and Bahía Solano.
3. Assistance in the control and eradication of Rickettsiasis.
4. Assistance in the control and eradication of Bartonellosis.
5. Assistance in the sanitation of ports, particularly the ports of Barranquilla, Cartagena, Santa Marta, Buenaventura, Tumaco, and Bahía Solano, and such other areas as may be agreed upon.
6. The establishment, in so far as practical, of public health centers for the effective execution of the program.
7. The training of Colombian personnel in the fields of medicine, public health, sanitary engineering, nursing, and hospital administration.

All projects completed in accordance with the present agreement will be the property of the Government of Colombia.

BOGOTÁ, September 24, 1942.

821.12/38 : Telegram

The Acting Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, October 2, 1942—11 p. m.

1024. Your 1237 of September 25, 1 p. m. You are authorized to sign the proposed health and sanitation agreement.

Before you sign, however, you should explicitly explain to the appropriate Colombian authorities that signature of the agreement can in no way commit this Government to make available supplies and equipment which may be deemed necessary to implement the agreement. You should explain to them the very real shortages of many essential materials and the necessity for preserving them for war essential undertakings. While the Department sympathizes with the objectives which the Colombian Government aims at in a health and sanitation program, the Colombian Government will recognize, we feel sure, that the allocation of essential or critical equipment and materials to it must be held in abeyance so long as really important war demands for them continue.

WELLES

[The agreement was effected by exchange of notes signed at Bogotá, October 23, 1942; for text, see Department of State Executive Agreement Series No. 369, or 57 Stat. (pt. 2) 1310.]

COSTA RICA

AGREEMENT BETWEEN THE RUBBER RESERVE COMPANY AND COSTA RICA GRANTING THE COMPANY EXCLUSIVE PURCHASING RIGHT TO ALL OF COSTA RICA'S EXPORTABLE RUBBER

811.20 Defense (M)/5820a : Telegram

The Acting Secretary of State to the Chargé in Costa Rica (Reed)

WASHINGTON, March 19, 1942—5 p. m.

116. Rubber Reserve Company is prepared to enter into commitment with Costa Rican Government to purchase entire production of rubber in Costa Rica except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at price of 35 cents per pound c. and f. United States continental port for usual good quality Castilloa rubber as understood in New York with appropriate differentials for other grades. The term of the agreement would be for 5 years, unless sooner terminated by mutual consent. The Government of Costa Rica would agree to restrict export licenses to Rubber Reserve Company or its nominees. The exportation of manufactured rubber, if any, would be restricted to the United States. Costa Rica would agree to use its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some governmental agency, if desirable, would be designated as the single buying agency, otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

Foregoing proposal corresponds generally to agreements entered into with Brazilian Government on March 3.¹

For your information we understand certain American republics are negotiating to acquire rubber production in some Latin American countries. Please consult immediately proper Costa Rican authorities and request their prompt consideration of proposal. If Costa Rican authorities agreeable in principle to sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately to acquire it. Upon consummation of purchasing agreement

¹ See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

we will be prepared to discuss with Costa Rican authorities any useful joint arrangements to increase rubber production.

WELLES

811.20 Defense (M)/5822: Telegram

The Chargé in Costa Rica (Reed) to the Secretary of State

SAN JOSÉ, March 25, 1942—5 p. m.

[Received 8:20 p. m.]

159. The Minister of Agriculture Volio has just discussed with me informally the contents of the Department's telegram No. 100 [116] of March 19, 5 p. m., regarding the desire of Rubber Reserve Co. to make an agreement to acquire the rubber production of Costa Rica. He stated after consultation with the President² that his Government is willing to make such an agreement but that the price quotation c. and f. United States continental port was causing hesitation and that the Costa Rican Government because of transportation difficulties would prefer a price f.o.b. Costa Rican port.

REED

811.20 Defense (M)/5882: Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, March 31, 1942—5 p. m.

[Received 9:45 p. m.]

168. Department's 116, March 19, 5 p. m. and this Legation's 159, March 25, 5 p. m. Although I have not yet had an opportunity to convey to the Costa Rican Government the sense of the Department's circular telegram of March 28, 9 p. m.,³ a communication has been received from the Secretary of Public Works and Agriculture stating that (1) The Government of Costa Rica is disposed to assure the restriction of the exportation of rubber to the United States for a period of 5 years; (2) the purchase of rubber in this country may be made by the Rubber Reserve Company; (3) the Rubber Reserve Company should agree minimum of 35 cents per pound for Castilloa rubber delivered at a point near the area of production. Other grades would be paid for according to quality. (4) The Government of Costa Rica will take steps to increase as much as possible the gathering of rubber. (5) The Government of the United States should agree to return to Costa Rica a certain percentage of this rubber

² Rafael Calderón Guardia.

³ *Ante*, p. 172.

in the form of manufactured products, especially tires for trucks and automobiles.

The communication concludes that a mutually advantageous agreement can be reached on the foregoing basis.

SCOTTEN

811.20 Defense (M)/5882: Telegram

*The Acting Secretary of State to the Minister in Costa Rica
(Scotten)*

WASHINGTON, April 7, 1942—9 p. m.

141. Your 168 of March 31. You are authorized to discuss proposed agreement on basis of 33 cents per pound f.o.b. Port Limón and Puntarenas. The Department regrets that a price of 35 cents per pound is out of line with the price in other countries.

Department's circular telegram of March 28⁴ will give you attitude of this Government with respect to making tires available. We are making allocations of domestic rubber supplies to this country and to the other American republics on a basis which is at least as favorable to civilian uses in the other American republics as in this country. Moreover Costa Rica is obtaining military supplies from this country under Lend-Lease arrangements⁵ which include various articles of rubber equipment. It is hoped that this may be found acceptable by the Costa Rican Government.

WELLES

811.20 Defense (M)/6281: Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, April 21, 1942—5 p. m.
[Received April 22—12:25 a. m.]

200. Department's 141, April 7, 9 p. m. and previous correspondence regarding purchases of rubber. President Calderón informed me this morning that his Government is ready to draw up an agreement with the United States in accordance with the terms set forth in the Department's telegram under reference as well as the Department's No. 116, March 19, 5 p. m.

It would appear to be necessary in the agreement as finally drawn up to enter into certain technical details as regards the quality of rubber of different classifications, the degree of moisture, quantity of foreign matter, et cetera, and fixing a price for the same, and it

⁴ *Ante*, p. 172.

⁵ For text of Lend-Lease Agreement between the United States and Costa Rica, see p. 235.

occurs to the Legation therefore that the agreement should be drawn up by a representative of the Rubber Reserve Company in possession of the requisite technical knowledge.

I have been informed entirely unofficially that the Rubber Reserve Company is considering the appointment as its representative of Mr. Walter E. Klippert, the manager of plantations in Central America of the Goodyear Rubber Company. The appointment of Mr. Klippert would be entirely satisfactory to the Legation and to the Costa Rican Government and I venture to suggest that if he is under consideration at present his appointment be expedited and that he be authorized to negotiate a contract with the Costa Rican Government either for signature by himself as representative of the Rubber Reserve Company or by myself acting for the American Government.

As the Costa Rican Government is anxious to cooperate with the United States and has now agreed in principle to our point of view I venture to urge that this matter be concluded without delay as various reports have reached the Legation through trade channels that some rubber is already being purchased by private interests and is being sent out of the country.

SCOTTEN

811.20 Defense (M)/6431

*Memorandum of Conversation, by the Minister in Costa Rica
(Scotten)*⁶

In conversation with the President this afternoon, he brought up the impending contract with the Rubber Reserve Board for the purchase of rubber. He stated that although his Government would sign this contract exactly as we had requested, without conditions, he sincerely hoped that once the contract is signed we will assist Costa Rica to obtain the return of a small part of the rubber in the form of tires. He added that unless we do so the consequent paralyzation of automotive traffic will, of course, reduce the consumption of gasoline to zero, and the very important revenues which the Government now obtains from this source will be completely lost.

He asked whether I would not, out of a sense of pure justice, attempt to secure the permission of the State Department for Costa Rica to obtain some tires after the contract has been signed. Although I, of course, told him that I would do what I could, I gave him no assurances as to the probable result of my endeavors.

ROBERT M. SCOTTEN

SAN JOSÉ, April 27, 1942.

⁶ Copy transmitted to the Department by the Minister in his despatch No. 122, April 27; received May 1.

811.20 Defense (M)/6746

The Minister in Costa Rica (Scotten) to the Secretary of State

No. 208

SAN JOSÉ, May 13, 1942.

[Received May 18.]

SIR: With reference to this Legation's telegram No. 200 of April 21, 5 p. m., reporting that President Calderón Guardia had informed me that his Government was ready to make an agreement for the sale and exportation to the United States of all of the rubber produced in Costa Rica, I have the honor to state that the Government has now issued a decree permitting the exploitation of rubber and other forest and vegetable products on the public lands of Costa Rica. The methods of obtaining concessions or licenses for exploiting such rubber and other products are set forth in detail. A copy of the official gazette containing this decree and a translation thereof are transmitted herewith.⁷

Respectfully yours,

ROBERT M. SCOTTEN

811.20 Defense (M)/6752 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, May 19, 1942—2 p. m.

[Received 6:24 p. m.]

251. Referring to the Department's circular telegram of May 18, midnight.⁸ I urgently request a reply to my telegram number 200, April 21, in which I made certain suggestions about drawing up a contract with the Costa Rican Government for the purchase of rubber. Subsequent to that telegram Mr. Klippert has received instructions from his company to commence purchase of rubber for the Rubber Reserve Company. The latter has set up a credit in a local bank for this purpose and Mr. Klippert is actually purchasing the rubber. Nevertheless, no contract has been drawn up with the Costa Rican Government and although President Calderón gave me the assurances set forth in my number 200, I am apprehensive that if this matter is delayed too long, pressure may be brought to bear upon him to change his mind. Only yesterday Klippert informed me that the owner of a stock of rubber in Port Limón asserted that he had been offered a price of 40 cents a pound for rubber by some agency in Mexico and that he was requesting President Calderón's permission to dispose of his stock to this buyer.

SCOTTEN

⁷ Not printed.⁸ *Ante*, p. 177.

811.20 Defense (M)/6752: Telegram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, May 20, 1942—4 p. m.

189. Your 251 of May 19. Draft of contract is being sent by air mail. It is suggested that you request that exports of rubber be embargoed pending its signature, in order to prevent any further sales other than to United States interests.

HULL

811.20 Defense (M)/7385

The Minister in Costa Rica (Scotten) to the Secretary of State

No. 401

SAN JOSÉ, June 19, 1942.

[Received June 22.]

SIR: I have the honor to refer to the Department's instruction No. 131 of May 27th, 1942 and the Department's telegram No. 219 of June 1st, 1942, 10 p. m.,⁹ which transmitted the draft text of the Agreement between the Rubber Reserve Company and the Government of Costa Rica for the exploitation of rubber. Reference is made also to the Department's telegram No. 234 of June 10th, 1942, 10 p. m.¹⁰ which authorized Mr. W. E. Klippert to execute the Agreement on behalf of the Rubber Reserve Company and which requested me to forward copies of the Agreement as executed.

In accord with these instructions, there are transmitted herewith copies of both the English and Spanish texts of the Agreement which were signed in my presence on June 16th, 1942 by Mr. W. E. Klippert on behalf of the Rubber Reserve Company and by His Excellency Mr. Jorge Zeledón Castro, Minister of Fomento, on behalf of the Government of Costa Rica.

Respectfully yours,

ROBERT M. SCOTTEN

[Enclosure]

MEMORANDUM OF AGREEMENT

This agreement, made and entered into as of this 16th day of June 1942, by and between Rubber Reserve Company (hereinafter called "Reserve"), an Agency of the United States Government and a corporation existing under the laws of the United States of America and having its office for the transaction of business in Washington, D.C., party of the first part, and the Republic of Costa Rica (hereinafter sometimes called "Costa Rica") party of the second part;

⁹ Neither printed.¹⁰ Not printed.

WITNESSETH

1. Reserve agrees to establish or cause to be established an Agency which shall be authorized to assist in developing the rubber resources of Costa Rica and to acquire and sell rubber of any kind produced within the territory of the Republic of Costa Rica. Reserve and Costa Rica agree that the Agency shall have all powers necessary and appropriate to the performance of these functions.

2. Costa Rica recognizes the large rubber requirements of the United States for the War emergency and agrees that the Agency shall have the exclusive right to purchase for export from the Republic of Costa Rica all crude and manufactured rubber.

Costa Rica agrees to use its best efforts to bring about the maximum production of rubber and to cause it to be sold to the Agency, including the taking of effective measures to prevent hoarding of rubber or rubber products.

3. Reserve agrees that the Agency will buy and Costa Rica agrees that it will cause to be sold to the Agency all the rubber produced within the territory of the Republic of Costa Rica which is not required by the Republic of Costa Rica for domestic use or consumption. The amount of crude rubber and rubber products required by the Republic of Costa Rica for domestic use or consumption is hereby fixed at not more than 30 tons a year; but it is understood and agreed that this amount shall be increased by agreement of the parties if it shall be shown that a larger amount is required to meet Costa Rica's justifiable needs.

4. Reserve and Costa Rica agree that the base price to be paid by the Agency for purchases of rubber hereunder shall be 33 cents U.S.A. currency per pound f.o.b. Puerto Limón or Puntarenas, for usual good quality Castilloa scrap (as understood in New York City), with appropriate differentials for other types and grades (said base price, together with said differentials, being hereinafter referred to as the "fixed price"). The price to be paid by the Agency for purchase of rubber at inland locations shall be the fixed price less appropriate differentials to cover transportation to ocean carrying vessel and customary handling charges. It is understood that the purchases of rubber by the Agency f.o.b. Puerto Limón or Puntarenas shall be on the basis of cash against shipping documents endorsed "on board" ocean carrying vessel at the designated port destined for the United States of America continental ports; provided however, that in the event the shipping space to be provided by the Agency in any such case is not available within 30 days after notice to the Agency of the readiness of the rubber for shipment, the rubber shall be stored in a place at the place to be designated by the Agency and the Agency

will arrange for the payment for the rubber against warehouse warrants or receipts or other documents of title (in lieu of ocean bills of lading) acceptable to the bank negotiating the payment draft; and in any such case such payment shall be at the f.o.b. price less any export duties and taxes and charges for loading on board ship in effect at the date such payment is made.

5. Costa Rica will cause to be established the Fixed Price for all sales of rubber for domestic consumption or use in the Republic of Costa Rica.

6. During the term of this agreement such sums shall be expended by the Agency as it deems desirable and necessary to increase and develop the production and improve the quality of wild rubber in the Republic of Costa Rica.

7. Costa Rica, in order to achieve maximum production of rubber, agrees to take effective measures to assure that gatherers of rubber receive a fair proportion of the prices paid by the Agency for rubber and that the prices paid by such gatherers for supplies are fair and equitable, and to this end, after consultation with the Agency, shall fix prices to be paid to and by the gatherers, and provide for the publication of such prices in all communities in the rubber producing region. Reserve agrees to collaborate fully with Costa Rica in effecting these purposes and to consult, through the proper channels, with the Ministry of Labor with respect to the inclusion in contracts of provisions for effecting these purposes as well as other methods of improving the condition of the gatherers of rubber.

8. The term of this agreement shall be for a period beginning with the date hereof and ending December 31, 1946, unless sooner terminated by the mutual consent of the parties hereto.

Rubber Reserve Company

By (signed) W. E. KLIPPERT

Republic of Costa Rica

By (signed) JORGE ZELEDÓN C.

**LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND THE
REPUBLIC OF COSTA RICA, SIGNED JANUARY 16, 1942**

818.24/1-1642

*Agreement Between the United States and Costa Rica Regarding
Principles Applying to Mutual Aid in the Prosecution of the War,
Signed at Washington January 16, 1942*

WHEREAS the United States of America and the Republic of Costa Rica declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Confer-

ence of American States on December 24, 1938,¹¹ they, together with all the other American republics, are united in the defense of the Americas, determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941,¹² and the President of the Republic of Costa Rica have determined that the defense of each of the American republics is vital to the defense of all of them; and

WHEREAS the United States of America and the Republic of Costa Rica are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Republic of Costa Rica have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the Republic of Costa Rica under the terms of this Agreement armaments and munitions of war to a total value of about \$550,000.

In conformity, however, with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the Republic of Costa Rica similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the Republic of Costa Rica, the defense needs of the Republic of Costa Rica or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

¹¹ For correspondence on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

¹² 55 Stat. 31.

The Government of the United States of America agrees to accord to the Government of the Republic of Costa Rica a reduction of 45.45% in the scheduled cost of the materials delivered in compliance with the stipulations of the present Agreement; and the Government of the Republic of Costa Rica promises to pay in dollars into the Treasury of the United States of America 54.55% of the scheduled cost of the materials delivered. The Republic of Costa Rica shall not be required to pay

more than a total of \$50,000 before January 1, 1943,
more than a total of \$100,000 before January 1, 1944,
more than a total of \$150,000 before January 1, 1945,
more than a total of \$200,000 before January 1, 1946,
more than a total of \$250,000 before January 1, 1947, or
more than a total of \$300,000 before January 1, 1948.

ARTICLE III

The United States of America and the Republic of Costa Rica, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the Republic of Costa Rica hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,¹³ to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Costa Rica is in a position to supply, the Republic of Costa Rica will make such defense articles and defense information available to the United States of America, to the extent possible without harm to its economy and under terms to be agreed upon.

¹³ For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

ARTICLE V

The Republic of Costa Rica undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Costa Rica.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the Republic of Costa Rica, transfer title to or possession of any defense article or defense information received in accordance with Article IV of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

ARTICLE VI

If, as a result of the transfer to the Republic of Costa Rica of any defense article or defense information, it is necessary for the Republic of Costa Rica to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Republic of Costa Rica will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Costa Rica who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the Republic of Costa Rica.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed in duplicate in the English and Spanish languages at Washington this sixteenth day of January, 1942.

For the United States of America :

CORDELL HULL

*Secretary of State of the
United States of America*

For the Republic of Costa Rica :

LUIS FERNANDEZ

*Envoy Extraordinary and Minister
Plenipotentiary of the Republic
of Costa Rica at Washington*

LOAN AGREEMENT BETWEEN THE EXPORT-IMPORT BANK OF WASHINGTON AND THE REPUBLIC OF COSTA RICA, SIGNED JULY 9, 1942

818.51/956

The Minister in Costa Rica (Lane) to the Secretary of State

No. 342

SAN JOSÉ, January 21, 1942.
[Received January 27.]

Subject: Service of Costa Rican bonds held in the United States.

SIR: With reference to this Legation's despatch No. 3727 of October 1, 1941,¹⁴ on the afore-mentioned subject, I have the honor to state that since my arrival here I have had numerous informal conversations with Mr. Carlos Manuel Escalante, Minister of Hacienda, with respect to the possibility of Costa Rica meeting its contractual financial obligations in accordance with the agreement of 1939. I have likewise been in informal communication with the Honorable Francis White, President of the Foreign Bondholders Protective Council, Inc. regarding the present position of the Costa Rican Government, and have pointed out that due to the ever increasing governmental expenditures as a result of the war and the improbability of balancing the budget, unless the service on foreign obligations is curtailed, it would be imprudent to assume that the Costa Rican Government can offer a total service of \$300,000.00 a year, as Mr. White suggested to me in his letter of November 10, 1941, a copy of which I enclose¹⁴ for the Department's information.

As I had hoped to discuss this matter personally with the Department during my proposed authorized trip to Washington in December, which was cancelled because of the outbreak of the war, I have not reported by despatch on the situation. The substance of my views, however, is contained in a personal letter to Mr. White of December 15, 1941, the pertinent portions of which I quote herewith:

"I have had several conversations with the Minister of Finance since last writing you. He has promised that in the future they will endeavor to carry out their obligations in a more regular manner. It is possible that he will go to the United States within the next few months and make direct contact with you so that there may be no misunderstanding in the future.

"You will appreciate that because of the situation which has developed during the past few days, Costa Rica is going to have some extraordinary expenses which will be difficult to meet under the present budget. Some of these expenses will not only be for the benefit of Costa Rica, but for the United States as well. Accordingly, I shall find it increasingly difficult to put up a reasonable argument in favor of the interests of the bondholders when the interests of the United

¹⁴ Not printed.

States Government may lie in another direction. For obvious reasons I am using veiled language, which you will, of course, understand."

Respectfully yours,

ARTHUR BLISS LANE

818.51/969

Memorandum by the Adviser on Political Relations (Duggan) to the Under Secretary of State (Welles)

[WASHINGTON,] March 3, 1942.

MR. WELLES: I understand that the Minister of Costa Rica¹⁶ has an appointment with you this afternoon at 5:00 o'clock. I believe the purpose of the Minister's visit is to discuss the following.

About ten days ago, the Minister told me that the President¹⁷ had telephoned him and, over a very bad connection, informed him of the need of his Government for funds with which to meet expenses incurred in connection with the expansion of Costa Rica's army. The Minister gave the impression that what the President wanted was a donation of the necessary funds. I explained to the Minister the difficulties in this and suggested that he write the President for further details.

The Minister now has a letter from the President which refers to the conversations you had in Rio with Dr. Luis Anderson.¹⁸ According to this letter, it was agreed that an agricultural expert would be sent to Costa Rica to study, in cooperation with the Costa Rican Government, a plan for intensive production. The letter stated that you had indicated that this Government would be prepared to go up to \$3,000,000 to help Costa Rica in this regard. Moreover, in connection with the fiscal situation, which was not defined in the letter, it was stated that at Rio you had stated that this Government would be ready to advance up to \$2,000,000 for this purpose.

With regard to the agricultural expert, I talked to Mr. Leslie Wheeler¹⁹ while the Minister was still with me. Mr. Wheeler said that he would today instruct the agricultural attaché in Panama²⁰ to proceed to San José to make there a preliminary survey for the purpose of advising with respect to exactly what specialties, experts should be sent. On the basis of his report and recommendation, an agricultural mission would then be immediately dispatched to Costa Rica.

¹⁶ Luis Fernández.

¹⁷ Rafael Calderón Guardia.

¹⁸ Costa Rican delegate to the Third Meeting of the Foreign Ministers of the American Republics at Rio de Janeiro in January 1942. For correspondence on this Meeting, see vol. v, pp. 6 ff.

¹⁹ Director of Foreign Agriculture Relations of the Department of Agriculture.

²⁰ Charles L. Luedtke.

This seemed to make sense to the Minister who is advising the President by telegram of the proposed arrangement.

With regard to the fiscal situation, I suggested to the Minister that he request the Minister of Finance to send him a report stating precisely what is needed. On the basis of this report we can decide what to do. Costa Rica has a small Lend-Lease allocation²¹ which, if necessary, can be increased. I doubt, however, whether it is more armament that Costa Rica needs. I think what the President wants is some free funds. His letter seemed to indicate that what he desired was a loan rather than a grant. The Minister also indicated his acquiescence with this suggestion and said that he would ask immediately for such a report.

LAURENCE DUGGAN

818.51/976a : Telegram

The Acting Secretary of State to the Minister in Costa Rica
(Scotten)²²

WASHINGTON, April 18, 1942—7 p. m.

152. The Costa Rican Minister of Finance is urgently requesting that this government arrange a prompt loan of \$1,000,000 to the Costa Rican Treasury to enable it to pay off the Bank of Costa Rica (not the National Bank) and a number of private firms for supplies and services made available to the government, especially in connection with operations of the Fomento Ministry. The Minister states that at the moment revenues and expenditures are about on even keel, but that this backlog is very difficult and is causing serious political consequences due to the attitude of the creditors. The Minister, after first requesting all sorts of fantastic arrangements, has now settled upon increasing the \$4,600,000 credit to \$5,600,000 on the same conditions, with a proviso that \$1,000,000 of the total may be immediately devoted to paying off the old accounts. The Minister admits that, although much of the accounts arises originally from imports, the government is obligated to pay in colones, and there is no immediate exchange problem but rather a local budgetary difficulty.

The Department fully appreciates the difficult political situation of Costa Rica and the economic difficulties arising out of the effects of the war and especially the shipping situation. At the same time, the United States has already agreed upon an extensive program of cooperation, especially in connection with highways,²³ and it is loath to enter into arrangements for directly financing budgetary deficits.

²¹ For text of Lend-Lease Agreement between the United States and Costa Rica, see p. 235.

²² Robert M. Scotten was appointed Minister to Costa Rica, March 5, 1942.

²³ See bracketed note, p. 252.

In this particular case, consideration is being given to the extension of some type of loan of perhaps somewhat less than \$1,000,000 on shorter terms, perhaps as much as five years.

The Minister of Finance at first stated that the arrangement could not in any way be carried out through the National Bank for political reasons, and that the Costa Rican Government cannot go to the National Bank for assistance in this matter for similar reasons. He has now indicated that he will reconsider various proposals when he returns next week to Costa Rica.

Pending the completion of the arrangements for the \$1,000,000 credit the Minister of Finance has requested the Export-Import Bank to authorize the release of \$500,000 of the proceeds of the gasoline tax now on deposit in the National Bank of Costa Rica in accordance with the Article 9 of the \$4,600,000 loan contract. The funds withdrawn would be redeposited in the National Bank of Costa Rica as soon as the \$1,000,000 loan was approved. Such an arrangement would appear to require the approval of the National Bank which is a party to the loan contract.

Please give the Department by Monday²⁴ when Escalante plans to leave Washington, your evaluation of the political factors involved particularly in view of the resignation of Volio²⁵ who was primarily concerned with the highway construction arrangements.

WELLES

818.51/977: Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, April 19, 1942—6 p. m.

[Received April 20—1:55 a. m.]

195. Referring to the Department's telegram 152, April 18, 7 p. m. The President on his own initiative sent his secretary to call upon me [apparent omission] that the President urged me to support Escalante's request for financial assistance in Washington. The secretary in a state of considerable agitation which from his remarks appeared to reflect the President's own state of mind asserted that failure to receive assistance from the American Government would result in the inability of this Government to meet the May 1st payrolls of its employees and that anything might happen as a result. He mentioned nothing about payment of the backlog which the Department states that Escalante stressed in his conversations. He stated that the President urgently desires a loan of 2 million dollars

²⁴ April 20.

²⁵ Alfredo Volio, Costa Rican Minister of Public Works and Agriculture.

and is confident that if such a loan is granted no further assistance from the American Government will be necessary.

From what I have been able to learn it appears that President Calderón is faced with a serious although perhaps not dangerous political situation due to the somewhat precarious financial situation of the Government but also to the widespread accusations of graft and mismanagement which are being almost daily directed against him and especially against his brother, the Minister of the Interior. While it is not practicable in this telegram to review in detail the financial position of the Government one indication of the situation is that I learn on good authority that the Government has reached its legal limit of borrowing in the bank of Costa Rica as the bank has already loaned the Government 2,300,000 colones on its current account and may not legally allow the Government to overdraw further.

It does not appear that Volio's activities are responsible for this situation and in fact I learn that although he is a loyal friend of President Calderón and would probably not be willing to lead any movement against him, he resigned partly as a protest against dishonesty and mismanagement in the present administration.

While the financial difficulties of the Government are of course partially due to the drop in bases of revenues caused by the war, governmental mismanagement appears to have produced a large part.

On the other hand President Calderón has as the Department is well aware, cooperated with us to the fullest extent as regards the international situation and is I believe a sincere friend of the United States. Although I am not convinced that the failure of our Government to extend financial help to Costa Rica at this time would lead to the overthrow of Calderón's Government he would undoubtedly be placed in a very difficult situation and his attitude toward the United States would probably be considerably cooler and less cooperative than at Bern.

After taking into consideration the various political factors involved I would suggest that this Government be granted financial assistance in whatever form and amount the Department decides in order to tide over their immediate financial difficulties and keep President Calderón in a friendly frame of mind.

SCOTTEN

818.51/977

Memorandum of Telephone Conversation, by the Chief of the Division of the American Republics (Bonsal)

[WASHINGTON,] April 20, 1942.

I telephoned Mr. Scotten at 2:35 p. m. and after referring to the Department's telegram 152, April 18, 7 p. m. and the Legation's 195,

April 19, 6 p. m., I stated that a decision had been reached to assist the Costa Rican Government financially and that a proposal or proposals as to how this might be done would be handed to Señor Escalante, the Finance Minister, prior to his departure from Washington this afternoon. I said, however, that there did not seem to be any way for us to be of assistance without the passage of pertinent legislation by the Costa Rican Government and possibly agreement on the part of the National Bank. The proposal made by Señor Escalante involving the use of the gasoline tax was not feasible.

Referring to the first paragraph of San José's 195, I said that Señor Escalante had persistently stated that current revenues and expenditures of the Costa Rican Government were more or less balanced and that the financial assistance now requested was to take care of an accumulated floating debt built up over the past couple of years. On the other hand, the telegram refers to the possible inability to meet May 1 payrolls.

The Minister stated that while the financial situation facing the Government is a serious one, he believes that our proposal will meet the requirements of the Costa Rican Government. He pointed out that the regular session of Congress takes place early in May and that, furthermore, there is nothing to prevent the President from calling a special session if he so desires.

I told the Minister that our proposals involved assistance to the extent of a maximum of \$1,000,000.

818.51/984 : Telegram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, May 5, 1942—9 p. m.

174. The Costa Rican Minister has informed the Department that his Government finds it difficult to accept the proposition for the \$1,000,000 credit made by the Export-Import Bank. It urges reconsideration of the proposal to increase the existing credit by \$1,000,000.

The Minister intimated that his Government had taken this step because of political difficulties the nature of which he was unable to understand because the approval of Congress for the credit would be necessary in any case.

The Legation's comment and advice are requested.

HULL

818.51/985 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, May 6, 1942—7 p. m.

[Received May 7—2:03 a. m.]

224. Referring to Department's 174, May 5, 9 p. m. The Costa Rican Minister is apparently correct in his statement that the approval of Congress would be necessary for the increase of the existing credit. Paragraph 16-A of article 73 of the Costa Rican Constitution assigns to Congress the right to authorize the Executive to negotiate loans or make other contracts and to mortgage the national revenues as security therefor.

It is clear that the President desires to avoid congressional discussion of a loan, fearing that it would bring to light at least incompetence and mismanagement and possibly dishonesty on the part of the present administration. This situation was reported in my personal letter of April 27 to Mr. Bonsal and in the last paragraph of my despatch No. 135 of April 29.²⁶

The President would naturally prefer a secret loan with which he could tide over the present financial crisis of his administration.

I doubt the wisdom of granting such a credit however which might result in a situation similar to that following the loan to the Tinoco Government by the Royal Bank of Canada in 1917 or 1918 which was followed by arbitration by the Chief Justice of the United States²⁷ who I understand decided that as the loan had not had the approval of the Costa Rican Congress it was not an obligation of the Costa Rican Government.

While a secret loan or even gift to a friendly government or a government which the United States wished to keep on friendly terms during the war might in some cases be advisable from the standpoint of expedience I do not consider such a situation to exist here as even if the present Government should fall the entry into power of any group unfriendly to the United States and consequently dangerous to our war effort is most unlikely.

Should no financial assistance be accepted by the President at present it is possible that the political crisis might become so acute as to cause his resignation. However, I believe it likely that should we offer no alternative to some proposal involving congressional approval, such approval would be obtained. No doubt the congressional debate would include some violent criticism of the Government but its large majority would in all probability ensure the acceptance of the loan.

SCOTTEN

²⁶ Not printed.

²⁷ See *Foreign Relations*, 1921, vol. I, pp. 663-668.

818.51/985 : Telegram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, May 21, 1942—10 p. m.

195. Your 224, May 6, 7 p. m. Please inform the Costa Rican Finance Minister that in lieu of the line of credit offered to Banco Nacional de Costa Rica outlined in Mr. Pierson's²⁸ letter of April 20 to the Finance Minister the Bank is prepared to extend a credit up to One Million Dollars to the Government of Costa Rica such credit to be repayable in installments over a period of 9 years. Interest shall be at the rate of 4 percent per annum and loans shall be secured by taxes presently unencumbered and not pledged. Such line of credit if established would be available to the Government of Costa Rica upon compliance by it with the necessary legal formalities.

In addition please inform the Costa Rican Government that the United States is prepared to make available to the Costa Rican Government the services of one or two experts on taxation and currency problems if the Costa Rican Government so desires and requests their services.

HULL

818.51/991 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, May 23, 1942—2 p. m.

[Received 8:50 p. m.]

267. Referring to Department's 195, May 21, 10 p. m. The Costa Rican Minister of Finance is of the opinion that the proposition embodied in the Department's telegram under reference was drafted before receipt of, or at least the study by the Export-Import Bank, of the proposition which he forwarded to Warren Pierson on May 8 through the Costa Rican Legation in Washington. He considers that proposition more advantageous to his Government than the one proposed in the Department's 195 and would appreciate an immediate examination of it and a reply before making a decision on the proposition which the Department has just advanced. The Minister of Finance asked me to call the Department's attention to the fact that what his Government urgently needs is a credit which can be utilized immediately in order to tide over the present very critical situation. He believes his proposition of May 8 would permit a more rapid utilization of the credit than the one proposed in the Department's 195 and would be more acceptable to the Congress.

²⁸ Warren Lee Pierson, President, Export-Import Bank of Washington.

As regards the proposition in the last paragraph of the Department's telegram the Minister of Finance is delighted at the suggestion of sending one or two experts here. He believes the presence of such experts would be of the greatest assistance in working out a long term reorganization of Costa Rican finances and he feels that his Government is prepared to cooperate with such experts in every way. He will speak to the President about this matter this afternoon and if as he believes the President will have the same idea as himself, either the Minister of Finance or the President will send me within the next few days an official request for the services of these experts.

The Minister of Finance asked me to explain that the credit which his Government is endeavoring to obtain at the present time is needed with the utmost urgency and that it should not wait until the arrival of these experts.

SCOTTEN

818.51/991 : Telegram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, May 27, 1942—2 p. m.

207. Your 267, May 23, 2 p. m. The letters of the Minister of Finance to Mr. Pierson and to the Minister in Washington were carefully considered both in the Department and the Export-Import Bank, and the Department cannot recommend to the Export-Import Bank that such proposal be adopted. This matter was also fully discussed with the Minister while he was in Washington and turned down at that time.

The Minister is in effect asking that we finance a budget deficit for 18 years. The 9 years offered in the Department's 195 is excessive for this type of credit. As to the speed of utilization of the credit, if the Congress of Costa Rica will approve the necessary enabling legislation, either type of proposal can be implemented at once. The Government of the United States has never offered financial assistance to anyone on terms as liberal as those contained in the Department's 195. Please inform the Finance Minister accordingly.

The Department is unable to understand the insistence of the Costa Rican Government on the proposal to incorporate the \$1,000,000 credit in the existing \$4,600,000 road credit. Due to the radically different uses to which the new credit would be put, an extensive revision of the old contract and submission of the amended text to the Costa Rican Congress would apparently be necessary in any case.

HULL

818.51/992 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, May 27, 1942—5 p. m.

[Received 9:12 p. m.]

279. Referring to my telegram no. 267, May 27 [23], 2 p. m., I have received from the Minister of Finance a letter written with the approval of the President requesting the experts referred to in the Department's 195, May 21, 10 p. m. The letter adds that the President considers that in order to avoid erroneous interpretations which would be inconvenient for both Governments the present negotiations for the \$1,000,000 credit should be completed before the experts are appointed (obviously the Costa Rican Government wishes to avoid creating the impression that our Government had made the sending of the experts a condition for the granting of the credit).

The Minister of Finance again urged in a personal conversation consideration by the Eximbank of his proposition of May 18 [8]. He called my attention to the fact that the proposition embodied in the Department's 195 would necessitate the Costa Rican Government establishing a new source of revenue to meet the service charges on the loan whereas the proposition of May 8 would not require such new revenue being established.

In spite of the many accusations, whether true or false, of financial mismanagement on the part of this administration I feel that the ready acceptance by this Government of the experts suggested by the Department is a real evidence of a willingness to have the state of Costa Rican finances [apparent omission] close by impartial observers and a definite evidence of a willingness to cooperate with us. For this reason and also due to the fact that with the probable withdrawal of the banana boats contemplated in the Department's 196 of May 22, 3 p. m.,³⁰ Costa Rica will undoubtedly pass through very difficult times, I consider the Department might very properly request the Eximbank to give favorable consideration to Escalante's negotiations.

Copy of letter will be sent by air mail.

SCOTTEN

818.51/993 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, May 28, 1942—10 a. m.

[Received 1:21 p. m.]

282. My 279, May 27, 5 p.m. obviously crossed the Department's No. 207, May 27, 2 p.m. I propose therefore if the Department approves

³⁰ Not printed.

to withhold action on the Department's 207 until the Department has an opportunity to comment on my 279.

SCOTTEN

818.51/992 : Telegram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, June 1, 1942—2 p. m.

217. Your 279, May 27, 5 p. m., and 282, May 28, 10 a. m. Please reassure the Minister of Finance that the arrangements for the experts will not be completed until after the \$1,000,000 credit has been put through.

The Department repeats the position contained in its 207, May 27, 2 p. m.

As indicated in Department's circular no. 209,³¹ the Department is giving special attention to the banana situation and suggests that the present credit be carried out on its own merits without reference to any future problems which may arise from the banana situation.

HULL

818.51/1027

Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)

[Extract]

[WASHINGTON,] June 2, 1942.

The Minister came in at my request. I explained to him the reasons why the Department was unable to consider the Costa Rican Finance Minister's proposal for adding to the current public works credit an amount of \$1,000,000 on the same terms for the purpose of meeting certain fiscal obligations. I stressed the fact that our offer for a \$1,000,000 separate nine year credit was an extremely liberal one considering the purposes for which the money is to be expended. The Minister expressed agreement.

The Minister then entered into a discussion of Costa Rican politics. . . .

³¹ Circular telegram dated May 27, 1942, not printed.

818.51/998: Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, June 13, 1942—10 a. m.

[Received 3:43 p. m.]

304. Department's 239, June 12, 5 p.m.³² Decision contained in Department's 207, May 27, 2 p. m. and 217, June 1, 3 [2] p. m. presented to Minister of Finance who received information with disappointment but stated that the Government would give further thought to problem.

Last night Escalante again informed me that the 9 years offered by Export-Import Bank is onerous. He stated that considering the outlook financially for the Costa Rican Government it would be impossible to meet amortization payments and that the Government does not wish to contract an obligation which it will be unable to repay. He also stated that Julio Pena, Manager of Banco Nacional, who is now in Washington attending the Inter-American Banking Conference, has been fully informed of Government's position and instructed to continue negotiations there.

SCOTTEN

818.51/1015

*Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)*³³

[WASHINGTON,] June 15, 1942.

The Costa Rican Minister came in to see me this morning. The Finance Minister, Señor Escalante, still feels that the nine-year credit which we offered is not wholly satisfactory. However, he has asked Francisco Calderón Guardia,³⁴ who is in this country and who will be in Washington on Wednesday and Thursday³⁵ to find out whether we could not increase the amount to \$2,000,000, leaving the terms the same. The reason for this is that the taxes which it is proposed to encumber for this purpose (probably the tobacco and beer taxes) produce 2,000,000 colones per annum and would, therefore, warrant a larger credit than the \$1,000,000 originally suggested. In other words, if these taxes are to be encumbered, the Costa Ricans want to get the maximum credit.

Please let me have an indication of your views as to the reply which we should make.

PHILIP W. BONSALE

³² Not printed.³³ Addressed to Sumner Welles, Under Secretary of State, Laurence Duggan, Political Adviser, and Emilio G. Collado, Special Assistant to Under Secretary Welles.³⁴ Costa Rican Minister of Interior and Public Security.³⁵ June 17 and 18.

818.51/1003a : Telegram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, June 27, 1942—3 p. m.

264. The Export-Import Bank has offered to lend Costa Rica \$2,000,000 to stabilize its economy and the orderly marketing of its products, of which \$1,000,000 will be available immediately and the balance as mutually agreed prior to December 31, 1943. The interest rate is to be 4%. The loan is to be amortized in six 5% semi-annual installments, beginning 30 months from date; four 7½% semi-annual installments, beginning 66 months from date; and four 10% semi-annual installments, beginning 90 months from date and terminating 108 months from date. The service is to be secured by the cigarette tax. The loan must be approved by the Congress of Costa Rica. The Costa Rican Minister here is transmitting this offer to his Government.

HULL

818.51/1008a

The Under Secretary of State (Welles) to the President of the Export-Import Bank (Pierson)

WASHINGTON, July 2, 1942.

MY DEAR MR. PIERSON: Reference is made to conversations between officers of the Department and the Export-Import Bank regarding the request of the Government of Costa Rica for a credit of \$2,000,000 to assist in the development of the resources, to stabilize the economy and to assist in the orderly marketing of the products of the Republic of Costa Rica.

The Department believes it desirable that every possible effort be made by the Export-Import Bank to meet the request of the Government of Costa Rica in order to assure economic and political stability in that country during this crucial period. The Department accordingly recommends that the Export-Import Bank consider favorably the extension of a credit directly to the Government of Costa Rica up to \$2,000,000, of which \$1,000,000 shall be available immediately upon approval of the credit by the Congress of the Republic of Costa Rica, the balance of the credit to be made available from time to time as mutually agreed upon between the Republic of Costa Rica and the Export-Import Bank. The Department feels that the credit should be amortized over a period of nine years as requested by the Government of Costa Rica.

Sincerely yours,

SUMNER WELLES

[A loan agreement in accord with the terms described in telegram No. 264, June 27, 3 p. m., to the Minister in Costa Rica, printed on page 251, was signed on July 9, 1942, by Luis Fernández, Costa Rican Minister in the United States, on behalf of Costa Rica, and Warren Pierson on behalf of the Export-Import Bank.]

AGREEMENT BETWEEN THE UNITED STATES AND COSTA RICA REGARDING CONSTRUCTION OF THE INTER-AMERICAN HIGHWAY

[For text of agreement effected by exchange of notes signed at Washington January 16, 1942, see Department of State Executive Agreement Series No. 293, or 56 Stat. (pt. 2) 1840.]

CUBA

COOPERATION BETWEEN THE UNITED STATES AND CUBA REGARDING CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE¹

810.20 Defense/1913

*The Cuban Secretary of State (Cortina) to the American Chargé in Cuba (Briggs)*²

[Translation]

HABANA, January 14, 1942.

MR. CHARGÉ D'AFFAIRES: I have the honor to refer to the Embassy's notes dated the 15th and 29th of December last, in the first of which, pursuant to Resolution XV of the Second Meeting of Ministers of Foreign Affairs of the American Republics,³ concerning reciprocal aid and cooperation for the defense of the Nations of America, which established that the signatory countries would negotiate complementary agreements for the organization of cooperation for defense, the Embassy states that your Government would like to negotiate forthwith concerning certain aspects of military cooperation, to wit:

1. The stationing of detachments of the Aviation Corps of the United States, each one of which consisting of technicians (seven sub-officers and eight soldiers), in certain establishments of separate airfields. The object of these service detachments would be to facilitate the operation of aircraft.

2. The extension of the permit, without any limitation as to the number or type of the aircraft or the personnel transported, for the aircraft which may fly over and land on Cuban territory. In connection with this, there would not be the usual notice served through the diplomatic channels, but only the notification required for technical reasons, probably directly to the airport in question, except in cases of emergency or in cases of military need.

3. Permission is sought for the use of Cuban landing fields, together with their facilities, such as repair shops, radio, telephone, service installations, et cetera.

4. Permission to the military personnel, armed and uniformed, or otherwise required, to circulate without any restriction in connection with the personnel of rationing and shelter, aircraft service, and the

¹ Continued from *Foreign Relations*, 1941, vol. VII, pp. 97-115.

² Copy transmitted to the Department by the Chargé in his despatch No. 3276, January 15; received January 17.

³ Held at Habana July 21-30, 1940; for correspondence, see *Foreign Relations*, 1940, vol. V, pp. 180 ff.; for text of Resolution XV, see Department of State *Bulletin*, August 24, 1940, p. 136.

receiving and sending of necessary communications. This would include permission for the use of the roads adjacent to the ports, and for making arrangements for the shelter, work and rationing of the personnel for account of the Government of the United States, as may be necessary, when it is required that the flights stop at any given airport.

5. Permission to take photographs of Cuban territory in connection with the compilation of aerial navigation charts.

The second note states the airports in which it is desired to station the above-mentioned air forces, to wit: La Fé, in the Province of Piñar del Rio; Rancho Boyeros, in the Province of Habana; and in Camagüey.

I take pleasure in advising you that the Government of Cuba, inspired by the lofty sentiments of cooperation and alliance which joins the Cuban Nation with the United States of America in the present war, engaged in the territorial defense of America and of every one of the American nations, as well as of the principles of democracy and of the liberty of the peoples, has accepted the suggestions of your Government which were transmitted by the Embassy in the above-mentioned notes.

In this connection, in order to facilitate the cooperation required, we believe it advisable that your Embassy designate a representative to call at the Ministry of National Defense, and get in touch with the representative of said Ministry, for the purpose of carrying out the agreement for cooperation⁴ requested in the notes under reference, which my Government is disposed to conclude on the terms proposed.

I avail myself [etc.]

JOSÉ MANUEL CORTINA

837.20/200a

*The Liaison Officer (Wilson) to the Ambassador in Cuba
(Messersmith)*

WASHINGTON, January 19, 1942.

DEAR GEORGE: During my last conversation with you, I gathered that you felt that it would be advisable to abandon the plan to send a joint Army, Navy and Marine Corps Mission to Cuba, provided a Cuban-United States defense commission were set up on which General Embick⁵ and Admiral Johnson⁶ would be the United States members. I should be grateful if you would be good enough to tell me whether my understanding is correct as a memorandum has just been received

⁴The Military Attaché in Cuba indicated in a memorandum of January 14, 1942, that there did "not appear to be any arrangements to discuss with the Minister of National Defense". (810.20 Defense/1913)

⁵Maj. Gen. Stanley D. Embick.

⁶Vice Adm. Alfred W. Johnson.

from the Navy Department containing a tentative plan for a Navy and Marine Corps Mission. If you believe that this should now be abandoned and the Navy Department so informed, will you please let me know.

I have been told that the War and Navy Departments have been giving consideration to your recommendation for the establishment of the joint Cuban-United States defense commission. In so far, however, as I have been able to ascertain, the President has not yet mentioned this matter to General Marshall.⁷ You intimated to me that the President intended to do this.

Walmsley⁸ and I would be glad to handle such aspects of these matters as you may suggest.

With best wishes to Marion and you,

Sincerely yours,

ORME WILSON

811.34537/358

The Ambassador in Cuba (Messersmith) to the Secretary of State

No. 3355

HABANA, January 28, 1942.

[Received January 30.]

SIR: I have the honor to inform the Department that during a conversation this morning with the Minister of State, Dr. Cortina, we discussed the establishment of the Cuban military zone complementary to our naval base at Guantánamo. The Minister said that he had the last draft before him, and it had had his study and he was about to clear it with President Batista. He expressed the hope that it would be possible to complete the arrangements for the establishment of the Cuban zone before my departure on February 7. I took this occasion to impress upon the Minister the desirability of progress on this matter. The Minister said that he had not been pressing the matter himself as he felt that we had not shown much interest therein recently, or at least that our Navy Department had not shown much interest therein. He said that he and I had given considerable study to this matter with the desire to reach a conclusion, but that the Navy Department had always been slower than the Cuban Government in acting on the various drafts. I told the Minister that I thought he was under a misapprehension with regard to the degree of interest of our Government and of the Navy Department, and that I hoped he would clear this matter with President Batista and his colleagues in the Cabinet before my departure for my new post. He said that he would make every effort to do so.

Respectfully yours,

GEORGE S. MESSERSMITH

⁷ Gen. George C. Marshall, Chief of Staff, U.S. Army.

⁸ Walter N. Walmsley, Jr., Assistant Chief, Division of the American Republics.

837.24/709

The Adviser on Political Relations (Duggan) to the Ambassador in Cuba (Messersmith)

WASHINGTON, February 5, 1942.

DEAR MR. MESSERSMITH: I refer to your letter of January 30⁹ with regard to military cooperation with Cuba.

Orme Wilson has been kind enough to secure from the War and Navy Departments indications of their intentions regarding the delivery of military and naval matériel to Cuba. There are attached hereto copies of the pertinent section of a memorandum⁹ prepared by Orme Wilson regarding the Navy's intentions as well as a memorandum⁹ from the War Department regarding its proposals.

In addition, I believe it will be feasible to make available to Cuba some of the coast defense guns which Admiral Johnson and General Embick mentioned to you when you were here. We will work this out and let Ellis Briggs¹⁰ know what can be offered.

We will press with the Navy Department for the possibility that the President mentioned to you of taking over some cabin cruisers in the 100-foot class and giving at least ten of them to Cuba.

Mr. Welles¹¹ is taking up at the next meeting of the Liaison Committee¹² the question of whether a Defense Commission similar to the Mexican one should be established or whether it would be preferable to send to Cuba a Military, Naval, and Marine Commission to assist in the Cuban Army and Navy.

I suppose that this will be my last letter to you on Cuban subjects so I take the opportunity of telling you once again how much I have enjoyed our association on Cuban matters as well as how much I am looking forward to continuing them with regard to Mexico.

With very best regards,

Yours as ever,

LAURENCE DUGGAN

837.24/762

The Liaison Officer (Wilson) to the Chargé in Cuba (Briggs)

WASHINGTON, March 4, 1942.

DEAR ELLIS: Larry Duggan has referred to Bonsal¹³ and me your letter of February 16⁹ in which you state that Colonel Boyden, the

⁹ Not printed.

¹⁰ Ellis O. Briggs became Chargé in Cuba when Ambassador Messersmith terminated his duties in Cuba on February 8, 1942, to become Ambassador to Mexico.

¹¹ Sumner Welles, Under Secretary of State.

¹² A high level committee of representatives of the War, Navy, and State Departments.

¹³ Phillip W. Bonsal became Chief of the Division of the American Republics March 13.

Naval Attaché, has some difficulty in reconciling two memoranda on airplanes for Cuba prepared by Colonel Barber¹⁴ and Captain Spears.¹⁵ An inquiry which has been made reveals that there is no conflict between the six observation planes mentioned by Captain Spears and the seven Army planes mentioned by Colonel Barber. The six observation planes are Amphibians, Model G21B, and have no connection with the five SNC-1's and the two JRF-5's referred to by Colonel Barber. With reference to the dates of delivery, Captain Spears tells me that in all probability only two of the G21B's could be delivered this calendar year owing to lack of funds. The remainder will be delivered later.

We have consulted the Navy Department on the subject of cabin cruisers and other matters to which you referred in your telegram of February 21.¹⁶ We have been told that, although there are no cabin cruisers capable of being used as patrol boats available at present, the Bureau of Ships has been requested to expedite the delivery of the 83-foot coast guard patrol boats which are under construction for Cuba under the Lend-Lease agreement.¹⁷ It is hoped that the ships will be delivered during the course of the present calendar year. Furthermore, Cuba is now being detached from the Tenth Naval District at San Juan and transferred to the Seventh Naval District at Key West. This will enable the maintenance of a permanent communication by radio which it is believed will be of considerable assistance in case of emergency. The Commandant of the Seventh Naval District has been requested to communicate with your Naval Attaché in order to provide close liaison between his district and the Cuban Navy. With reference to the dispatch of destroyers, patrol boats and aircraft to Habana, the Office of the Commander-in-Chief of the Fleet is giving this matter consideration. This office points out, however, the difficulty of detaching vessels or aircraft, in view of the critical situation which exists in the southern part of the Caribbean. We understand, of course, the alarm felt by the Cuban people and will do everything possible to assist them consistent with the vital necessity of keeping our fighting fronts adequately reinforced. In the long run, this policy should be the best protection for the Cubans.

The advisability of establishing a Defense Commission or some similar organization has been again brought to the attention of the War and Navy Departments. Both of these Departments are now considering the question sympathetically so that I believe we will bring

¹⁴ Col. Henry A. Barber, War Plans Division of the General Staff.

¹⁵ Capt. W. O. Spears, Pan American Division, Navy Department.

¹⁶ Not printed.

¹⁷ For text of agreement, signed November 7, 1941, see *Foreign Relations*, 1941, vol. VII, p. 122.

the matter to a satisfactory conclusion very soon. We shall, of course, let you know as soon as plans have been sufficiently completed.

Sincerely yours,

ORME WILSON

811.34537/362

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3603

HABANA, March 5, 1942.

[Received March 7.]

SIR: Referring to Ambassador Messersmith's despatch No. 3355 of January 28, 1942, and previous correspondence concerning the proposed supplementary zone at Guantánamo, I have the honor to report that I took occasion to remind the Minister of State of this matter during a conversation yesterday, and to express the hope that his Government would shortly be in a position to make known its views concerning its most recent draft (Draft G). I referred to the fact that the latest draft was delivered to the Minister over two months ago and that my Government is hopeful of early conclusion of the negotiations.

Dr. Cortina said that he has now completed his own study of the draft and that he finds it "in general satisfactory". He said that final clearance of the text on behalf of his Government must, however, be approved by President Batista, and he proposed to seek an early opportunity to bring the matter to the President's attention. He again referred to delays running into several months during which our Government "had the file", but concluded by stating that he realizes the desirability of an early conclusion of the matter. He added that the signed agreement will have to be submitted to the Cuban Senate for approval.

I doubt whether the Cuban Government will desire to conclude the agreement prior to the elections scheduled for March 15. I perceive no reason, however, why the matter should be delayed subsequent to that date, assuming that the Cuban Government does not desire to introduce any further modifications.

Respectfully yours,

ELLIS O. BRIGGS

811.34537/372: Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, April 4, 1942—noon.

[Received 7: 53 p. m.]

175. Commander Naval District, Key West, recommended the establishment of certain air-plane patrol activities based on San Julián near

the extreme western tip of the Island and not far from landing field at La Fé where there is already a small army detachment. The establishment of a base at San Julián will obviously greatly facilitate patrol of Yucatán channel and area off northwest coast.

No discussion of this has been undertaken thus far with the Cuban Government which will unquestionably assent. Please inform me by telegraph however in advance of establishment of base in order that I may clear the matter with the Cuban Government before it becomes *fait accompli*.

BRIGGS

811.34537/372 : Telegram

The Acting Secretary of State to the Chargé in Cuba (Briggs)

WASHINGTON, April 8, 1942—10 p. m.

181. Your 175, April 4, noon. The Navy Department feels that since the proposed base at San Julián constitutes one of several measures which are being taken pursuant to Cuban requests for additional naval assistance and since the staff conversations provide, *inter alia*, for close liaison between the Seventh Naval District at Key West and Cuban Naval Headquarters, it is preferable that, in the interests of promptness and decentralization of command, matters of this kind should be handled by the Naval Attaché in consultation with you, without reference to Washington unless, in your judgment, special factors render the latter course desirable.

The Navy Department agrees to instruct the Commander, Seventh Naval District, to give your Naval Attaché advance notice to meet the request in the second paragraph of your telegram.

The Department concurs in the foregoing but desires that you keep it promptly informed of all important developments.

WELLES

810.20 Defense/2422 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, April 9, 1942—6 p. m.

[Received 11:17 p. m.]

184. Department's 181, April 8, 10 p. m. The Prime Minister¹⁹ enthusiastically endorses the establishment of patrols based on San

¹⁹ Carlos Saladrigas.

Julián "or at any other point in Cuba from which we desire to operate".

BRIGGS

837.24/858

*The Cuban Ambassador (Concheso) to the Acting Secretary
of State*

[Translation]

WASHINGTON, April 13, 1942.

EXCELLENCY: I have the honor to advise Your Excellency that I have received instructions from my Government with respect to requesting of Your Excellency the expansion of the \$7,500,000 credit which was granted in the Agreement signed between the United States and Cuba by another like amount of \$7,500,000 which would make a total of \$15,000,000 to be charged to the Lend-Lease Act of March 11, 1941.²⁰

In our note of December 15 of last year,²¹ we explained the estimates for the construction work in which the Government of Cuba desires to invest the new \$7,500,000 in the event that the expansion of the original loan is agreed to by Your Government.

In addition, I have the honor to enclose for Your Excellency a new Memorandum²¹ treating in a concise way, of the camps which it is necessary to build in Cuba for the war emergency, as well as of the possibility of acquiring coast artillery, composed of 8", 10", and 12" cannon, which has generously been offered by Your Government.

I wish to make it a matter of record that, with regard to the National Air Field which is described in the accompanying Memorandum, the President of my country is happy to consent that, as an objective proof of close cooperation in the present war, an Aviation School be constructed at the said field, if the Government of the United States so desires, for the American Air Forces to be used for training of citizens of this country, for the entire duration of the present conflict in which both of our countries find themselves involved, with the sole request that training opportunities in the said School be given to Cuban youth and members of the Armed Forces of Cuba.

The present Air Field of the Military City of Columbia, the reconstruction of which is requested, will remain as a Military Air Field for Cubans.

Please accept [etc.]

AURELIO F. CONCHESO

²⁰ 55 Stat. 31.

²¹ Not printed.

811.34537/379

*The American Chargé in Cuba (Briggs) to the Cuban Secretary of State (Cortina)*²²

No. 198

HABANA, April 21, 1942.

EXCELLENCY: I have the honor to refer to previous correspondence and conversations concerning defense measures of interest to the Governments of Cuba and the United States and to inform Your Excellency that recent developments in the Caribbean area have suggested to my Government certain additional measures of an urgent character to meet the problem of enemy activities. I have accordingly been instructed by my Government to state that the Government of the United States would appreciate the cooperation of Your Excellency's Government in connection with the following matters:

(1) Development of emergency airplane landing facilities in Oriente Province. Permission is sought for a small group of officers from the Naval Station at Guantánamo to make the necessary reconnaissance investigations of areas under consideration. Should suitable areas be found, authorization is requested from Your Excellency's Government to make arrangements for the use thereof, presumably on a lease basis, for the period of the war, as emergency landing fields. I need not add that should Your Excellency's Government desire to detail an official or officials to accompany these survey groups, this would be highly gratifying to my Government.

Although definite selection of areas will await the making of the surveys, three such areas are tentatively under consideration at the present time: the first is approximately twenty-five miles to the west of the Naval Station on lands understood to be owned by Central Ermita, the second is in the vicinity of Cape Maisí about fifty miles east of the Naval Station, and the third at a point to be selected probably to the northeast of the city of Guantánamo.

(2) Permission is sought for torpedo patrol craft based at Guantánamo to utilize certain bays on the northeast coast of Cuba, for the primary purpose of extending the radius of operation of these craft in submarine patrol work. At the present time the necessity of returning to Guantánamo materially limits the radius of action, and it is hoped that the permission of the Cuban Government, in accordance with the understanding already existing between the General Staffs of Cuba and the United States, may be extended so that these vessels on patrol may put in at such places at Bahía Mata, Puerto Sama, and perhaps elsewhere on the northeastern littoral as far west as Nuevitas Bay. It would not be the present intention to station any shore detachments in connection with such patrols, although it would be appreciated if the permission in question can include authorization for the crews of the patrol vessels to proceed ashore with certain equipment, while the torpedo patrol craft are calling at or operating out of these ports.

²² Copy transmitted to the Department by the Chargé in his despatch No. 3896, April 24; received April 25.

(3) Installation of mobile coast artillery guns at Escondido Bay east of the Naval Station area, and at a point not yet selected approximately the same distance to the west of the western boundary of the Naval Station. In order that these guns may be manned constantly, it would be proposed to build temporary quarters for the gun crews, and to connect the gun emplacements by telephone with the Naval Station itself.

In bringing the above projects to the favorable attention of Your Excellency, I have the honor to state that my Government is deeply appreciative of the constant and effective cooperation which it is receiving from Your Excellency's Government in matters pertaining to joint defense, which cooperation is of the highest value in coping successfully with enemy activity in this area.

With reference to the discussions which have been in progress during the past year relative to the establishment of a Cuban military zone for joint defense in the neighborhood of the Naval Station at Guantánamo, I may add that while this project has not been abandoned by the Government of the United States, certain changes in the general situation, as well as the withdrawal of a considerable proportion of the United States personnel previously based at the Naval Station, render it in the judgment of my Government unnecessary to complete these negotiations at this time. My Government recalls with sincere gratification Your Excellency's high spirit of collaboration in connection with the proposed establishment of this military zone and believes that it may have occasion in the future to renew consideration of this project.

Please accept [etc.]

ELLIS O. BRIGGS

811.34537/386b : Telegram

The Secretary of State to the Chargé in Cuba (Briggs)

WASHINGTON, May 7, 1942—9 p. m.

239. The Department has been requested by the War Department to facilitate an exploratory and preliminary visit of inspection of certain sites in Cuba, particularly Camagüey, for the purpose of possibly locating and establishing one of several combined British-American bombardment operational training units, should the Cuban Government be favorably disposed towards its consideration.

The arrangements that may result contemplate the leasing of certain lands and the construction of facilities for the training of advanced pilots especially in over-water flight. The personnel might comprise between 2,500 and 4,000 U.S. operating personnel and British students. Under present plans the advanced nature of the training

would appear to preclude the possibility of making available instruction for the armed forces of Cuba.

Since the present mission is preliminary and exploratory, no definite commitments are to be undertaken until the results have been reviewed by the interested agencies of this Government.

The personnel of the mission will include: Brig. General William Ord Ryan, Group Captain R. H. S. Spaight, Royal Air Force, Lt. Col. Ray T. Middleton, and a crew of nine men. It is probable that General Ryan will wish to have technical engineering data secured by members of the mission in anticipation of successful negotiations.

You are requested to facilitate the visit of the mission, arriving at Habana late afternoon of May 8, and to assign a member of your staff to accompany it. You are likewise requested to make every effort to avoid publicity in connection therewith.

HULL

810.20 Defense/2630

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3975

HABANA, May 7, 1942.

[Received May 9.]

SIR: Supplementing recent correspondence on defense matters, I have the honor to transmit a memorandum of a conversation²³ between Dr. Cortina, the Minister of State, Mr. Walmsley, and me yesterday, in which the Minister proposed the negotiation of a general agreement on defense matters and the establishment in connection therewith of a small joint military-naval board, Cuba-United States.

The proposed agreement would supplement the agreements reached during the staff conversations in September, 1940.²⁴ It is the Minister's suggestion that it would be in general terms, each country agreeing to accord the other full use of its facilities. The agreement would be intended to obviate the necessity of requests for the use of such facilities (which requests have been somewhat numerous since last December), substituting therefor notification from one Government to the other.

As of interest in the foregoing connection, there is also enclosed a list of the requests made of the Cuban Government²³ since the entry of the United States and Cuba into the war.

Respectfully yours,

ELLIS O. BRIGGS

²³ Not printed.

²⁴ See despatch No. 732, September 3, 1940, from the Ambassador in Cuba, *Foreign Relations*, 1940, vol. v, p. 99.

811.34537/386 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, May 8, 1942—noon.

[Received 5:29 p. m.]

292. Department's No. 239, May 7, 3 [9] p. m., and my telephone conversation this morning with Ambassador Braden.²⁶

The proposal outlined in the foregoing telegram is of such scope that I do not believe it would be desirable for any discussion thereof to be undertaken by General Ryan during his forthcoming preliminary survey but that if in the light of his findings and subsequent full consideration of all the implications by the interested agencies of our Government it is desired to go forward, the project then be broached officially. I shall accordingly suggest to General Ryan that he confine his statements to Cuban officials to the fact that he is making exploratory and preliminary investigation of certain air facilities.

In particular I believe it would be undesirable to include in the proposal the limitation mentioned in the last sentence of paragraph 2 of the above telegram. Numerous Cuban pilots are receiving instruction in the United States at the present time and to state at the outset that a project of this scope undertaken in Cuba and requiring for its successful development whole-hearted cooperation by the Cuban Government would not be available to any Cuban citizens would in my opinion cause the worst possible impression and even adversely affect future cooperation on other matters.

BRIGGS

811.34537/386b suppl. : Telegram

The Secretary of State to the Chargé in Cuba (Briggs)

WASHINGTON, May 9, 1942—6 p. m.

246. Department's telegram no. 239, May 7, 9 p. m., and Briggs' telephone message of May 9. The War Department has informed this Department that it is cabling General Ryan, Care of the Military Attaché, to the following effect:

1. His visit to Cuba should be continued on an exploratory basis only;
2. No discussions whatsoever regarding an agreement should be undertaken with Cuban officials;
3. Prior to any discussions about an agreement with the Cuban officials there should be an exact understanding between the War Department and this Department regarding the nature of the project.

HULL

²⁶ The appointment of Spruille Braden as Ambassador to Cuba was confirmed on December 19, 1941. He arrived in Havana to assume his duties May 15, 1942.

811.34537/386 suppl. : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, May 21, 1942—10 p. m.

286. Department's telegram no. 246 of May 9, 6 p. m., etc. You are requested to present to the Cuban Government a confidential memorandum setting forth along the following lines the proposal of the War Department discussed with you recently by General Ryan:

The United States War Department desires to establish with the least delay possible a heavy bombardment operational training unit under United States Army officers in the neighborhood of San Antonio de los Baños to perfect trained British Royal Air Force personnel in combat techniques preparatory to assignment to more active theaters of war. This unit would complete the chain of such training bases already being set up in southern sea-coast states and at Nassau. The combat teams completing their training in these bases will at the same time be available for effective anti-submarine and other war operations.

In the knowledge of the eagerness of the Cuban Government to contribute more actively in the prosecution of the war and its anxiety to expedite measures for protection of its coasts and shipping between Cuba and the United States, the United States Government desires urgently to know whether the Cuban Government agrees in principle to the establishment of the facilities in question under the military jurisdiction of United States officers. Details concerning the base would be worked out through negotiation between the Cuban Government and the United States Ambassador, assisted by Army technical officers of Cuba and the United States. In case of approval in principle by the Cuban Government the United States War Department would initiate surveys at once in order to indicate the specific areas it has in mind and would enter into arrangements with local contractors, wherever possible, for the preliminary work. It is contemplated that the Cuban Government would condemn the necessary lands, which it would make available for the War Department's use, and that the Cuban Government's reasonable expenses in this connection would be fully reimbursed. The agreement should be for the period of the war plus, say, 6 months after the termination of hostilities, and all fixed installations erected at the expense of this Government would of course revert to the Cuban Government.

As now envisaged by the War Department, there would be stationed at the base a maximum of 3,600 officers and enlisted men, including about 1,400 personnel of the British Royal Air Force preparing for active combat duty in war zones. Entire responsibility for administration, discipline, etc., would of course remain in the hands of the United States Commandant.

The establishment of such an operational training unit will result in very considerable movements of matériel and supplies for construction, operation, maintenance, and subsistence, and of personnel, through Habana, and between Habana and San Antonio de los Baños, mostly by highway. The United States Government is confident that the Cuban Government will be agreeable to cooperative arrangements for the expeditious handling in Cuban ports of ships and official cargo

in connection with the construction, maintenance and supply of the base and for the overland transit of matériel and supplies between the port and the base. The United States Government will be prepared to defray the costs of any necessary improvements and maintenance of, and repairs to, the highways it uses. The United States Government requests exemption from import duties, excise taxes and other fees on the official matériel and supplies imported solely for use at the base, and on the Government transports arriving at Cuban ports with official cargoes and personnel. Furthermore, the United States Government will hold itself responsible for the conduct and repatriation of the personnel, both military or civilian, which it will send to the base.

Because of the urgent demands of the war fronts for ever-increasing numbers of trained air combat crews and the intensification of warfare on numerous fronts, and in view of the added protection the base will give to Cuba, the United States Government earnestly hopes that the Cuban Government will give this proposal, which will so materially aid in the war effort of the United Nations, immediate and sympathetic consideration. End of substance of memorandum.

If the above is acceptable in principle to the Cuban Government, you are requested to ascertain and report the form which the agreement should take. The Department is of the opinion that an executive agreement as between co-belligerents, in an exchange of notes, would be most expeditious and convenient. Further details of the proposal will be transmitted to you within a day or two in a War Department memorandum.

As soon as the Cuban Government notifies you of its acceptance in principle of the proposal, the War Department will send a representative (possibly Colonel Barber) to assist you in the ensuing negotiations, and will also send personnel to conduct the survey in the vicinity of San Antonio de los Baños.

Confidential for the Ambassador: While the establishments envisaged at San Antonio de los Baños and the other similar bases have no facilities for training individual aviation officers or men, the Department will if you deem it desirable explore the possibility of affording primary and advanced army training for selected Cuban members of the armed forces at suitable training centers.

HULL

811.34537/390 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, May 25, 1942—7 p. m.
[Received May 26—6: 22 a. m.]

339. Department's telegram No. 286, May 21, 10 p. m. A memorandum based on the above instruction was handed to President

Batista this afternoon and he readily agreed in principle to the establishment of the proposed training unit. He added that in view of his own forthcoming trip to Oriente Province, he would immediately direct the Minister of State to undertake with me the proposed negotiations. I see no reason, therefore, why a representative of the War Department should not proceed at once to Habana.

The only departure from the Department's telegram No. 286 in my memorandum to President Batista is in regard to acquisition of land areas. My memorandum suggests that these be made available without expense (instead of on a reimbursement basis) in view of the Cuban Government's keen interest in the development of San Antonio de los Baños and the extensive installations which will revert to the Cuban Government at the end of the arrangement. However, in order to insure all improvements being made by United States and not by the Cuban Government as Batista had planned, it may be desirable for United States to assume expropriation cost of the land required.

He [*We?*] explained to the President the possible complications relative to giving this advanced instruction to Cuban trainees at the proposed center, adding however that we would hope to make such training available elsewhere, as indicated in the last paragraph of the Department's telegram.

BRADEN

810.20 Defense/2878

Agreement Between the United States and Cuba for Military Cooperation, Signed at Habana, June 19, 1942

The Republic of Cuba and the United States of America, desiring to conclude an Agreement for Military Cooperation, have appointed for this purpose as their respective plenipotentiaries:

The President of the Republic of Cuba, José Manuel Cortina, Minister of State,

The President of the United States of America, Spruille Braden, Ambassador Extraordinary and Plenipotentiary of the United States of America in Cuba,

Who, after having exchanged their full powers, found to be in due form, have concluded the following Agreement for Military Cooperation.

WHEREAS: The American Republics have reaffirmed their complete solidarity and their determination to cooperate for their mutual protection;

WHEREAS: The Governments of Cuba and of the United States of America are co-belligerents in a war against the Axis nations;

WHEREAS: The Governments of Cuba and of the United States of America are desirous of cooperating to the utmost in the prosecution of the war effort;

WHEREAS: The advanced training of aviation bombardment combat units within Cuban territory would contribute to the effective prosecution of the war and should at the same time provide a substantial measure of protection, hitherto lacking, for ocean shipping in waters adjacent to Cuba;

WHEREAS: The Governments of Cuba and of the United States of America have agreed to establish a heavy bombardment Operational Training and Combat Unit in the vicinity of San Antonio de los Baños in the Province of Habana;

WHEREAS: The full sovereignty of Cuba over the areas mentioned in this Agreement is not impaired in any manner, but is recognized and maintained;

WHEREAS: All fixed installations and facilities mentioned in this Agreement will upon the termination thereof revert to the Cuban Government, thus contributing to the achievement of the objective concerning airport development referred to in the Fourth Resolution of the Third Meeting of Ministers of Foreign Affairs of the American Republics held in Rio de Janeiro, Brazil, in January 1942;²⁷

WHEREAS: For the establishment of the Operational Training and Combat Unit the Governments of Cuba and of the United States of America have agreed upon the following:

ARTICLE I

The Government of Cuba believes that certain areas in the vicinity of San Antonio de los Baños, in the Province of Habana, can be utilized for the establishment of a military zone for advanced aviation training, and to this end is disposed to make available (*aportar*) said lands to constitute a military war zone in which the Government of the United States is authorized to establish and operate a heavy bombardment Operational Training and Combat Unit, hereafter referred to as the Unit, with all its necessary equipment and facilities, to consist of American, and which may also include Royal Air Force (British), personnel. In accordance with this purpose areas of land shall be selected by studies undertaken by technical personnel of both Governments, and within said zone, for the duration of this Agreement, military jurisdiction shall be exercised, without prejudice to the sovereignty of Cuba, by the Government of the United States, and all services and base command in the zone shall be established and exercised by the Government of the United States, and all contact

²⁷ For correspondence on this Meeting, see vol. v, pp. 6 ff.; for text of Resolution IV, see Department of State *Bulletin*, February 7, 1942, p. 122.

with the Cuban Government shall be maintained through channels of the Government of the United States directly or through the Embassy of the United States. Flying training standards and supervision may be British. The Cuban flag shall at all times be flown within said zone, in a principal place (*en sitio principal*), and the American and British flags may likewise be flown therein.

ARTICLE II: *Description of Unit*

The Unit is an institution which takes pilots, navigators, bombardiers, and flight engineers who have finished their individual training, and prepares them through final training for service on combat type aircraft. At the conclusion of this training they are immediately transferred to Units operating in combat areas. After completion of construction work in the zone, it is anticipated that the personnel of the Unit will total approximately 3,200. No personnel is given preliminary or other training in a Unit of this description, and untrained personnel therefore cannot be included in the advanced and final training activities of this Unit in Cuba.

Appreciating the desire of the Cuban Government and people to have Cuban pilots participate in the war effort, the Government of the United States declares its sympathy with this desire, and agrees that courses of training of this nature will be made available to Cuban pilots to the numerical extent that the Army Air Forces training command of the United States permits.

ARTICLE III

The Cuban Government will contribute and make available to the Government of the United States without cost the necessary land referred to in Article I, and moreover is disposed to contribute in addition, under the same conditions, one or two satellite fields that it may be necessary to establish in the general vicinity of the zone and which may be required in connection with the operations of the Unit, the land for these satellite fields being likewise contributed by the Government of Cuba without cost to the Government of the United States. Satellite fields are utilized in connection with the training and combat activities of the Unit and for emergency and instructional landings.. The personnel to be stationed at the satellite fields of the Unit will total approximately thirty officers and men.

ARTICLE IV: *Free Entry*

Materials of all kinds, equipment, fuel, merchandise, and war supplies imported into the zone for exclusive use and consumption therein shall not be subject to payment of Cuban customs duties nor any other fees or charges. This privilege shall be extended to the per-

sonal effects of personnel of the United States Government attached to the zone and to goods consigned to United States authorities at the zone for the use of official institutions of said zone, under the control of said Government, such as post exchanges, commissaries, establishments and service clubs, for sale to the personnel of the zone. Appropriate administrative measures shall be taken by the United States authorities of the zone, in consultation with the Joint Military Commission for Coordination and Liaison hereinafter established, to prevent abuse of the privileges granted under this article.

ARTICLE V: *Taxation*

Members of the armed forces of the United States and civilian citizens of the United States attached to the zone and who serve it, relative to the construction and operation of the Unit by reason of such assignment shall be exempt from the payment of direct taxes to the Government of Cuba and its subdivisions, and also municipalities.

ARTICLE VI: *Shipping and Dock Facilities*

Vessels operated by the United States Government transporting material, equipment and supplies for the zone, as well as personnel of the Operational Training Unit, shall not be subject to payment of Cuban port, tonnage, anchorage or other fees, except that if a pilot is taken, pilotage shall be paid for at appropriate rates.

The Government of Cuba authorizes the Government of the United States to rent in its name suitable pier or dock facilities in Habana, together with storage space for cargo destined for or transported from the zone. The administration of such facilities may be undertaken by the Government of the United States, but in every case shall be subject to the existing laws and regulations of the Republic covering such piers, docks, and warehouses.

ARTICLE VII: *Use of Cuban Highways and Railroads*

Authorization is granted for the use of Cuban highways by United States Government transportation and the right to ship over existing railroads materials and supplies necessary for the construction, maintenance and supply of the zone.

The Government of the United States agrees to defray necessary expenses for the improvement and maintenance of roads mainly used by the United States forces, in an amount and form to be determined by mutual agreement.

No tax or fee shall be payable in respect of registration and licensing for use in Cuba of motor vehicles belonging to the Government of the United States or to the personnel of the Operational Training Unit.

ARTICLE VIII: *Communications*

Authorization is granted to the Unit by the Cuban Government for the establishment and operation of such military communications as may be essential solely for the functioning of the Unit.

ARTICLE IX: *Fugitives from Justice; Offenses Committed Outside the Zone*

Fugitives from justice charged with crimes or misdemeanors amenable to Cuban law taking refuge within the zone shall be delivered by the United States authorities on demand by duly authorized Cuban authorities. On the other hand, the Republic of Cuba agrees that fugitives from justice belonging to the personnel of the Unit who are charged with crimes or misdemeanors amenable to United States law committed within the said zone who are found or take refuge outside the zone, shall on demand be delivered up to the duly authorized United States authorities.

Any other case of a similar nature, not covered by this Agreement, shall be settled through consultation between the Ministry of State of Cuba and the Embassy of the United States in Habana.

ARTICLE X: *Postoffice Facilities*

The Government of the United States is authorized to establish a United States post office or offices within the zone for the exclusive use of personnel of the Unit.

ARTICLE XI: *Rights and Privileges Extended to British Personnel*

All rights and privileges authorized to personnel of the Unit who are citizens of the United States shall be likewise authorized with respect to British military personnel serving with the Unit and under the jurisdiction of the military authorities of the United States in the Unit.

ARTICLE XII: *Claims for Damages*

A joint commission of the Governments of Cuba and the United States shall be established to have jurisdiction over the settlement of all claims for damages to Cuban life or property which may result from aircraft or other accidents incident to the operation of the Unit.

ARTICLE XIII: *Duration of Agreement*

The authorizations contained in this Agreement for military war-time cooperation shall cover the period of the present war plus six months after the establishment of peace between the United States and the Axis powers.

ARTICLE XIV: Transfer of Equipment and Facilities to the Cuban Government at the Termination of this Agreement

At the termination of this Agreement, all the fixed installations and constructions of every kind placed by or on behalf of the United States Government during the life of this Agreement within the zone or within the satellite fields referred to in Article III shall be left in place and shall become the property of the Government of Cuba without cost.

ARTICLE XV: Conditional Clause

The Government of the United States agrees during the life of this Agreement not to sell, lend, lease or transfer material, articles, or property, use or possession of which has been obtained from the Government of Cuba through this Agreement, without the consent of the President of Cuba. Similarly, the Government of the United States agrees not to make available without the same consent to another nation the use of the information given or studies provided by the Government of Cuba (except to British officials or personnel who may be serving in the zone, when such information is pertinent to the necessary operations of the Unit).

The Government of the Republic of Cuba for its part agrees during the life of this Agreement not to sell, lend, lease or transfer materials, articles or property, use or possession of which has been obtained from the Government of the United States through this Agreement, without the consent of the President of the United States. It also agrees not to make available, without the same consent, to another nation the use of the information given or studies provided by the Government of the United States.

ARTICLE XVI: Secrecy of Agreement

Because of the military character of this Agreement it shall be considered secret until such time as the Governments of Cuba and of the United States may mutually agree otherwise.

ARTICLE XVII: General Provisions and Establishment of Joint Military Commission for Coordination and Liaison

The Governments of Cuba and the United States agree that they will act in mutual accord to adopt from time to time such supplementary revisions of this Agreement as may be necessary and indicated by experience to provide satisfactory procedure or regulations covering questions requiring further clarification or improvement, including matters pertaining to the protection of the rights and privileges of citizens of Cuba and of the personnel of the Unit.

In the above connection there shall be established a military commission for coordination and liaison to be composed of an equal number of officers of the Cuban and American Armies, the primary duties of which shall be the maintenance of necessary liaison and the facilitation of the most effective reciprocal cooperation between the Cuban Army and the United States Command in the Unit.

Signed at Habana, in duplicate, in the Spanish and English languages, this nineteenth day of June Nineteen Hundred and Forty-two.

J. M. CORTINA

*Minister of State of the
Republic of Cuba*

SPRUILLE BRADEN

*Ambassador of the United
States of America*

811.34537/408 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, July 2, 1942—10 p. m.
[Received July 3—4:39 a. m.]

495. For Duggan. Some weeks ago Cortina suggested that it would facilitate Cuban-American military and naval cooperation if we negotiated an executive agreement which would cover in general terms all of the various kinds of cooperation which have been the basis of a series of specific requests for the use of Cuban facilities, et cetera, during the past 6 months. I have accordingly prepared a draft agreement which I left with the Minister of State this morning as a [basis] for further discussion. In form it follows the air port training project agreement and includes:

(a) Blanket authorization for our service aircraft to fly over and land in Macao [*sic*] and take photographs. (This authorization has already been obtained by note.)²⁸

(b) General authorization for the establishment of United States service detachments at Cuban air ports and the utilization of their facilities. (We already have detachments at Camagüey and San Julián by special permissions.)

(c) (Authorization to establish additional airports and to improve existing airports and their facilities.) Camagüey has been improved and San Julián is about to be improved under the so-called airport development program. Additional locations are under study.

(d) Establishment of shore detachments irrespective of the necessary construction, communications facilities have been considered, et cetera. (Authorization is pending for the establishment of eight submarine detector stations at strategic points.)

(e) Authorization for patrol aircraft and surface craft to call without restriction at coastal points and utilize bays, harbors, et cetera,

²⁸ Dated January 14, p. 253.

without prior notification. (Informal authorization to utilize certain bays was obtained several months ago.)

(f) Covers certain matters of shells, the naval station in Guantánamo including the establishment of mobile guns outside the present boundaries.

With respect to the authorizations requested under [paragraphs?] (c) and (d) prior consultation to determine scope of proposed activities is provided for.

Other articles relate to free entry; to procedure regarding consultation (between the Embassy and the Minister of State); for secrecy of the text; and for the transfer of fixed installations to the Cuban Government without cost at the termination of the agreement, i.e., 6 months after peace between the United States and the Axis.

The draft text ²⁹ will be sent by next courier.

BRADEN

811.34537/402: Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, July 2, 1942—10 p. m.

407. Your 464, June 24, 10 p. m., and 492, July 1, 11 p. m.³⁰ Without prejudice to the drafting of the Agreement referred to in your 492, the Department wishes your urgent opinion as to the feasibility of obtaining authority from the Government of Cuba for the prompt development and operation by the War Department of the base at San Julián. The War Department plan contains the following points:

(1) Acquisition by Pan American's Cuban subsidiary of such additional land in the vicinity of San Julián as may be necessary.

(2) Provision of runways or the extension of existing runways to a total length of 7,000 feet.

(3) Construction of the necessary buildings, including hangars and shop facilities and provision for a dispensary, gasoline storage facilities, communication and weather facilities, necessary night lighting installations and bomb storage facilities. All of the buildings would be of a temporary character.

(4) Permission to station not over 500 officers and enlisted men with necessary airplanes and equipment at San Julián for the purpose of patrolling in the vicinity of the Yucatán Channel.

(5) Permission to construct the necessary temporary housing facilities for the above personnel.

(6) Permission to construct access roads to airfield and to improve existing roads, where necessary, for the purpose of supply and operation.

²⁹ Not printed.

³⁰ Neither printed.

War Department desires to obtain permission from the Cuban Government for Army engineers and survey parties to make necessary preliminary surveys pending the conclusion of an agreement with the Cuban Government for the necessary construction. Your views as to the necessity of a formal agreement concerning San Julián and also as to the most appropriate detailed approach to the several points of the War Department's plan will be appreciated. You should not approach Cuban Government pending further advice.

HULL

837.24/858

The Secretary of State to the Ambassador in Cuba (Braden)

No. 209

WASHINGTON, July 3, 1942.

SIR: On April 13 the Cuban Ambassador in Washington addressed a note to the Department in which, among other subjects, he conveyed his Government's acceptance of an offer made previously by the War Department to supply the Cuban Government with coast defense artillery.

This matter has received the attentive consideration of the authorities of the War Department who have now informed this Department that there are available for transfer to the Cuban Government, under the provisions of the Lend-Lease Act, eight 8'' guns and carriages together with the necessary fire-control equipment. This artillery and equipment can be delivered to the Cuban authorities at an American port at the following prices and within three to four months after the receipt of an official request from the Cuban Government:

8 guns at \$17,000	\$136,000
4 fire-control units at \$6,000	24,000
Estimated disassembling and cost of transporting to Port of 8 guns & carriages and 4 sets of fire-control equipment. (Guns & Carriages—\$28,000, & Fire-control Equipment—\$3,000)	31,000
Total	\$191,000

No munitions are included. The War Department states, however, that a reasonable amount could be supplied under conditions similar to those governing the delivery of the guns.

You are authorized in your discretion to convey this information to the Cuban authorities for their consideration.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

811.34537/407 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, July 3, 1942—11 p. m.

[Received July 4—4:14 a. m.]

502. Department's 407, July 2, 10 p. m. With respect to paragraphs number 1, 2, 3, 5, and 6, I see no objection and believe Cubans would welcome their inclusion in tripartite agreement suggested to me by Minister of State and Mexican Ambassador. In fact, Cubans will prefer to have United States handle all construction aspects of this undertaking and these might even be covered in a separate agreement.

Likewise, I believe paragraph number 4 can readily be obtained. However, Cuba, in my opinion, will also wish to incorporate following provisions in proposed agreement:

(a) Such Mexican and/or Cuban military aviators and planes as might participate in Yucatán channel patrol to be housed and serviced at the San Julián Field.

(b) Fixed improvements exclusive of temporary or demountable buildings to become Cuban property upon termination of agreement.

Permission for preliminary surveys should be forthcoming promptly on request.

Since Mexican participation in this particular development has been raised by the Mexicans and ourselves I believe Cubans will now greatly prefer a formal tripartite agreement.

BRADEN

837.24/885

Memorandum of Conversation, by the Adviser on Political Relations (Duggan)

[WASHINGTON,] July 9, 1942.

The Ambassador ³¹ stated that on April 13 he had presented a note to the Department requesting an increase in the lend-lease allocation for Cuba from \$7,000,000 to \$15,000,000. One of the purposes for which this increased allocation was desired was the construction of barracks for the Cuban Army, which will be augmented by the draft which will take place in Cuba early in August. The present Cuban Army consists of about 20,000 men. It is contemplated that an additional 25,000 to 35,000 men will be taken into the Army. As things stand today there are no barracks in which to house the new recruits. Moreover, the present Army is insufficiently equipped with rifles, machine guns, et cetera. There will be nothing with which to train the new Army.

³¹ The Cuban Ambassador, Aurelio F. Conchoso.

The Ambassador stated that he had not yet received any indication of the attitude of this Government with respect to an increased lend-lease allocation for Cuba. Since the note was presented, the situation has changed somewhat by the decision of the United States Government to construct and equip at its own expense a large airport for training purposes at San Antonio de los Baños. The Ambassador indicated that this might make possible the diminution of the additional assistance requested.

I asked the Ambassador whether it would not be possible to utilize a part of the existing lend-lease allocation for the construction of barracks, provided that both Governments were in agreement that this was an expenditure desirable and essential to the defense of the Western Hemisphere. The Ambassador replied that this was impossible, since the \$7,000,000 had already been fully allocated and requisitions filed.

The Ambassador stated that the President was disturbed by the situation. He wanted to increase the Army in order to make troops available to the United States if desired. The Congress had passed a conscription law. Action in accordance with the law was about to be instituted. It would be very unfortunate to induct into the Army 25,000 to 35,000 men and then have no place to house them and nothing to train them with.

I told the Ambassador that I would look into the matter.

811.34537/407 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, July 10, 1942—6 p. m.

456. Your 502 of July 3, 11 p. m. As the urgency of inaugurating the anti-submarine operations is apparent, and the War Department wishes to send survey parties to Cuba at once, you should, without awaiting drafting of the tripartite agreement (your telegram 492 of July 1, 11 p. m.³²) seek authority from the Cuban Government at once for the following, based on the plan contained in the Department's 407 of July 2, 10 p. m.:

1. Permission for the Compañía Nacional Cubana de Aviación to acquire the necessary land at San Julián to construct and make available for our use one or more runways of 7,000 feet. This permission should include authority for United States Army personnel to supervise construction.

2. The Cuban Government to make available the necessary land in the vicinity of San Julián for the War Department to construct the necessary facilities for the operation of the field. (It would facili-

³² Not printed.

tate matters if this land were Cuban Government-owned.) The construction contemplated includes the items mentioned in numbered paragraphs 3, 5 and 6 of the Department's 407.

3. Permission to station not over 500 officers and men, together with their planes and equipment, at San Julián.

4. Authority for the United States Army Air Force to exercise complete operational and administrative control at the San Julián base. (Although the War Department will cooperate with the Cuban and Mexican aviation forces assigned to anti-submarine duty, the effectiveness of our operations requires complete United States control. Provision will be made for housing Cuban and Mexican personnel with our own personnel and, whenever possible, for servicing their airplanes. In the latter connection however the War Department emphasizes that its servicing facilities will necessarily be specially planned for the types of aircraft it intends to operate.)

For your information certain changes in joint Anglo-American plans have resulted in a change in plans for the use of San Antonio de los Baños for training RAF crews. This base will therefore become available primarily for operations against enemy sea raiders.

You may mention in taking the foregoing up with the Cuban authorities the satisfaction of the State and War Departments with Dr. Cortina's constructive suggestion of an agreement for military-naval cooperation (your despatch 312 of July 2³⁴). The Department wishes to stress to you however the importance of obtaining the foregoing specific permissions without awaiting conclusion of either (1) the tripartite agreement, or (2) Dr. Cortina's general cooperation agreement.

With reference to the tripartite agreement, the draft should provide that Mexico grants to the United States and Cuba at Mérida the same privileges granted at San Julián by Cuba to the United States and Mexico. The general cooperation agreement should greatly facilitate new arrangements, as they become necessary, similar to the one now sought. You may inform Dr. Cortina that the Department together with the War and Navy Departments is already studying his draft and that we shall endeavor to communicate with you on the matter very soon.

HULL

811.34537/419: Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, July 17, 1942—10 p. m.

[Received July 18—6: 18 a. m.]

584. My telegram No. 573, July 16, 3 p. m.³⁴ Cortina has shown me his draft reply to my note 394, July 11 (transmitted to the Department

³⁴ Not printed.

with despatch 408, July 13³⁵) regarding proposed developments at San Julián. After relating the substance of my note the Minister's communication goes on to accept our proposal subject to the following conditions.

(1) Acceptance to be without prejudice to our pending general agreement for military and naval cooperation (despatch 312, July 2³⁵).

(2) Reversion of facilities at the end of the agreement employing the same phraseology as the San Antonio de los Baños Agreement (article 14³⁶).

(3) Arrangement for one or two officers from each side to serve as liaison.

I indicated my satisfaction with these terms which appear to me to be entirely acceptable.

Cortina then said he was extremely desirous of concluding the proposed general agreement at the earliest possible moment and that it should be a document enabling us to send into Cuba "one hundred to one hundred thousand men" and should obviate the necessity for our repeated requests for permission to act in such matters thus enabling us to take immediate action whenever we feel it desirable. Should the Department have any suggestions on this agreement I hope they can immediately be transmitted.

Cortina has now apparently abandoned the idea of a tripartite agreement and states that the question of use of facilities by Mexico on a reciprocal basis can be worked out after our signature of the general agreement. I see no objection to this course.

BRADEN

811.34537/420 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, July 19, 1942—10 p. m.

[Received July 20—1 a. m.]

588. My telegram No. 584, July 17, 10 p. m. Cortina's note regarding development of the San Julián airport has now been received, in the form described in my telegram under reference and my acceptance note will constitute the agreement. Copies of the note will be sent Department by airmail tomorrow.³⁷ The only additions introduced by Minister of State are:

- (1) Reaffirmation Cuban sovereignty;
- (2) Flying of Cuban flag in preferential position;

³⁵ Not printed.

³⁶ *Ante*, p. 272.

³⁷ In despatch No. 482, July 20, 1942, not printed.

(3) United States jurisdiction in area to be purely military and endure until 6 months after end of war.

It is suggested that supplies and equipment in connection with San Julián be sent in the name of our Government to expedite free entry and handling on arrival (instead of consigned to Pan American Airways or its local subsidiary).

Has the War Department given consideration to subsequently using at San Julián machinery and equipment now arriving in substantial volume for San Antonio de los Baños project?

BRADEN

837.24/887

Memorandum of Conversation, by the Liaison Officer (Wilson)

[WASHINGTON,] July 21, 1942.

The Cuban Ambassador came in to see me this morning. I conveyed to him the substance of the information contained in the memorandum of conversation dated July 14,⁸⁸ and explained that it would be impracticable to provide lend-lease funds to purchase the land mentioned in the Ambassador's memorandum of April 13. With reference to the construction material and plumbing for the barracks, I said that these articles were very difficult to obtain in the United States, and inquired whether they could be procured locally in Cuba. If so, such funds could possibly be used in this connection as well as to purchase the necessary lighting equipment for the airfields.

The Ambassador expressed his disappointment. He said that he would communicate with President Batista with a view to ascertaining whether sufficient stocks of hardware exist in Cuba, in order that they could be "frozen" to provide the requisite amount for the barracks.

I then mentioned the great difficulty of providing the rifles for the recruits. The Ambassador expressed doubt whether it would be possible to induct the recruits and train them with dummy guns. He feared that this procedure would arouse ridicule and defeat the purpose of the recruiting.

He informed me that he had forwarded to Habana the War Department's offer to sell the coast artillery and agreed that this material could be paid for by means of the existing lend-lease allotment.

During the conversation the Ambassador described the desire of the Cubans to be of real assistance in the war and not mere on-lookers. He recalled that in the last war the Cuban Government had sent to Florida for military training about 25,000 recruits.

⁸⁸ Not printed.

Transportation problems make such a procedure difficult at present, and the Cuban Government is therefore obliged to train its recruits locally.

ORME WILSON

811.34587/446 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, August 24, 1942—4:45 p. m.

A-97. Reference Embassy's No. 700 [705] of August 14, 7 p. m.³⁹
The following message has been received from the War Department:

"Since July 23, 1942, the War Department has withheld certain necessary construction at the airport at Camagüey pending negotiations towards the successful accomplishment of the General Military Cooperation Agreement between the United States and Cuba.

In telegram No. 700 [705] from the American Ambassador to Cuba, dated August 14, 1942, the Ambassador points out the fact that as a result of the present political situation in Cuba, it is not possible to state when negotiations concerning the General Agreement can be resumed. The Ambassador further stated that he was willing to attempt to obtain action from the Government of Cuba on the Camagüey construction as a separate project if this step were considered desirable.

In view of the above and of the fact that the War Department is desirous that this project should proceed with the least practicable delay, it is therefore requested that your Department take steps to obtain from the Cuban Government the following:

a. Permission to make such arrangements as are necessary whereby the War Department, through the *Compañía Nacional Cubana de Aviación*, the Cuba Consolidated Railroad, and/or contractor, may perform the following construction:

(1) A railroad siding approximately 1000 feet long (Cuba Consolidated Railroad), adjacent to the airport, for the purpose of spotting cars of gasoline and other supplies.

(2) A transfer pipeline from the railroad siding to the existing gasoline storage facilities on the airport at Camagüey.

(3) Barracks and such auxiliary buildings as are necessary for a detachment of approximately 300 officers and men.

(4) Approximately 3600 square feet of warehouse buildings.

(5) Such additional minor construction as may be necessary for the use of the comparatively small Air Corps detachment of approximately 300 officers and men.

b. Permission for the stationing of a detachment of approximately 300 officers and men, at the airport at Camagüey, Cuba.

c. Permission to operate small units of military aircraft from the airport at Camagüey on anti-submarine patrol as may be necessary in combatting the present submarine menace.

³⁹ Not printed.

d. Permission to use this airport for ferrying operations and as an auxiliary airport in Western Hemisphere Defense.

It is contemplated that such buildings and fixed installations as are constructed will revert to the Compañía Nacional Cubana de Aviación 6 months after the end of the present war. However, the War Department has no objection to such arrangements as may be made by the Government of Cuba with the Compañía Nacional Cubana de Aviación wherein these buildings and installations might instead revert to the Cuban Government.

It is requested that the War Department be informed at the earliest practicable date of any informal permission which may be obtained to accomplish the above construction.⁴⁰

You are requested, in your discretion, to place this matter at once before the appropriate Cuban authorities on the basis outlined by the War Department,⁴⁰ meanwhile informing the Department of your opinion concerning title to the property after the war, mentioned in the penultimate paragraph of the War Department's message.

HULL

811.34537/482 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, September 5, 1942—3:45 p. m.

A-129. The Navy Department has informed the Department that it desires to obtain in the vicinity of the Guantánamo Naval Base two sites to be used as landing fields for the training of carrier based planes. Two sites have been selected as being most desirable for the purpose. The first of these consists of about 448 acres and is located on the lands of the Guantánamo Sugar Company adjoining the Central Los Canos Narrow Gauge Railroad in Los Canos. The second consists of about 300 acres and is situated on the La Verdad property of the Guantánamo Railroad near the railroad station and village of Novaliches. The Navy Department understands that the Guantánamo Sugar Company will be willing to lease the desired portion of its property at a nominal rent for an indefinite period.

It is assumed that this matter can be handled directly by your Naval Attaché with the appropriate Cuban officials under the provisions of the Joint Military and Naval Cooperation Agreement which will be signed on Monday. If this cannot be done, you are authorized to discuss it with the Cuban authorities with a view to obtaining their consent to the Navy Department's request.⁴¹

HULL

⁴⁰ The Ambassador presented a note to the Cuban Foreign Office dated August 26, 1942 (not printed); in its reply of September 12 (not printed) the Cuban Government granted all the authorizations requested (811.34537/487).

⁴¹ In his telegram No. 870, September 23, 1942, 8 p. m., the Ambassador reported that consent had been given (811.34537/489).

811.34537/480

*Agreement Between the United States and Cuba for Military and Naval Cooperation, Signed at Habana, September 7, 1942*⁴²

The Republic of Cuba and the United States of America, desiring to conclude an Agreement for Military and Naval Cooperation, have appointed for this purpose as their respective plenipotentiaries

The President of the Republic of Cuba, José Agustín Martínez, Minister of State,

The President of the United States of America, Spruille Braden, Ambassador Extraordinary and Plenipotentiary of the United States of America in Cuba,

Who, after having exchanged their full powers, found to be in due form, have concluded the following Agreement for Military Cooperation.

WHEREAS: The American Republics have reaffirmed their complete solidarity and their determination to cooperate for their mutual protection.

WHEREAS: The Governments of Cuba and of the United States of America are co-belligerents in a war against the Axis aggressor nations.

WHEREAS: The Governments of Cuba and the United States of America are desirous of cooperating to the utmost in the prosecution of the joint war effort.

WHEREAS: The use of certain Cuban facilities by the armed forces of the United States on a cooperative basis would represent an important and substantial contribution to the success of the joint war effort.

THEREFORE: The undersigned plenipotentiaries, being duly authorized for the purpose, have agreed as follows:

ARTICLE I

Authorizations

As a contribution to the successful prosecution of the joint war effort, the Government of Cuba, without any prejudice to or impairment of the sovereignty of Cuba, has determined hereby to accord to the Government of the United States of America:

(a) An authorization of general character in favor of the service aircraft of the Government of the United States of America to fly over the territory of the Republic of Cuba and, when necessary, to land at any airport or landing field or, in the case of seaplanes, to land at any point within Cuban territorial waters. Prior notification

⁴² Transmitted to the Department by the Ambassador in Cuba in his despatch No. 942, September 7; received September 12.

of such flights shall not be required, nor any permission to land on land or sea.⁴³

(b) An authorization to the Government of the United States to photograph Cuban territory and territorial waters, in connection with the compilation of military data and the preparation of military maps, which maps when completed shall be made available freely to the Government of Cuba.

(c) An authorization for the establishment of service detachments of the Government of the United States at Cuban airports and landing fields in connection with flights of the service aircraft referred to in (a) above, and the utilization by the personnel of these detachments, for the account of the Government of the United States, of every kind of facilities such as repair shops, communications installations and equipment. In each case, prior to the establishment of such a detachment, there shall be previous consultation in order to arrive at an agreement respecting the character, conditions and scope of the activities which are to be undertaken.

The personnel of such detachments may circulate in uniform within the Republic of Cuba, in connection with the rationing and sheltering of personnel, the servicing of aircraft, the receiving and sending of necessary military communications, and other necessary activities.

(d) An authorization, subject in each case to prior consultation and agreement between the two Governments, for the establishment of additional airports to be used in connection with joint military and naval cooperation or for the improvement of existing airports and their facilities.

(e) An authorization for the establishment of shore detachments of United States Army or Navy personnel at strategic points along the Cuban coast, to be selected by previous agreement between the two Governments. This authorization includes construction of necessary quarters and maintenance facilities for personnel, equipment and supplies; the establishment of military communications facilities; and the installation of detector and other special equipment in connection with activities of patrol or vigilance.

The personnel of such detachments may circulate in uniform within the Republic of Cuba, as outlined in paragraph (c), provided service activities are involved.

(f) An authorization for patrol aircraft and surface craft of the United States Navy to call without restriction at points where shore detachments have been established under this Agreement, and to

⁴³ By an exchange of notes dated July 6 and August 27, 1942, the United States and Cuba agreed to extend for another year the reciprocal privilege for military and naval aircraft to fly over each other's territory without prior authorization (837.2311/82).

utilize bays, harbors, and coastal waters of Cuba without prior notification, in connection with their activities of vigilance and patrol.

(g) An authorization for the establishment of coast artillery guns at points to be selected by previous agreement between the two Governments in the vicinity of, and to the east and west respectively of, the boundaries of the Naval Station area at Guantánamo. This authorization extends to the construction of necessary temporary quarters for gun crews from the Naval Station, the establishment of such crews adjacent to the respective batteries, and the establishment of telephone facilities connecting each battery with the Naval Station area.

(h) An authorization for the establishment of a small detachment of uniformed personnel of the Naval Station at Guantánamo at the pumping installations on the Yateras River outside the Naval Station area, for the purpose of protecting these installations against possible damage from sabotage, together with an authorization for patrol and vigilance by Naval Station personnel of the pipe line between the intake equipment on the Yateras River and the points where the two systems enter the Naval Station area.

ARTICLE II

Free Entry

Materials of all kinds, equipment, fuel, merchandise, and war supplies imported into Cuba consigned to the Government of the United States or an official agency thereof, in connection with the activities of United States service detachments, provided these materials cannot be obtained in Cuba, shall not be subject, under this Agreement, to the payment of Cuban customs duties or any other fees or charges. Appropriate administrative measures shall be taken by the authorities of the United States concerned to prevent any misuse of privileges granted by this article.

ARTICLE III

Right of Use by the Cuban Government

The service aircraft of the Government of the Republic of Cuba may freely utilize all the installations and facilities to which this Agreement refers, and those which exist in the territory of the United States of America, without other restrictions than those established for service aircraft of the Government of the United States of America.

ARTICLE IV

Consultation

The Governments of Cuba and of the United States of America agree that they will act in mutual accord to adopt, from time to time,

such supplementary revisions of this Agreement as may be necessary or as may be indicated by experience to be equally needed, to provide satisfactory procedure or regulations covering questions which may require additional clarification or improvement, including agreement as to details relative to the relationship and cooperation between the armed forces of Cuba and of the United States, with respect to execution of the authorizations enumerated in Article I of this Agreement, and with respect to matters referring to the protection of the rights and privileges of citizens of Cuba and personnel of the armed forces of the Government of the United States temporarily stationed in the Republic of Cuba pursuant to the provisions of Article I.

Consultation undertaken pursuant to this Agreement shall be between His Excellency the Minister of State of Cuba, on behalf of Cuba, and the Ambassador of the United States of America at Habana, on behalf of the Government of the United States of America.

ARTICLE V

Transfer of Fixed Installations to the Cuban Government at the Termination of this Agreement

At the termination of this Agreement all the fixed installations and constructions of every kind placed within the Republic of Cuba by the Government of the United States, or in its name, during the life of this Agreement, shall be left in place and shall become without cost the property of the Government of Cuba.

ARTICLE VI

Secrecy of Agreement

Because of the military character of this Agreement, it shall be considered strictly confidential until such time as the Governments of Cuba and the United States may mutually agree otherwise.

ARTICLE VII

Duration of Agreement

This Agreement shall be in force from the day of signature. The authorizations and stipulations of this Agreement for military and naval wartime cooperation shall remain in force for the duration of the present war and until six months after the restoration of peace between the United States and all the foreign powers with which it is at war.

Signed and sealed in the English and Spanish languages, in duplicate, in Habana this seventh day of September, nineteen hundred and forty-two.

For the Government of the Republic of Cuba :

J. A. MARTÍNEZ

Minister of State of the Republic of Cuba.

For the Government of the United States of America :

SPRUILLE BRADEN

*Ambassador Extraordinary and Plenipotentiary
of the United States of America at Habana.*

837.20/261

The Ambassador in Cuba (Braden) to the Secretary of State

No. 1324

HABANA, October 21, 1942.

[Received October 26.]

SIR: I have the honor to submit for the information of the Department the following list of military and naval projects which have been undertaken in Cuba since the beginning of 1942:

Army:

1. San Julián: Construction of Airport:

The War Department proposes to establish an airport at San Julián, with one or more runways the principal of which will probably be 7,000 feet long. This project has been delayed for various reasons having to do with the contractor and with consideration of a new site, which has now been agreed upon. Please see despatch No. 1321 of October 21.⁴⁴

Since January, 1942 a service detachment of the Air Corps consisting of one officer and about twenty enlisted men has been established at the present Pan American Airways emergency landing field.

2. San Antonio de los Baños:

It is anticipated that this airport, a \$10,000,000 project, will be completed by February, 1943. Ten thousand five hundred men are now employed, and the first runway was completed several days ago, the first landing thereon being made on October 17. An informal joint Cuban-American ceremony was held the following day during which the Cuban and the American flags were raised. It is planned to have a formal dedication on the field at a later date. Construction is now rapidly going forward.

⁴⁴ Not printed.

3. Camagüey:

The installation of additional facilities and the establishment of additional personnel were agreed to by the Cuban Government last September (please see despatch No. 1023 of September 15, 1942⁴⁵). The Embassy is without detailed information concerning the progress of the work at Camagüey but is requesting the newly-appointed vice consul there to submit a report thereon.

Navy:

1. La Fé: Construction at La Fé, Pinar del Río:

This is a small port about ten miles west of San Julián where a ramp to handle seaplanes and accommodations for a detachment of approximately 100 men, together with communications facilities, are being established. Work on this project, together with a highway connecting La Fé with Mendoza, is being undertaken by the Frederick Snare Corporation. The project represents an investment of approximately \$250,000 and when visited by a member of the Embassy staff last week appeared to be approximately 80 per cent completed.

2. San Julián:

The Navy maintains a patrol detachment of approximately 150 officers and men and 19 airplanes at the present San Julián field. The detachment has operated from San Julián since last June and appears to be performing an outstandingly good job, for which much credit is due to the commanding officer, Lieutenant John M. Ennis. The excellent relations existing between this detachment and the Cuban authorities in Pinar del Río have been a source of sincere gratification to the Embassy.

3. Santa Lucía:

The Navy has recently awarded a contract to the Frederick Snare Corporation for the extension and improvement of the small landing field at this port, which serves the Matahambre copper mines. Improvement of the Santa Lucía field will add to the security of operations from San Julián.

4. Santa Fé, Isle of Pines:

It is proposed to recondition the abandoned landing field near Santa Fé, since the Presidio field has several nearby hills which would add to the hazard of night flying. The present plan is to station one officer and approximately 15 enlisted men at Santa Fé for service communications and fuel, thus expanding the range of operations of the San Julián squadron. Consideration is also being given to the

⁴⁵ Not printed.

erection of a mooring mast for a blimp. This matter was taken up with the Cuban Government on October 12, 1942, no reply having been received.⁴⁶

5. *Cayo Francés:*

This is an island off the north coast near Caibarién where a small squadron of Navy planes on floats will be based. The establishment of this base is at present under way.

6. *Two emergency landing fields northeast and northwest of Joa Bay near the Naval Base at Guantánamo:*

Permission for the establishment of these fields was obtained last month, at the instance of Captain Weyler, Commandant of the Naval Base.

Respectfully yours,

SPRUILLE BRADEN

837.24/10-1942

The Secretary of State to the Counselor of Embassy in Cuba (Briggs)

WASHINGTON, November 11, 1942.

DEAR ELLIS: I have your letter of October 19, 1942,⁴⁷ with its enclosed memorandum on Lend-Lease matériel for Cuba. You are particularly interested in the value of the various items which have been requested by the Cuban Government and approved by the Lend-Lease authorities here.

Orme Wilson has supplied the following data, with an indication that all of the figures are approximate:

(1) Total value of requisitions approved (ground, air, naval): \$4,700,000. Of this \$3,000,000 is for patrol boats.

(2) Delivery of ground material. Equipment already in Cuba or ready to proceed: \$428,000.

(3) Aviation material delivered to Cuba. (a) Land planes: \$196,000. (b) Naval planes: \$107,000.

We will have an opportunity to look into this matter more fully when you are in Washington, that is unless you get bogged down in other important problems.

Sincerely yours,

[File copy not signed]

⁴⁶ The Ambassador reported in despatch No. 1485, November 16, 1942, that Cuba had given permission (811.34537/530).

⁴⁷ Not printed.

FINANCIAL ASSISTANCE BY THE UNITED STATES TO CUBA⁴⁸

837.51/2862 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, March 3, 1942—6 p. m.

[Received 8:16 p. m.]

98. For Walmsley.⁴⁹ The Minister of Hacienda,⁵⁰ López Castro⁵¹ and Subsecretary of Defense, Perez Benitoa will leave Wednesday morning by airplane for Miami probably [apparent omission] the Cuban Embassy of the exact hour of arrival in Washington).

The Minister of Hacienda wishes to take up the various financial matters under study by our Treasury officials and also final conclusion of the 25 million dollars credit operation López Castro participating in the latter negotiation. According to the Minister of State⁵² the Cuban Government will seek certain changes in the current credit draft but Cortina expressed the opinion that no changes in principal are contemplated and that he hopes final agreement can be reached within a very few days.

López Castro has been instructed urgently to supplement Concheso's⁵³ representation concerning shipping and will also desire to discuss sugar.

The Subsecretary of Defense has been directed by the President to endeavor to expedite delivery of at least some of the material now on order (please see my telegram No. 74, February 21, 3 a. m.⁵⁴).

BRIGGS

837.51/2867

The Under Secretary of State (Welles) to the Mayor of Habana (Menocal)

WASHINGTON, March 18, 1942.

MY DEAR DR. MENOCAL: I have studied with care the points regarding the strategic importance of the Habana waterworks which you list in your letter of March 2, 1942⁵⁵ and they have been brought to the attention of officials of the interested agencies of the United States.

⁴⁸ Continued from *Foreign Relations*, 1941, vol. VII, pp. 127-195.

⁴⁹ Walter N. Walmsley, Jr., Assistant Chief, Division of the American Republics.

⁵⁰ Oscar García Montes.

⁵¹ Cuban Secretary of the Presidency.

⁵² José Manuel Cortina.

⁵³ Aurelio F. Concheso, Cuban Ambassador in the United States.

⁵⁴ Not printed; for correspondence on the problems of hemisphere defense, see pp. 253 ff.

⁵⁵ Not printed; in this letter the Mayor stressed the inefficiency of the existing waterworks in supplying merchant ships, and the vulnerability of Habana to bombing and epidemics.

As you are well aware, I have long been interested in the problem of the Habana waterworks and share your belief that its reconstruction and extension constitute a project of public works of great importance. There exist in the various agencies of the Government of the United States a full appreciation of the economic and social benefits to be derived from the project, and a sympathetic desire to cooperate to the fullest extent practicable with you in carrying it out.

There are two principal types of considerations involved in such cooperation. The first is of course the working out of satisfactory financial and technical arrangements for handling the project. I understand that you have discussed these at some length with the President of the Export-Import Bank, Mr. Warren Lee Pierson, and you are in broad general agreement with respect to the matter. I am informed by Mr. Pierson that upon the receipt from you of a letter regarding the form of financial cooperation he will be able to give you his specific suggestions and comments.

The other type of consideration is even more important in these days in which the decision to allocate materials to any project must be based upon the degree to which the project will contribute to our common major objective, the winning of the war. I refer of course to the priority rating which must be obtained from the War Production Board if the materials and equipment to complete the project are to be made available. The Department will make every effort to insure that the production agency gives appropriate consideration to the strategic and other aspects of the project. Preliminary consideration of the project has already taken place, and as additional detailed information regarding the materials required is received, the Department will be in a position to press for a decision.

It was a great pleasure for me to see you again on your recent visit and to have an opportunity to discuss matters of common interest.

With my kindest personal regards, believe me,

Yours very sincerely,

SUMNER WELLES

837.51 Cooperation Program/160

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] April 6, 1942.

Participants: Señor Dr. Aurelio F. Concheso, Cuban Ambassador;
Cuban Minister of Finance;
Cuban Secretary of the Presidency, Dr. López Castro;
Mr. Welles, Acting Secretary.

The Cuban Ambassador called this afternoon accompanied by the Minister of Finance and by the Secretary of the Presidency, Señor López Castro.

Señor López Castro said he was the bearer of a message of a personal character for me from President Batista. He said that President Batista had agreed to conclude negotiations for the \$25,000,000 credit because of his belief that the various projects which would be carried out under the terms of this credit would be highly beneficial to the people of Cuba. He emphasized particularly the repair and the widening of the Central Highway, the construction of feeder roads by the Department of Agriculture, the new water systems in Santiago and Guantánamo, and finally the construction of four hospitals, two of them to be completed in the two cities last mentioned, upon which the heart of President Batista was particularly set. He said that he had only two years left of his presidential term and that he felt a moral obligation to the people of Cuba to complete these hospitals before he left the Presidency.

President Batista continued by saying that public opinion was overwhelmingly in favor of the conclusion of this credit arrangement but that, knowing the Cuban people as I did, I would realize the serious situation which would be created for him if after this credit arrangement had been concluded none of the material from the United States required for the construction of these projects was received because of the lack of the necessary priorities.

President Batista therefore wanted me to know that he did not consider that he could conclude the negotiations unless he felt that I was personally interested in seeing that the material required reached Cuba and unless because of my personal interest the question of the priorities involved would be dealt with in other than the ordinary routine way.

I asked Señor López Castro to reply in my name to President Batista in these terms: I said that as he knew, I had always been greatly interested in the extension of this credit to Cuba because of the fact that when the negotiations commenced Cuba appeared to be heading into a very serious economic situation and I felt that the assistance which would be given to Cuba's national economy by this credit would be enough to relieve the situation almost entirely. I said that I believed that the projects the Cuban Government had in mind were all of them desirable and of long term, highly beneficial, permanent value. I said that consequently there was no question but that my own personal interest was involved and that for reasons of high policy, it would remain the desire of this Government to see that as much of the material called for was sent to Cuba as could be sent under our present situation in the United States.

I stated, however, that if the President's message implied some commitment on my part that priorities would be granted for such material to be shipped, it was utterly impossible for me to give such

commitment. I said that this country was involved in the most desperate war in which we had ever been engaged and that the people and the Government of Cuba were at our side as our allies in that war. I said that obviously, if the material required for the carrying out of these projects in Cuba was required for our war effort or for military or naval purposes, it would be fantastic to assume that reasons of high policy, even a policy involving our Cuban ally, could dissuade the President and the military and naval authorities of the United States Government from utilizing these materials for our war needs rather than for the construction of these projects in Cuba.

I said I wanted to speak with complete clarity and with complete precision as I had always attempted to do in the past to my Cuban friends so that there would be no possible misunderstanding in the future: If our war needs and the needs of our general hemispheric policy made it possible, it would be the desire of this Government to see that the necessary priorities were granted but that I must emphasize the tremendous demands which were increasingly being made upon us for our war needs and for the requirements of our hemispheric policy and I could, therefore, give no assurances of a more positive character to the President of Cuba.

The Cuban Ambassador and the two cabinet ministers stated that this was all they expected to obtain from me in the way of assurances and the Cuban Ambassador asked if he could not also assume that Cuba would have some preferential position with regard to these priorities in connection with the requirements of the other American Republics.

I replied that it was impossible for me to give such assurances and that I had already indicated that the requirements of our hemispheric policy covered not only what we felt it necessary to give in a spirit of fairness on terms of equality in the way of export allocations to our neighbors in the rest of the hemisphere, but that also obviously some of these priorities granted the other American Republics had a direct and immediate connection with our war requirements and with the defense requirements of the rest of the hemisphere. For example, I said, it might well be that priorities for a governmental steel mill in Brazil would be regarded as having a more direct connection with hemispheric defense than the granting of priorities for the pipe required in the aqueduct in Santiago.

I reiterated that all that I could possibly say was that these priorities to Cuba were regarded with sympathy and with particular interest, but that no assurances whatever, for the reasons above stated, could be given that priorities would be forthcoming.

S[UMNER] W[ELLES]

837.51 Cooperation Program/153a : Telegram

The Acting Secretary of State to the Chargé in Cuba (Briggs)

WASHINGTON, April 8, 1942.

178. The agreement for the \$25,000,000 credit ⁵⁶ by the Export-Import Bank, was signed at 5:45 p. m. by the Ambassador on behalf of the Republic, and Doctors López Castro and García Montes on behalf of the Commission; and by the President of the Export-Import Bank.

WELLES

837.51 Cooperation Program/178

Memorandum of Conversation, by Mr. G. F. Scherer of the Division of the American Republics

[WASHINGTON,] May 12, 1942.

Participants: Dr. Raul Menocal, Mayor of Habana
 Ing. J. Puente, Cuban Engineer
 Lieutenant Dwight, Navy Department, War and Navy
 Munitions Board
 Mr. Crenshaw, WPB ⁵⁷
 Mr. Warren L. Pierson, President, Export-Import
 Bank
 Mr. Eugene LeBaron, Export-Import Bank
 Mr. Malcolm Pirnie, New York Water Consultant
 Mr. Collado, EO ⁵⁸
 Mr. Hooker, EO ⁵⁹
 G. F. Scherer, RA

At a meeting called by Mr. Pierson in his office on May 12, Señor Puente went over the plans he had prepared with Señor José García Montes for the rehabilitation of the Habana water system. His plan which has been drawn up over a period of years, contemplates the establishment of two new sources of water, in addition to the existing Albear Aqueduct. It is proposed to use no materials requiring priorities except a certain amount of reinforcing rods for the first 18 to

⁵⁶ The agreement, not printed, between the Export-Import Bank, the Republic of Cuba, and the Comisión de Fomento Nacional provided for a line of credit of \$25,000,000, repayable in 30 installments semi-annually with interest at 4 percent. The loan was to be used for public works and agricultural projects. (837.51/2869)

⁵⁷ War Production Board.

⁵⁸ Emilio G. Collado, Executive Secretary, Board of Economic Operations of the Department of State.

⁵⁹ John S. Hooker, Assistant Executive Secretary of the Board of Economic Operations.

24 months of the project. This preliminary work might result in an increased supply to the system but this possibility was not made completely clear.

After the meeting Mr. Pierson mentioned that the Bank plans to send Mr. Pirnie to Habana in accordance with Item 2 of Page 1 of the attached copy of a draft letter to Dr. Menocal from the Bank.⁶⁰

Mr. Pirnie indicated a familiarity with the Habana water system, gathered, I judge, from a previous trip during the administration of Dr. Mendieta.⁶¹ He spoke of the desirability of ascertaining what the distribution system in Habana could accomplish if sufficient water were made available. He mentioned that he knew of some eight or ten plans that had been prepared to rehabilitate the system, and suggested informally his own belief that a well field could be established to the east of the present source to bring to Palatino about 150,000,000 gallons of water. From that point a turbine pump system could carry the necessary quantity of water to a projected reservoir at Víbora, which, owing to its elevation, would provide sufficient pressure for the higher points in the City. Mr. Pirnie visualizes the new source of water as supplementary to existing supplies.⁶²

837.515/584a : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, July 3, 1942—midnight.

418. Treasury proposes to sign the gold purchase agreement with Cuba on July 6 at which time the following press release will be issued:

“The Secretary of the Treasury, Henry Morgenthau, Jr., and the Cuban Ambassador, Dr. Aurelio F. Concheso, today signed an agreement under which the Government of the United States undertakes to sell gold to the Government of the Republic of Cuba from time to time with payment to be made within 120 days after delivery of the gold provided that the unpaid-for amount of gold shall not at any time exceed \$5,000,000.

“The details of the agreement were worked out between the Cuban and United States Treasuries on the occasion of a recent visit to this country by Dr. Oscar García Montes, the Minister of Finance of Cuba.

“This agreement evidencing the close cooperation that has existed between the Treasuries of the Republic of Cuba and the United States

⁶⁰ Not printed.

⁶¹ Carlos Mendieta was President of Cuba, 1934-35.

⁶² No definite action was taken during 1942 with regard to this proposed Export-Import Bank loan for the Habana waterworks project. A source of delay was the choice of a consulting engineer by the Bank.

will enable the Cuban Treasury to carry out operations designed to stabilize the Cuban peso-United States dollar rate of exchange."

The foregoing is sent to you for your information and not for release to the press in Cuba.

HULL

837.515/583 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, July 9, 1942—3 p. m.

[Received 4:38 p. m.]

528. Department's telegram No. 418 of July 2 [3], midnight. Ministry of Finance inquires whether arrangements could be made to deliver to local branch of any American bank which our Treasury may designate the United States currency required to pay for the first \$5,000,000 of gold to be purchased provided the Treasury feels that additional United States currency is needed here for sugar loan and for expenses the several United States Government defense projects now being executed. Ministry of Finance officials point out that this procedure would save remittance charges both ways.

BRADEN

837.516/387

The Ambassador in Cuba (Braden) to the Secretary of State

No. 513

HABANA, July 20, 1942.

[Received July 29.]

SIR: I have the honor to enclose herewith a message⁶³ directed by President Batista to the Special Session of Congress which convened today. This document discusses and presents a draft-law to create:

- (1) A central bank of issue and rediscount, to be called "Banco de la República de Cuba";
- (2) A stabilization fund;
- (3) A bank examiner's office.

Also it proposes to reform Cuban monetary and banking laws with a view to eliminating the dollar as legal tender in this country within 180 days or less if the Government so elects.

It is my understanding that the enactment of legislation along these lines has been under consideration for some time and that finally the creation of a central bank was definitely provided for in Article 142 (d) of the 1940 Constitution. During these protracted discussions,

⁶³ Not printed.

it has come to be accepted as well nigh axiomatic that reforms such as are contemplated in this draft legislation were required for the proper functioning of banking in Cuba. Irrespective of whether or not this be so, I understand and sympathize with Cuban ambitions to improve credit facilities and to have their own currency as the sole legal tender. On the other hand, in accomplishing these ends, the utmost care should be taken to insure against mistakes—either in the planning or carrying out of the desired measures—which might prove disastrous to this country and indirectly to our interests here and to our commercial and other relations with Cuba. Hence, it is of the utmost importance that the proposed legislation should only be enacted into law after the most exhaustive investigation possible of all the pertinent facts and influences and that, in particular, certain conditions and psychologies, peculiar to Cuba, be so thoroughly understood and such protection thereon be incorporated in the law as to insure the successful operation of the new system to be created.

The bill now presented, and which closely coincides with the recommendation made by the American Technical Mission to Cuba, headed by Mr. H. B. [D.] White of the United States Treasury Department, will probably become law unless:

- (a) The present Congress becomes so involved in political bickering as to prevent any legislation;
- (b) The Department deems it advisable to suggest discreetly that a deferment of this legislation appears desirable;
- (c) Opposition thereto in public hearings be far stronger and more effective than presently seems likely.

Self-evidently, the American Technical Mission could not properly enter into those unfortunate features of Cuban character and malfeasance in public office, which, nevertheless, of necessity, must be entirely excluded from the new banking and monetary system if it is to function honestly and effectively. It is for this reason that, quite apart from the purely technical aspects of the pending legislation, I feel that the following observations merit the Department's careful consideration:

(1) There should be accurately determined just how much truth there is in the widespread allegations that the lack of commercial credit and rediscount facilities and the existing monetary system are responsible for the financial and economic difficulties which have arisen in this country during the last two decades. If these generalizations are not entirely factual, it would appear unwise to rush through the basic changes now under contemplation. But even if they are accurate, it does not necessarily follow that the only solutions are those outlined in the draft of law presented to Congress by President Batista. So far as I have been able to ascertain, a careful

analysis and report on this underlying situation has not been made. Therefore, it would seem logical for a meticulous study of all the facts to be concluded first so that, based thereon, the best possible solutions could be explored and then adopted.

(2) President Batista's statement that the present is the most propitious time for the enactment of this legislation is perhaps exact from the viewpoint that the financial and economic problems which will arise during the next few years will be so difficult as to require the best of talent and the most solid banking, credit and monetary structures for their proper solution. I am not convinced, however, that the present period, when the entire world is in a state of flux and uncertainty and so many unknown factors are appearing daily, is propitious for the inauguration of a new banking and monetary system. On the contrary, it might be preferable during the next few years to continue with the existing media rather than to attempt to change systems in midstream.

(3) Unless consummated with "superior skill", the elimination of the dollar as legal tender and the creation of the stabilization fund might complicate the Cuban financial structure and prejudice trade with the United States. Simplification in these matters would seem preferable rather than the enactment of measures which will probably involve the establishment of an exchange control, thus adding this country to the long list of those which now have the freedom of their international trade hampered by such measures. Finally, this would appear to be another step away from the ideal of, if not a common currency for the entire Hemisphere, at least complete stability of currencies between the American republics.

While the Prime Minister, in a conversation with me, stated that it was intended to tie the peso irrevocably to the dollar, it would not appear from the draft law that this has been accomplished. Pending the development of more definite plans to reach this very desirable end, it might be preferable to carry on under the existing media which at least in this particular have worked reasonably well until now. In fact, the outstanding weakness which appears to exist in Cuban currency is the extraction therefrom of large seigniorage profits during the last several years. In any case, to force such a momentous change within a 180-day period or less does seem precipitous.

(4) President Batista's message to Congress points out that the draft legislation is largely based on the report of the White Mission. Therefore, if, in the future, difficulties are encountered, irrespective of what may be their cause, the United States Government will in all probability be blamed.

(5) That Government should control banking and currency is a sound postulate providing it can furnish competent and honest man-

agement. If this cannot be done, then some other control should be created. As the report of the White Mission states: "A poorly administered central bank or stabilization fund would add greatly to the difficulties that already exist." When I informally mentioned to the Prime Minister, Dr. Saladrigas, that honest and competent management was a *sine qua non* for the successful operation of the proposed bank, the only assurance he could give me, that there would be such management, was that Dr. Oscar García Montes, until recently Minister of the Treasury, and Sr. Eduardo Durruthy, of that Ministry, would be the top executives of the new institution for at least five years. . . .

As the Department is aware, honest and competent administration in Government-controlled organizations has been and is a rarity in Cuba. The new system by law will be politically controlled throughout. Therefore, on this country's record, it would seem overly optimistic to hope for a "superior administration". Without such an administration there is at least an even chance that there will be costly mistakes, difficulties and possibly illicit practices which may be disastrous in many directions. To launch a fundamentally important new system under these conditions is, to say the least, hazardous.

(6) As the report of the White Mission states, "care should be taken to protect the (member) banks against loss of principal on their subscriptions to the central bank". Aside from the very serious problem involved in obtaining a competent and honest administration for the bank, the capital investment—and for that matter all other assets—might be imperiled by:

(a) Over borrowing by the Government in times of duress. Under strain, political influences have played havoc with central banks in such places as Chile, and the history of Cuba gives no encouragement that conditions would be any better here. For instance, here there are no really important national banks which could exercise a beneficial restraint on the central bank.

(b) The volume and potency of corruption in Cuba induces the fear that illicit influences will endeavor to milk the institution for selfish ends. So frequently do attempts of this nature arise here that the Embassy has to be eternally vigilant to protect our interests against the effects of these evil practices. A most recent example is the maneuver to alter the *promedio* price of sugar. (See my despatch No. 311 of July 3, 1942.⁶⁴)

(c) The draft law limits the total amount of loans which the bank may have outstanding to the Government at any given time to 10 percent of the average of the current and the last preceding year's budgets. However, it is pertinent to observe that, based on the present budget of 89,000,000 pesos, the Government could borrow up to 8,900,000 or 78 per cent in excess of the paid-in capital of 5,000,000 pesos for the new institution. Moreover, the temptation would be

⁶⁴ Not printed.

great for the Government, if hard pressed for cash, to force an expansion of the 10 per cent limitation.

(d) The central bank's liquidity may be adversely effected by the narrow market which exists for Cuban investments of the kind which would be appropriate for the bank's portfolio. Stabilization Fund operations also might be hampered by this condition.

(e) The authorization for the bank under emergency conditions to make loans to the general public offers another source of danger, particularly in a one major crop—one export and import market country, such as Cuba, where, for instance, the sugar interests from time to time can and do bring unusual pressure to bear.

(f) If the new institution takes over the present outstanding issues of Cuban silver backed currency, it would absorb at the outset a deficiency of some 50,000,000 pesos resulting from the seigniorage profits which have been extracted by previous administrations from the present 80,000,000 pesos of so-called silver circulation.

(7) This new legislation involves the enactment of additional taxation which seems especially unfortunate at a period such as the present, when the country's income may be reduced and other heavy taxation be imposed by reason of this country's participation in the war.

I heartily approve of inspiring people to accept responsibility, by giving them responsibility, but I question the wisdom of this policy being pursued in Cuba at this time on so vital a matter as this, on which depend the economy of the country and the happiness and well-being of its citizens. If there had been in recent years a reasonably long period of competent and honest administration by Governmental organizations in Cuba, then the experiment might be justified, but under existing circumstances, it seems perilous and, unfortunately, if it does not work out successfully, the Department of State, the White Mission and, therefore, the United States Government will probably be made the whipping boy.

It is to be hoped, therefore, that very careful consideration of the project will be given by the Cuban Congress and, in particular, that the public hearings thereon will lead to a thorough analysis of all factors, including the aforementioned. . . .

The Department will observe that in my opinion the recommendations of the White Mission would prove most valuable under other conditions and with the guidance of experienced technicians. But since this talent is, unfortunately, unavailable here, I can only view with misgivings the inauguration of a new banking and monetary system at this difficult and uncertain period, in a country where practically all governmentally-dominated enterprises are saturated with self-seeking political influences which all too frequently lead to inefficiency and even corruption.

Respectfully yours,

SPRUILLE BRADEN

837.515/585 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, July 29, 1942—8 p. m.

562. Your 528, July 9, 3 p. m. The Treasury will accept spot delivery of United States currency at a Habana branch of an American bank in payment for \$5,000,000 of gold to be earmarked for Cuba. Further instructions on delivery of the currency to an American bank will be sent as soon as arrangements for receiving the currency are completed by the Treasury. Please inform us when Cuban Ministry of Finance will be prepared to proceed with this transaction.

HULL

837.516/391

Memorandum by the Assistant Chief of the Financial Division (Luthringer) Concerning the Fourth Report of the American Technical Mission in Cuba

[WASHINGTON,] August 3, 1942.

The following comments are numbered to correspond with the numbered paragraphs in the Embassy's despatch No. 513 of July 20, 1942:

(1) The implication of this paragraph is that the American Technical Mission did not devote sufficient study to whatever defects may exist in the Cuban monetary and banking system and did not sufficiently explore alternative solutions to these defects other than those recommended by the Mission in its report. I have heard Mr. Harry White state categorically that the mission was undertaken only on the specific understanding that the Mission would be free to report on Cuban monetary and banking needs as actual study disclosed them to the Mission and further that the Mission would not recommend a central bank for Cuba unless such an institution seemed to be required. I see little or no reason to believe that the personnel of the Mission, which is of unquestioned competence, did not make a thorough and conscientious study and did not recommend the specific institutions and reforms which represented the best judgment of the Mission as a whole. It seems a little unreal to assume that a more thorough investigation of Cuba's needs in these matters would ever be undertaken by equally qualified personnel if the Department undertook to torpedo the Mission's report and recommendations on a theory that a better report would be submitted if more thorough or realistic study went into its preparation.

(2) In spite of the flux and uncertainty existing throughout the world because of the war it would nevertheless appear that the present

is a propitious time for the institution of monetary and banking reforms. The Mission in its report specifically took cognizance of the probability that there would be a heavy net influx of dollar payments into Cuba and recommended measures to limit the inflationary repercussions of this on the Cuban economy. (See pages 62-63 of the Second Report to the Cuban Government) The Mission estimates that the favorable trade balance of Cuba during the coming year might exceed \$100 million and mentions the \$25 million Export-Import Bank credit and the \$20 million Reconstruction Finance Corporation advance for the development of nickel deposits. In addition, as I understand it, Cuba may derive a large amount of dollars from various military projects which are getting under way in that area. From the point of view of anticipated dollar influx into Cuba it would be hard to envisage a more propitious time than the present for the institution of these reforms.

(3) In view of the considerations set forth in (2) there seems to be no reason to assume that the establishment of a stabilization fund and elimination of the dollar as legal tender will straightway plunge Cuba into an exchange control regime unless the Cuban Government blandly disregards the advice of the Technical Mission and attempts a rapid elimination of dollar deposits. The Mission has expressed its views on the latter in both its Second and Fourth reports and if its recommendations are followed apprehensions as to immediate adoption of exchange control simply do not seem to be justified by the facts. It is true that the Mission foresees certain contingencies under which an exchange control might be necessary or desirable. The chief of these contingencies would be an economic crisis which arose from a collapse of Cuban exports and acute disequilibrium in the Cuban balance of payments. I believe that many monetary authorities would agree that in such conditions an exchange control is a lesser evil than the extreme and uncontrolled deflation of the type experienced by Cuba during the depression. One of the principal reasons for suggesting a Cuban central bank and stabilization fund for Cuba is to provide Cuba with a mechanism for coping with such a situation by its own monetary credit and controls. Measures of this character obviously are doomed to failure so long as Cuba has a dual monetary system and must remain blindly tied to the dollar.

The Mission report clearly indicates an assumption that the peso will remain closely tied to the dollar for some time to come. The Mission, however, quite properly suggested mechanisms for dealing with emergency situations and envisaged certain circumstances in which the change in basic economic relations might make it inadvisable to continue to maintain the peso at its existing parity with the dollar. Whether or not the economic disadvantages and risks to Cuba of con-

tinuing a dual monetary system exceed the risks of the establishment in Cuba of mechanisms of currency and credit control to deal with crisis situations is perhaps a matter of opinion. It would not appear, however, that this Government could properly attempt to deny to Cuba the sovereignty over these matters which is enjoyed by all independent countries.

I do not believe that it can be sustained that an establishment of its own currency by Cuba conflicts in any way with our hemispheric monetary policies nor do I think it reasonable to criticize a monetary system because the government derives seigniorage profits from the issues of currency. Practically all other governments derive seigniorage profits directly or indirectly from the issue of money and it is little hard to see why Cuba should be deprived of this normal adjunct of sovereignty.

(4) The point that this Government may be blamed for future Cuban monetary difficulties because of the report of the Technical Mission cannot, I believe, be given much weight. If it were, this Government would refrain from offering advice to Cuba and this would appear definitely to be a greater evil than undertaking to advise Cuba through mechanisms such as the Technical Mission. Moreover, it should be readily discernible what difficulties arise from following the advice of the Mission and what difficulties follow from flat disregard of the Mission's recommendations.

(5) This is perhaps the essence of the Embassy's objection to the proposed central bank; namely that the new system will be politically controlled and that the Cuban Government is incapable of providing competent and honest management for the new system.

The trend of experience and developments during the past decade or so, both in this country and abroad, has been such that it is unlikely that any group not composed solely of private bankers or central bankers of the more conservative type would recommend the establishment of a central bank which would not be subject in major policy questions to considerable if not predominant governmental influence. The view that central banks should be above the government (i. e. "free from political influence") though dominant in the 1920's has been pretty well discredited during the 1930's both by monetary theorists and the march of political and economic events. Few countries will now tolerate any large degree of central bank independence from basic policy determinations by treasuries. Central banks have almost everywhere become the tools or handmaidens of governments in the determination of monetary policy rather than independent policy makers or even co-equals in the making of policies. How governments can assume such a role without subjecting central banks to "undue political influence" is not easy to see. In any event

in view of the present minor role occupied by purely Cuban financial institutions the establishment of a central bank which would be controlled by private banking interests rather than the Government would appear to perpetuate in Cuba a degree of control over the banking system by foreign bankers which the Cubans can hardly be expected to accept.

In the circumstances and bearing in mind this Government's general policies with respect to the American republics it would appear difficult if not impossible for the Department to sustain against the recommendations of the Technical Mission and the desires of the Cuban Government the view that Cuba should continue indefinitely on a dual monetary basis or accept a central bank which would be conspicuous among its sister institutions by lack of government means to influence its basic policies. It may well be that Cuba may be forced to learn from bitter experience the consequences of illadvised monetary and central banking policies or political interference with proper conduct of the bank. As against this, however, there is at least the possibility that the proposed reforms may remedy some of the outstanding defects of the present system which flow from the complete lack of any mechanism for centralized control of money and credit in Cuba. Moreover, I do not know that one can wholly dismiss the possibility that the creation of these new Cuban institutions may stimulate a greater sense of responsibility on the part of the Cuban Government and informed public than has existed under conditions of the past.

Regardless of this, however, from the fundamental policy point of view, fears of the possible incapacity of the Cuban Government in these matters would not, in my opinion, justify an attempt on the part of the Department to prevent Cuba joining the vast majority of her sister republics which have an independent currency and a central bank. In the light of Cuban desires in this regard it seems to me that this Government has followed the most proper policy; it has made available to Cuba competent experts to advise that Government as to the type of central bank and monetary system which it regards as most suited to Cuba's needs and will doubtless freely offer Cuba such technical advice and assistance as the Government of that country may request. This Government will also doubtless stand ready to assist the Cuban central bank and stabilization fund in more material ways should the need arise and the possibility of being able to justify requests for such material assistance should operate as a restraining factor of no mean proportions on Cuban management of these institutions.

There have doubtless been many errors and mistakes in the management and operations of many of the central banks of the American

Republics. However, I believe it would be very difficult to sustain the thesis that these countries would have been better off economically if they had been content to accept a dual monetary system or to use the dollar exclusively rather than make some attempt to control money and credit from the point of view of the particular social and economic needs of each. Although inflation and exchange control can be serious evils and bring serious abuses, it is not clear that these have exceeded the evils which would have followed abandonment of national efforts at control in favor of a blind linking of the local currency to the dollar and maintenance at all costs of freedom of exchange.

Finally, it is difficult to see why an exception should be made with respect to monetary and banking matters in the exercise of sovereignty by an American republic. The establishment of its own monetary system by Cuba is as much a prerogative of Cuban sovereignty as the establishment of its own army, police forces and courts. Perhaps Cuba would be better off if it used American armed forces and police and paid us therefor just as economically it pays us when it uses United States currency. I do not see how we could possibly object to the establishment by Cuba of its own independent monetary system without doing violence to our basic political policies toward Cuba. This is not to say that we should remain silent if Cuba goes about it in a way which will not only unreasonably damage American interests but will seriously injure Cuba as well. It is to say, however, that the Department should not attempt to dissuade Cuba from following the advice and recommendations of the Technical Mission merely because of the possibility of Cuban political incapacity.

(6) (a) The mere fact that the government may over-borrow from the bank in times of duress hardly seems sufficient reason for not having any central bank at all. In citing the experience of Chile in this regard or in citing experience of other Latin American countries one must always give consideration to the disastrous results that might have occurred in many instances had the central banks not taken action to counter extremely deflationary pressures. In many cases depreciation of the currency has doubtless provided a safety valve and means of adjustment for relieving intolerable social and economic pressure.

(b) This point appears to be a facet of the general discussion of political interference discussed at greater length in point (5) of the Embassy's despatch.

(c) It is admittedly difficult to frame legal provisions which will prevent governments from using central bank credit as a convenient substitute for revenues from taxation and which will at the same time permit legitimate ordinary and crisis borrowing by the government

from the central bank. The Cuban legislation seems hardly as radical as our own emergency legislation which gave the President power to order the Federal Reserve banks to buy \$5 billion of Government bonds. In any event too rigorous legal limitation on the ability of a central bank to extend credit to a government merely results in a change in the law when the need arises or the development of some convenient subterfuge which permits the government to walk right through such restraints. The Technical Mission very distinctly and forcefully points out the dangers of over-borrowing by the government. The various restraints and limitations suggested by the Mission are about all that can be reasonably expected in the circumstances, keeping in mind the predominantly agricultural character of Cuba and the lack of Cuban-owned financial institutions.

(d) In all probability the Cuban central bank for sometime will not be able to engage in important open market operations. Even without a broad open market, however, the bank and the stabilization fund should be able to function effectively and perform many useful functions.

(e) The mere fact that it may be abused would not seem adequate reason for depriving the central bank of this necessary emergency power.

(f) There is no compelling reason for maintaining a 100 per cent reserve behind money. The fiduciary issue of the Bank of England is a case in point. The legal maximum of notes regarded as the fiduciary issue has been raised again and again as Great Britain has become more or less permanently adjusted to a larger monetary circulation. The Mission's report is, as I understand it, based on the theory that Cuba should in all probability in no event permit a deflation which would reduce the monetary circulation below the quantity of peso currency now outstanding. Based on this assumption it suggests that no reserves be required for such currency but that reserves be required only against increases in circulation above this amount. An approach of this type is perhaps more widely acceptable to students of monetary matters than the more archaic and conservative banking idea that all currency should be backed 100 per cent by reserves.

(7) The fact that the new central bank may occasion some increase in Cuban taxation would appear to be a valid objection to the establishment of the central bank only if it is assumed that the central bank would not benefit Cuba sufficiently to justify its cost. It is clearly the assumption of the Technical Mission that this is not the case, and I believe that the Department would agree with the Technical Mission on this point.

837.516/387

The Secretary of State to the Ambassador in Cuba (Braden)

No. 499

WASHINGTON, August 15, 1942.

SIR: Reference is made to your despatch No. 513, dated July 20, 1942, concerning the establishment of a central bank and stabilization fund in Cuba.

As you are aware the Cuban Government has long been interested in terminating the dependence of Cuba on dollar currency and in establishing in Cuba an independent monetary system and appropriate institutions for the control of money and credit. The Department has recognized not only the need for such institutions in Cuba but also that the wishes of the Cuban Government with respect to these matters represented the legitimate aspirations of an independent country. In response to the request of the Cuban Government, the Department was accordingly glad to use its good offices in obtaining for Cuba the services of highly competent experts of the Treasury Department and the Federal Reserve System to study Cuba's monetary and credit needs and to make appropriate recommendations to the Cuban Government.

The report of the American Technical Mission to Cuba has been carefully studied in the Department and the Department was given an opportunity to express its views to the members of the Technical Mission before the report was submitted in final form to the Cuban Government. As the Embassy knows the report was transmitted through this Department to the Cuban Government and presumably therefore had the general approval of the Department.

The basic policy of this Government toward the establishment of the Cuban central bank and stabilization fund has thus already been determined; namely, to assist Cuba in every appropriate way, particularly by the providing of technical advice and assistance. It would not be in accordance with the fundamental policies of the Department with respect to Cuba and to the other American republics in general to attempt to delay the establishment of the Cuban central bank and stabilization fund merely because of the possibility that such institutions, however well designed, might not be properly managed. Were this not the case it should be apparent that the Department would have long since advanced its objections rather than wait to make such objections until a technical mission composed of officials of other agencies of this Government had submitted their report through the Department to the Cuban Government and that Government had prepared draft legislation on the basis of the recommendations contained therein.

It is the view of the Department that the appropriate course for the Embassy to follow with respect to the legislation under reference

would be for the Embassy to support informally and as occasion may arise the basic recommendations of the American Technical Mission, particularly when the proposed legislation is in conflict with the specific recommendations of the Technical Mission and where such departures from the Mission's recommendations would appear likely to work undue hardships on American banks and indirectly on Cuba's own basic interests. In this connection the Department refers you specifically to the Fourth Report to the Cuban Government under date of July 15, 1942, "Comments on the Draft Banking Legislation." The Embassy might on suitable occasion, for example, draw the attention of appropriate Cuban officials to the views of the Mission with respect to the powers granted to the Inspector General of Private Banking in Titles 4 and 5, (see page 19), and to the comments of the Mission with respect to Title 5, chapter 2, article 16, requiring 40 per cent of the profits of commercial banks to be turned into a contingent reserve, (page 21). Similarly, your attention is called to the provisions discussed on pages 22 and 23 relating to restrictions on investment abroad and measures which in the opinion of the Mission would impede unduly the use of dollar deposits.

The Department shares your hope that the proposed legislation will be carefully considered by the Cuban Congress and that opportunity will be given by public hearings for interested parties to express their views.

There is enclosed for your information a copy of a memorandum prepared in the Financial Division of the Department⁶⁵ commenting point by point on the views expressed in the Embassy's despatch under reference.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.516/404

Memorandum of Conversation, by the Assistant Chief of the Financial Division (Luthringer)

[WASHINGTON,] September 8, 1942.

Participants: Lieutenant Southard, U.S.N.⁶⁶
FD, Mr. Livesey⁶⁷
Mr. Luthringer

Lieutenant Southard called on Mr. Livesey to discuss with him the former's brief sojourn in Habana during which he was prepared to

⁶⁵ *Supra.*

⁶⁶ Frank Southard, member of the American Technical Mission to Cuba.

⁶⁷ Frederick Livesey, Chief of the Financial Division.

discuss with Cuban officials, the Embassy or other interested parties the pending Cuban central bank and monetary legislation.

Lieutenant Southard said that for no particular reason consideration of the central bank project by the Cuban Congress had been deferred until legislation relating to elections and the draft had been dealt with. He estimated that the central bank legislation would not be considered sooner than in ten days, probably not until a month or six weeks elapsed. He remarked that there seemed to be a good deal of interest in the central bank and that many Cuban groups and organizations had prepared memoranda and briefs to be presented at the hearings which the Cuban Congress had decided to hold on the legislation.

Lieutenant Southard said that he found that he could do very little at Habana but talk with the Embassy, various private citizens, and a few members of the Congress who belong to the opposition. He said that apparently the Cuban Minister of Finance did not have a very clear idea of the higher politics involved in the banking legislation and consequently had played safe by suggesting to Mr. Durruthy ⁶⁸ and Mr. Pérez ⁶⁹ that perhaps they had better not discuss these matters with Lieutenant Southard.

Lieutenant Southard said that the present banking and monetary bills had been drafted before the Cuban Government had received the Technical Mission's Fourth Report expressing strong opposition to many features of the bill. The Cuban experts who had been working with the Technical Mission had wished to defer submitting a bill to the Cuban Congress until the Technical Mission's Report had been received, but unfortunately Batista had informed them late in June that they must have a bill ready within twenty-four hours. We agreed that this was unfortunate since the Cuban Government would probably have found it much easier to accept the Mission's recommendations before it had presented the bill than it would to accept the same suggestions at the apparent instance of groups in Cuba who are on the whole unfavorable to the central bank plan.

Lieutenant Southard said that he had talked with Mr. White of the Treasury Department and that Mr. White had asked his advice as to what should be done. Lieutenant Southard said that he had told Mr. White that he thought there was nothing that could be done at this time. He said that the Cuban Government might or might not ask for someone from the Technical Mission to come to Habana for the proposed hearings on the legislation and that he felt very strongly that no one from the Technical Mission should go except in

⁶⁸ Official of the Cuban Ministry of the Treasury.

⁶⁹ Presumably the Cuban Sub-Secretary of Defense.

response to a definite request by the Cuban Government which had originated with that Government and had not been promoted or stimulated by us. He also expressed some doubt as to how much good it would do to send a member of the Mission even if a request should be received. Such a person could actually do little but stand on the Mission's reports. The Cubans, however, might try to maneuver him into acquiescing in serious departures from the Mission's recommendations.

837.516/399

The Ambassador in Cuba (Braden) to the Secretary of State

No. 961

HABANA, September 9, 1942.

[Received September 16.]

SIR: I have the honor to refer to my despatch no. 513 of July 20, 1942, and to acknowledge the Department's instruction no. 499 of August 15, 1942, on the subject of proposed banking and monetary legislation for Cuba.

The Department's instructions have been noted and will, of course, as always, be meticulously followed.

Hearings in Congress on the proposed legislation are scheduled to begin shortly. The Habana Clearing House has submitted to the appropriate Senate Committee a 26½ page objection to several fundamental aspects of the draft law and has suggested alternative procedures. Two copies of this document are enclosed herewith.⁷⁰

I very much appreciated the opportunity afforded me to discuss this matter with Lieutenant Southard during his visit to Habana, and since he and I, in airgrams nos. A-87 and A-90 of August 19,⁷¹ fully outlined what my thoughts have been and are with respect to the proposed legislation, it appears unnecessary for me now to extend my views to any great length. Moreover, I trust that on Lieutenant Southard's arrival in Washington, his more detailed verbal account of my opinions and my conversations with him may clarify both the Department's and the Technical Mission's understandings in the premises. I do wish to emphasize, however, that my despatch under reference was entirely in consonance with the Department's instructions—"to assist Cuba in every appropriate way".

As Lieutenant Southard informed me here, the Technical Mission did not study the political aspects of this matter, and therefore it did not go into the repercussions which the widespread prevalence of

⁷⁰ Not printed.

⁷¹ Neither printed.

corruption in Cuba might have on the proposed banking and monetary reforms. These unique conditions of corruption must inevitably have an important bearing on the success of or failure of the pending legislation. Hence, I would have been delinquent in my duties had I not warned the Department as I did in my despatch no. 513.

In order that the record may be perfectly clear, the following additional observations appear pertinent:

1. Never have I even implied that the Department "undertake to torpedo the Mission's report". On the contrary, my ideas were submitted with a view to insuring the successful operation of the program which was recommended by the Mission.

2. With reference to numbered paragraph "1" of my despatch under reference, and of the memorandum⁷² attached to the Department's instruction, I am glad to learn that the "underlying situation" referred to by me was carefully studied by the Technical Mission and I only regret that a detailed written report thereon does not appear to have been prepared, since such an analysis, I know, would have greatly assisted me to a better comprehension of the entire matter and, no doubt, would be a valuable addition to the Department's and this Embassy's files.

3. Whether or not the present time is propitious for the initiation of monetary and banking reforms in Cuba, is a question of opinion. As Lieutenant Southard has reported, I still feel that the inauguration of these measures may advantageously be deferred, but I, of course, respect and will follow the Department's views in the premises. However, it should be noted that Lieutenant Southard agreed with me that, under the circumstances, this is a difficult decision to make. Therefore, I doubt that he would so unreservedly express the opinion given in Article 2 of the Department's memorandum when it states that "the present is a propitious time for the institution of monetary and banking reforms". In this connection, the memorandum in the same paragraph speaks of the "heavy net influx of dollar payments into Cuba" and "the inflationary repercussions of this on the Cuban economy". The measure of inflation which may or may not occur here would seem to depend more on the amount of sugar which we purchase from Cuba than on the receipt of dollars from our military projects, Nicaro Nickel, etc. If, as now seems likely, sugar purchases are to be materially reduced for 1943 the "repercussions" here might be deflationary since the flow of dollars into Cuba on construction projects related to the war might not offset the lesser amount of sugar purchased.

⁷² Dated August 3, p. 301.

4. The Department's memorandum, in Article 3, holds that there would seem

“to be no reason to assume that the establishment of a stabilization fund and elimination of the dollar as legal tender will straight-way plunge Cuba into an exchange control régime unless the Cuban Government blandly disregards the advice of the Technical Mission and attempts a rapid elimination of dollar deposits.”

The “rapid elimination of dollar deposits” apparently is contemplated by the draft law, when it provides that dollar currency will cease to be legal tender 180 days after the law's promulgation or sooner if the President deems it advisable. Moreover, the taxes provided in the draft law, if enacted, would tend further to force the withdrawal of dollar deposits. Thus, these two stipulations might be influences working towards the establishment of “an exchange control régime” in Cuba.

5. Admittedly, practically all, if not all, Governments derive seigniorage profits from their issues of currency. The only question which I wished to raise in my despatch under reference was the degree to which this procedure may be carried safely in Cuba. I am glad to note that the Department is entirely satisfied in this particular.

6. The observations made in Article 4 of the Department's memorandum are entirely accurate from a purely factual aspect, but the point, which I should perhaps have made clearer in my despatch, was that in matters of this kind, public and press discussions instead of being based on lucid, honest expositions of fact are not infrequently characterized by prejudice, and attempts to find a scapegoat which, in this instance, I fear might be the Technical Mission and the Department.

7. There appears to be no fundamental difference in principle between the views of Article 5 of the memorandum and of my despatch, wherein I began with the statement: “That Government should control banking and currency is a sound postulate providing it can furnish honest and competent management”. As the memorandum accurately observes, the essence of my objections to the proposed legislation is that I doubt whether the Cubans presently are competent to furnish honest and able management and that, as the Technical Mission reported, “a poorly administrated central bank or stabilization fund would add greatly to the difficulties that already exist”.

8. At the end of paragraph 2 of Article 3 of the Department's memorandum, the statement is made:

“It would not appear, however, that this Government could properly attempt to deny to Cuba the sovereignty over these matters which is enjoyed by all independent countries”.

The last paragraph of Article 5 of the memorandum reads:

“Finally, it is difficult to see why an exception should be made with respect to monetary and banking matters in the exercise of sovereignty by an American republic. . . .”

By these and other commentaries, the memorandum would seem to imply that I have made suggestions which, if put into effect, would be detrimental to Cuban sovereignty. I am astonished that any such inference could have been drawn from my words. I am dedicated to the principles and policies of our Government in these particulars. I believe my record has always been forthright and clear on this and I can see nothing, I repeat nothing, in my despatch under reference which in the slightest could justify the memorandum's misinterpretation of my stand.

My thought that we might discreetly suggest to the Cuban Government that the central bank-monetary legislation could be deferred to a more propitious time is no more an impairment of this country's sovereignty than are any or all of the recommendations made in the several memoranda prepared by the Technical Mission and in particular the Fourth Report commenting on the draft law. Similarly my suggestion is no more an infringement of Cuban sovereignty than is the antepenultimate paragraph of the Department's instruction no. 499

“to support informally and as occasion may arise the basic recommendations of the American Technical Mission, particularly when the proposed legislation is in conflict with the specific recommendations of the Technical Mission and where such departures from the Mission's recommendations would appear likely to work undue hardships on American banks and indirectly on Cuba's own basic interests.”

The Cuban Government obviously is free to accept or to disregard these and the many other suggestions on a myriad of subjects which are from time to time made by our Government with a view to propagating our mutual advantage, friendship and respect.

9. In article 6 of my despatch No. 513, I wished merely to indicate some of the conditions which might be contrary to the Technical Mission's admonition, “care should be taken to protect the (member) banks against loss of principal on their subscriptions to the central bank”. For instance, in paragraph (*a*) of this article I desired to bring out that no really important national banks existed here to exercise a beneficial restraint on the central bank. Also, in sub paragraph (*f*), the author of the memorandum seems to labor under the erroneous impression that I favor a 100 percent reserve behind money, whereas the question of what constitutes appropriate reserves was not raised by me.

Respectfully yours,

SPRUILLE BRADEN

837.51 Cooperation Program/187

*Memorandum by Mr. George F. Scherer of the Division of the American Republics*⁷³

[WASHINGTON,] September 19, 1942.

THREE CUBAN PROJECTS
\$25,000,000 LOAN

Mr. Edgar⁷⁴ of AE informs me that he and Mr. Ravndal⁷⁵ have had several conversations with Ambassador Concheso concerning the following three projects evidently submitted to the Cuban Embassy by the National Development Commission:

1. Repair of the Central Highway
2. Water and sanitation project in Santiago de Cuba
3. Water and sanitation project in Guantánamo

The last two would appear to require 7,000 tons of scarce materials, including pipe, valves, etc. At their first meeting with the Ambassador Mr. Ravndal convinced him that it would be preferable at the start to ascertain informally from the interested agencies of this Government of the decision that might be expected if project applications were received on a formal basis. This was done and it was indicated that all three projects would be rejected, in view of the critical scarcity of the necessary materials.

The Ambassador was, of course, deeply disappointed to learn of the certain rejections. Mr. Ravndal and Mr. Edgar subsequently considered the possibility of the Department's backing the Guantánamo project on the basis of a definite contribution to health and sanitation in the area near the United States Naval Base. This was suggested as a possibility to Ambassador Concheso with the indication that no definite assurances could be given but that the Department would be glad to cooperate with Cuba in working up the case on the basis of a revision of the material requirements at first presented.

837.516/399

The Adviser on Political Relations (Duggan) to the Ambassador in Cuba (Braden)

WASHINGTON, September 24, 1942.

DEAR SPRUILLE: I was very glad to receive your personal letters of August 27 and of September 9⁷⁶ with the latter of which you en-

⁷³ Addressed to the Chief of the Division of the American Republics (Bonsal) and to the Assistant Chief of that Division (Walmsley).

⁷⁴ Donald A. Edgar, of the American Hemisphere Exports Office of the Department of State.

⁷⁵ Christian M. Ravndal, Chief, American Hemisphere Exports Office.

⁷⁶ Neither printed.

closed a copy of airmail despatch no. 961 with further reference to the proposed banking and monetary legislation for Cuba. I appreciate your desire that the Department understand clearly your position on these matters. I believe that your last despatch together with Lieutenant Southard's visit and the subsequent correspondence has resulted in a clear understanding by the Department of the position which you took in your despatch no. 513 of July 20. I am also sure that you understand clearly the Department's policy with regard to the monetary and banking legislation and, in the circumstances, I think you will agree that formal reply by the Department to your 961 would not appear to be required.

With best wishes,

Yours very sincerely,

LAURENCE DUGGAN

**DISCUSSIONS AND AGREEMENTS RELATING TO THE 1942 AND 1943
CUBAN SUGAR CROPS⁷⁷**

837.61351/2830 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, February 13, 1942—midnight.

[Received February 14—5:44 a. m.]

54. The Cuban Government is faced with a difficult situation because of the shortage of low grade alcohol for local consumption and the press is filled with allegations that the Government in selling the sugar crop to us failed to protect the interests of the Cuban people; alcohol being "the poor man's fuel".

As the Department is aware 34,000,000 gallons of high test are reserved in crop contract for domestic use and while the 9,000,000 gallons of blackstrap also reserved would be approximately sufficient to produce all Cuba's 1942 alcohol requirements, the Cuban Government is reluctant to reduce domestic blackstrap prices to a figure which would permit sale of alcohol at around heretofore prevailing prices as it fears that any reduction in molasses prices below the official sales price might cause an unfavorable reaction in the United States. The 9,000,000 gallon blackstrap volume is moreover reportedly not sufficient to permit profitable operation of local distilleries.

I have been told therefore to place the following suggestion urgently before our Government: Cuba is prepared to convert its 34,000,000 gallons of high test into approximately 20,000,000 gallons of

⁷⁷ For correspondence concerning negotiations for the purchase of the 1942 Cuban sugar crop by the United States, see *Foreign Relations*, 1941, vol. VII, pp. 237 ff.

190 proof industrial alcohol (presumably at prevailing market prices and with a waiver of existing United States duties). Local capacity is 1½ to 2 million gallons of such alcohol per month and capacity could be reached in approximately 30 days.

While I am not unaware of the possible connection between this project and previous efforts on the part of Cuban distillers to [apparent omission] alcohol in the United States Mañas⁷⁸ informs me that by processing the 34,000,000 gallons of high test plus the 9,000,000 gallons of blackstrap economical operation of local distilleries would permit production of fuel and other alcohol for domestic use at prices low enough to solve existing acute fuel alcohol problem. Mañas states that even on above basis plants would operate at only 50% of capacity.

A telegraphic reply would be appreciated.

BRIGGS

837.61351/2830 : Telegram

The Secretary of State to the Chargé in Cuba (Briggs)

WASHINGTON, February 18, 1942—7 p. m.

80. The question you raise in your 54, February 13, midnight, appears to the Department to be an internal one stemming from the sale of Cuban molasses at the price of the sugar content.

Nevertheless the Department is referring the question to the appropriate agencies, including the Treasury, the Defense Supplies Corporation and the War Production Board.

You may however be interested to know that the question of imported foreign alcohol has recently been examined by the Department at the instance of the Dominican Minister, under instructions, and of persons describing themselves as representing Cuban distilling interests. The Department has in the face of these approaches stated that the problem is within the jurisdiction of the Treasury which has informed the Department that foreign alcohol may not be withdrawn from bond for denaturing without payment of the internal revenue tax.

It has been learned furthermore that persons allegedly speaking for Cuban distillers who have discussed the possibility of selling Cuban alcohol in the United States with other Government agencies have been informed that the United States distilling industry is capable of manufacturing our total requirements of alcohol provided raw materials are available in a regular and adequate flow. In this connection you are informed that distillers of beverage alcohol em-

⁷⁸ Arturo Manuel Mañas, representative of the sugar mill owners.

ploying domestic grains as raw material are beginning to convert to industrial alcohol production. (Can you obtain an accurate indication of Cuban alcohol capacity without new equipment?)

HULL

837.61351/2876 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, March 4, 1942—noon.

[Received 5:56 p. m.]

102. My telegram No. 98, March 3, 6 p. m.⁷⁹ In reply to López Castro's⁸⁰ inquiry this morning whether I had received any news concerning the views of our Government on the sugar problem, I told him that although definite word had not thus far been forthcoming I know the matter is under very serious study by the various agencies of our Government now concerned and that he will find an understanding attitude when he reaches Washington.

Commenting on the general sugar situation here López Castro said that although the grinding of the crop is proceeding satisfactorily *hacendados* are beginning to complain that payment by the Defense Supplies Corporation⁸¹ is not forthcoming which in turn results from the fact that relatively little sugar is being transported and hence little paid for. He said this has already begun to create an unfavorable atmosphere among mill owners whose problem is complicated because of the increase in wages and *colono* payments which cannot be deferred. Many *hacendados* are accordingly having to obtain advances from the banks which are charging from 6 to 8 percent "against the certainty of Defense Supplies Corporation payments" which rates López Castro considers indefensible. He added that the matter had been taken up with the Habana clearing house with no success whatever and that he proposed to bring it to the attention of the Acting Secretary.

He went on to say that the Cuban Government and the *hacendados* sold the crop at a reasonable price to our Government not in the expectation of large profits to producers but in furtherance of the war effort; that being the case he fails to see why the banks should be demanding "inordinate profits" from a situation resulting from the shipping problem, over which Cuba has no control.

BRIGGS

⁷⁹ *Ante*, p. 290.

⁸⁰ Cuban Secretary of the Presidency and Representative of the Cuban Sugar Stabilization Institute.

⁸¹ United States Purchasing Agency of the 1942 Cuban sugar crop.

837.61351/2887

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3638

HABANA, March 11, 1942.
[Received March 12.]

SIR: With reference to previous correspondence concerning the 1942 Cuban sugar crop, and in particular to my telegram no. 102 of March 4, 12 noon, I have the honor to enclose for the confidential information of the Department a copy of the memorandum of the conversation⁸² on March 10 with Mr. Peter Schellens, Vice President of the National City Bank of New York, and Mr. Carter, Manager of the Habana Branch of that bank. Mr. Schellens has apparently come to Habana following receipt of an intimation by the head office in New York that the Cuban Government is dissatisfied with the high rates allegedly charged by the banks for advances to assist in financing the grinding of the crop.

It will be noted that my callers denied that rates higher than six percent are being asked by the National City Bank, but admitted that amounts charged certain Cuban mills may be twice as large as the interest which American companies are having to pay (i.e. 3%). This factor alone would seem to be sufficient to explain the attitude shown last week by Señor Amadeo López Castro, reported in my telegram mentioned above.

The Department will also note that the National City Bank is apparently considering the possibility of offering credit accommodation for crop financing to the Cuban Sugar Stabilization Institute,⁸³ for use by the latter with individual mills. Should anything come of this possibility, I shall report further.

Respectfully yours,

ELLIS O. BRIGGS

837.61351/2891 : Telegram

*The Chargé in Cuba (Briggs) to the Secretary of State*HABANA, March 14, 1942—11 a. m.
[Received 1:54 p. m.]

127. My telegram No. 102, March 4, noon, and despatch No. 3638, March 10 [11]. Investigation reveals that at least one of the three American banks here is in fact charging up to 8% on advances in conjunction with the present sugar crop notwithstanding the security provided by the crop sale contract with the American Government.

⁸² Not printed.⁸³ A government agency established to supervise the production and export of sugar.

It also seems established that the mills paying the lowest rate (3% to 4%) include many American owned mills (and those with special bank relationships such as General Sugar Estates with National City Bank; Atlántica del Golfo and Punta Alegre with Chase, et cetera) whereas mills paying highest rates are mostly Cuban. Representative of Boston bank states that most of his clients are being accommodated at 4% to 5% he having only one loan above the latter figure and that at 6%.

Admitting that there are various factors involved including the absence of war risk insurance on sugar in Cuba, nevertheless I do not find convincing the explanation made by the bankers and the impression persists that at least two of the American banks are trying to charge all the traffic will bear. In any case the attitude of López Castro described in my telegram No. 102 and reflected since then in various conversations with other officials would appear to have considerable justification.

BRIGGS

837.61351/2925

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3716

HABANA, March 24, 1942.

[Received March 25.]

SIR: With reference to the pending request of Defense Supplies Corporation that the proportion of the sugar crop to be produced as invert be reduced from the equivalent of 1,200,000 tons to the equivalent of 700,000 tons, I have the honor to report that a number of mills have inquired whether there is any penalty involved at present for failing to produce the proportions indicated in the contract (two-thirds raw sugar, one-third invert). In this connection the Institute has informed the Hacendados Association as follows:

That there is no penalty against a mill which fails to make part of its crop in the form of invert molasses;

That the mill which makes more than the corresponding amount of invert "may be penalized or may encounter difficulties";

That a company which controls two or more mills cannot produce a smaller proportion of invert in one mill in order to make a larger proportion in another. (This decision is of considerable importance to a number of companies, including Hershey and Compañía Azucarera Atlántica del Golfo, which assert that it would be more efficient and more economical for them to make their entire amount of invert in one mill and to devote the others exclusively to the production of raw sugar and blackstrap.)

The question of reducing the proportion of invert is already becoming of urgent importance to many mills which are approaching the 67% mark, at which, under the original crop sale contract and under existing Cuban decrees promulgated pursuant thereto, they should switch to invert production. Although the request of Defense Supplies Corporation is of course now known by all producers, the delay in reaching final agreement as to the amendment of the contract has similarly delayed the issue of a new decree changing the proportions to 80%-20%. It is not improbable that some mills may switch to the production of invert, whereas others, taking it for granted that the contract will be amended as above, may continue with the production of raw sugar up to the anticipated 80% limit. Still others, such as Senator Casanova's⁸⁴ Central Orozco, are understood to have produced no raw sugar whatever thus far; should they continue with invert production, some adjustments will subsequently have to be made. There are of course certain unfortunate possibilities inherent in such a situation, and it is accordingly of the utmost importance that an agreement as to the amendment of the contract be reached at the earliest possible moment.

Respectfully yours,

ELLIS O. BRIGGS

837.61351/2928 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, March 25, 1942—8 p. m.

[Received 10:46 p. m.]

154. For Walmsley.⁸⁵ The Institute has accepted the modifications of the crop contract (as clarified) and the President will probably this evening issue a press release describing the amendments. A decree will be necessary to give formal effect thereto but in the meantime the Institute will of course continue the necessary steps to limit invert production, et cetera.

Casanova will probably announce tonight that the 1942 crop will be 3,950,000 Spanish long tons instead of the 3,000,000 previously estimated. Mañas tells me that growers' estimates now compiled total 4,115,000 tons.

BRIGGS

⁸⁴ José M. Casanova, president, Cuban Sugar Stabilization Institute.

⁸⁵ Walter N. Walmsley, Jr., Assistant Chief, Division of the American Republics.

837.61351/2891

The Secretary of State to the Chargé in Cuba (Briggs)

No. 1394

WASHINGTON, March 30, 1942.

The Secretary of State refers to the Chargé d'Affaires' various despatches and telegrams, particularly despatches 3638 and 3639 of March 10 and 11, 1942,⁸⁶ and telegrams 102 and 127 of March 4 and 14, with respect to the problems involved in reducing the invert molasses production to 700,000 Spanish long tons sugar equivalent and to the cost of carrying sugar in Cuba, which is not being shipped as contemplated under the sugar purchase contract.

For the purposes of the record there is enclosed a copy of the agreement⁸⁷ reached between Dr. Amadeo López Castro as representative of the Institute and the Defense Supplies Corporation. There is also enclosed copy of the final agreement⁸⁸ as approved, it is understood, by the Institute and accepted by the Defense Supplies Corporation which will be given effect by Cuban Government decree.

The Department is sending the various Embassy despatches and telegrams to file on the understanding that the matters raised in the foregoing connection have been satisfactorily disposed of.

837.61351/2986 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, April 25, 1942—10 p. m.

[Received April 26—1:42 a. m.]

245. My telegram No. 244, April 25, 9 p. m.⁸⁷ It is obviously going to be difficult to induce the Cuban Government to agree to extensive use of Habana for sugar shipments on any basis except "war necessity" (not "convenience").

It was not until the immediate problem had been placed before the Minister of State,⁸⁹ and Saladrigas⁹⁰ in the strongest possible way that authorization for the two ships to be loaded here was granted. During a meeting this afternoon with the latter, Mañas and the

⁸⁶ Despatch No. 3639, March 10, not printed.

⁸⁷ Not printed.

⁸⁸ Not printed; it provided that the Institute act to limit to 700,000 long tons the sugar produced in the form of invert molasses. The Defense Supplies Corporation, in its turn, was to accept molasses as soon as stored and make payment, expedite the shipment of sugar, and make settlement according to certain specified provisions pertaining to the refinery locations, transshipment, and loss of weight. The Corporation agreed further to provide financing of all warehoused raw sugar of the 1942 crop up to 90 percent of the value of the sugar.

⁸⁹ José Manuel Cortina.

⁹⁰ Carlos Saladrigas, Prime Minister and Minister of Defense.

Secretary of Labor;⁹³ likewise present, the reluctance of the Government was based on allegedly inevitable labor difficulties. The Prime Minister stated that while the large crop is benefiting *hacendados*, *colonos* and sugar laborers, relatively light exports to date have meant that port workers have not yet shared in those benefits. Furthermore the Government is promoting a full scale labor rally in the capital on May 1, and according to Saladrigas it is so fearful that if word of any plan to bring sugar regularly and in large amounts to Habana becomes current, agitation and disturbances will occur, that he has told the Institute to load the two arriving vessels with sugar already here or in the vicinity (even though earmarked and in hold for other purposes) rather than bringing it by rail from more distant ports. (While I do not fully share the Government's apprehensions, I get the same story from López Castro also, and as the Department is aware he is very close to the President. Moreover Batista's views towards labor are well known.)

I told the Prime Minister that while I sincerely appreciated the Government's prompt consideration of the problem placed before it by the Institute (my telegram no. 234, April 24, 10 a. m.⁹⁴) and especially the instructions given the Institute to get the two ships loaded here without delay, I did not regard the problem as settled thereby. I said that the Cuban Government should now squarely face the possibility that unless a much greater use of Habana can be agreed to and supported by the Cuban Government a substantial amount of sugar may have to be left in Cuba, with all that implies. I went on to say that a third ship (Department's telegram No. 201⁹⁴) will be coming shortly after May 1, and that according to the information given me by the Naval Attaché⁹⁵ that vessel also will probably have to come to Habana.

I emphasized that two considerations are involved in Habana loading: safety as dictated by the American Navy, and the quickest and most efficient utilization of the limited tonnage available—both objectives of the highest importance to the successful prosecution of the war and of equal interest to the United States—and all the United Nations. I said that the American Government is by no means unsympathetic to Cuban labor, as demonstrated on many occasions, but that I doubted very much indeed whether my Government no matter how favorably the matter might be presented would understand opposition to much less agitation against measures dictated by the war situation. I concluded by expressing confidence that the Cuban Gov-

⁹³ Oscar Gans.

⁹⁴ Not printed.

⁹⁵ Maj. Hayne D. Boyden.

ernment would place the matter frankly before local labor leaders in that light, and that Cuban labor would respond favorably thereto.

(Privately I am not so sure.) Such incidents as sending away in ballast without explanation the vessel mentioned in my telegram no. 232, April 23, 5 p. m.,⁹⁶ with 8 million gallons of molasses now in Habana port terminal, do little to bolster our case. A rumor has already been started that the proposed use of Habana is designed to benefit American terminal owners (Ward Line and United Fruit) at the expense of Cuban interests, elsewhere. Finally the present administration here has shown itself from the start somewhat less than anxious to take a strong stand on a matter involving labor.

BRIGGS

837.61351/3006: Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, May 4, 1942—6 p. m.

[Received May 5—1:33 a. m.]

277. For Scherer. My telegram No. 271, May 3, 6 p. m.⁹⁶ The following text has been agreed upon subject to endorsement by Defense Supplies Corporation covering shipment of sugar from Habana. Please inform me by telephone whether it will be acceptable to Corporation.⁹⁷

“(1st) In accordance with war requirements that part of article VI paragraphs O and P of the 1942 Cuban sugar crop purchase contract signed by the Institute and Defense Supplies Corporation which concerns the right of the Institute to designate ports of embarkation is suspended.

(2d) The Institute and Defense Supplies Corporation shall determine by mutual agreement which ports will be used for the embarkation of sugar and in any case the United States naval authorities shall have the right to designate through the Embassy the loading ports.

(3d) A substantial quantity of sugar which is estimated at not less than 6,000,000 bags shall be shipped through the Port of Habana using the terminals with the best and most rapid facilities for loading or when necessary using lighters. Equal distribution among the terminals with the above mentioned facilities shall be sought, but in any case it shall be for the United States naval authorities to indicate through the Embassy the terminal to be used and the Embassy shall so notify the Institute with respect to each shipment.

⁹⁶ Not printed.

⁹⁷ The Chargé was advised by telegram No. 236, May 6, 1942, 6 p. m., that the Defense Supplies Corporation was in substantial agreement with these terms.

(4th) The Embassy jointly with the Institute shall draw up a plan with respect to shipment of sugar through the Port of Habana but until the plan is adopted the Embassy may ask for the shipment of sugar through Habana in accordance with the conditions set forth in the previous paragraph advising the Institute which dock will be used in order that the Institute may place the sugar at the dock in sufficient time.

(5th) The net difference in cost of each shipment of sugar as between the usual port and shipment in accordance with the four preceding paragraphs shall be for the account of Defense Supplies Corporation or any person or entity designated by it said Corporation being responsible for payment thereof."

BRIGGS

837.61351/2962 : Telegram

The Secretary of State to the Chargé in Cuba (Briggs)

WASHINGTON, May 7, 1942—5 p. m.

237. Your despatch no. 3805 of April 10, 1942,⁹⁹ and other communications. The interested agencies of this Government, as you are aware, have been engaged in a careful examination of the supply, demand and distribution aspects of sugar and molasses. The number of variable and unpredictable factors which may affect sugar in 1943 make it extremely difficult to determine, with any degree of precision, the quantity of sugar which may be required by the United States from the next Cuban sugar crop.

Nevertheless, in view of the request of the Cuban Government for an indication of our probable requirements, and in recognition of the importance of the question to Cuba, an effort has been made to form an estimate which would be of assistance to the Cuban Government. After a careful evaluation of the determining factors including: (1) the extremely uncertain shipping situation; (2) the size of the 1942 Cuban crop and possible stocks remaining in Cuba at the end of this year; and (3) estimated requirements for consumption of United States and other United Nations; it has been concluded that, out of the 1943 Cuban crop, not more than 3,600,000 short tons of sugar (raw equivalent) will be needed to meet anticipated requirements of the United States and other United Nations to which supplies of sugar may be made available by the United States. This includes all forms of sugar (i.e., raw and direct-consumption sugars and molasses for human consumption and other uses) and does not of course include Cuban requirements for sugar and alcohol.

You are requested to communicate the foregoing officially to the Cuban Government.

⁹⁹ Not printed.

At the same time, you should say informally that, although it is of course even more difficult to appraise the possible requirements for sugar from the 1944 crop, at the present time it does not appear that the basic conditions affecting the requirements for sugar from that crop are likely to be substantially different from those affecting 1943 crop requirements.

HULL

837.61351/3036 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, May 18, 1942—5 p. m.

[Received 11:38 p. m.]

320. For Walmsley confirming telephone conversation this morning. The following solution occurs to us with respect to the blackstrap problem facing the Price Control Commission:¹

(1) It appears highly probable that we will not be able to move the entire amount of blackstrap to the United States before the end of this year.

(2) Storage facilities at certain mills are close to capacity and there exists a possibility that some ditching may occur because of our failure to maintain original transportation schedule.

(3) The Cuban Government through the Institute would propose in view of the foregoing that we defer until after January 1 next acceptance at port terminal for shipment of not exceeding 10,000,000 gallons of blackstrap, this amount to be transported by us subsequent to that date.

No "loan" would therefore be involved; we would merely be transporting subsequent to next January 1 an amount which in all probability we could not in any case transport before that date.

BRIGGS

837.61351/3036 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, May 23, 1942—8 p. m.

292. For Briggs from Walmsley. Your 313 and 320, May 14 and 18.² I understand the BEW³ has written the DSC approving the proposed delivery of up to 10,000,000 gallons of this year's blackstrap production after January 1, 1943, according to the formula suggested in your 320. I expect that the DSC would like to write

¹ Cuban counterpart of the Office of Price Administration.

² Telegram No. 313, May 14, not printed.

³ Board of Economic Warfare.

in a latest delivery date, say about February 15, 1943. I further expect a letter from Goodloe⁴ Monday on the basis of which I shall telephone you; but in the meantime Sabin⁵ assures me the DSC will be pleased to hear from the Institute on the subject.

The DSC's acquiescence is neither a commitment nor a guide with regard to next year's blackstrap price; so please dispel any optimistic assumption which may be made in this regard. [Walmsley.]

HULL

837.61351/3071

*The Counselor of the American Embassy (Briggs) to the President of the Cuban Sugar Stabilization Institute (Godoy)*⁶

HABANA, June 5, 1942.

MY DEAR MR. GODOY: I refer to your courteous communication of May 27⁷ addressed to Defense Supplies Corporation, officially requesting deferment until after January 1, 1943, of delivery at port terminal for shipment of not exceeding 10,000,000 gallons of blackstrap molasses purchased by Defense Supplies Corporation under the contract of January 28, 1942.

The Embassy has received authorization from Defense Supplies Corporation to accept the foregoing proposal of the Institute. Defense Supplies Corporation has expressed the hope that delivery can be effected by February 15, 1943.

With cordial personal good wishes [etc.]

ELLIS O. BRIGGS

837.61351/3036: Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, June 10, 1942—6 p. m.

339. For Briggs from Walmsley: With reference to our telephone conversation this afternoon Sabin points to the last paragraph of your 320 of May 18 in which you say that in accordance with your suggested formula "no 'loan' would therefore be involved". He also points to that portion of the DSC's letter of May 23, of which a copy was sent to you with instruction no. 10 of May 26,⁷ reading "as we understand it, the Corporation would defer the purchase and acceptance of not more than 10,000,000 gallons of blackstrap molasses. The quantity

⁴ John D. Goodloe, executive vice president of the Defense Supplies Corporation.

⁵ S. H. Sabin, a vice president of the Defense Supplies Corporation.

⁶ Copy transmitted to the Department by the Ambassador in Cuba in his despatch No. 244, June 6; received June 8.

⁷ Not printed.

deferred would be delivered by the Institute after January 1, 1943, presumably from 1943 production".

The DSC does not feel at liberty to interpret the Board of Economic Warfare's "directive" in the sense in which you have understood the transaction; so in view of your representations I shall approach the BEW again tomorrow. [Walmsley.]

HULL

837.61351/3104 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, June 18, 1942—2 p. m.

[Received 5:12 p. m.]

436. For Duggan.⁸ I bespeak your urgent assistance in a matter in which further delay will bring into question our good faith:

A month ago following protracted consideration, Defense Supplies Corporation agreed to the delivery by the Institute after next January of not exceeding 10 million gallons of blackstrap. This arrangement costs us nothing for the reason that it is conceded that although we have bought the blackstrap along with the sugar crop, we will be unable to move the entire amount purchased before the end of this year. On the other hand, it represents a valuable concession to Cuba in that it would permit the new price-fixing organization (which is having a difficult time getting started) to use the blackstrap now for conversion to cooking alcohol, the principal fuel of the lower classes at a reasonable price, the amount of blackstrap taken to be returned early in 1943 from next year's production at a time when it is hoped we can transport it. I repeat that this arrangement will cost us nothing but would be of important present assistance to Cuba.

On May 25, the Cuban Government and Institute were informed pursuant to authorization from Defense Supplies Corporation that we agreed to the arrangement whereupon the local price-fixing agency made commitments which it cannot now fulfill because the Corporation declines to release the molasses, alleging that the matter requires further considerations, et cetera. The price-fixing agency now finds itself in a very difficult and increasingly embarrassing position and notwithstanding considerable patience on its part, the point has now been reached where further delay will only result in misunderstanding and ill will.

Walmsley who has been most helpful is fully informed of details.

BRADEN

⁸ Laurence Duggan, Adviser on Political Relations.

837.61351/3148

The Secretary of State to the Ambassador in Cuba (Braden)

No. 169

WASHINGTON, June 25, 1942.

The Secretary of State refers to a telephone conversation this afternoon between the Counselor and an officer of the Division of the American Republics with respect to the 10,000,000 gallon blackstrap transaction, and encloses original and signed copy of a letter of June 25¹⁰ from the Defense Supplies Corporation to the Cuban Sugar Stabilization Institute. Also enclosed is a copy of the transmitting letter from the Corporation to the Department.¹¹

The Department hopes that the arrangement proposed by the Corporation at the request of the Cuban Price Control Commission will be found satisfactory by both the Commission and the Sugar Institute and that the Institute will confirm it by addressing a letter or returning the acceptance form to the Corporation without delay. The Department also hopes that there will be no difficulty in view of the real service this concession represents to the Cuban authorities in obtaining the Cuban Government's endorsement. The Ambassador will understand that the Corporation in outlining the terms of the arrangement has made the maximum concessions it considers feasible, and there can be no question of further negotiation or discussion of the terms.

837.61351/3150: Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, July 1, 1942—6 p. m.
[Received July 2—12:20 a. m.]

489. For Walmsley. Department's instruction no. 169, June 25. The Institute has accepted without change Defense Supplies Corporation letter of June 25 relative to the 10,000,000 gallons of blackstrap. Moreover, at the Embassy's suggestion both the Prime Minister and Hevia¹² have signed the acceptance. The letter will be returned by air mail tomorrow.

All the officials concerned have expressed their sincere appreciation of our Government's cooperation in this matter. I hope appropriate instructions to release the blackstrap will immediately be issued.

BRADEN

¹⁰ According to this letter the Defense Supplies Corporation agreed to release to the Institute 10,000,000 gallons of blackstrap from certain mills and under certain stipulations as to weight, freight and other charges, and sampling. The Institute agreed to deliver to the Corporation an equal quantity of molasses at specified port terminals prior to March 1, 1943, free of all charges.

¹¹ Not printed.

¹² Carlos Hevia, Chairman of the Cuban Price Control Commission.

837.61351/2962

*The Chief of the Division of the American Republics (Bonsal) to the
Ambassador in Cuba (Braden)*

WASHINGTON, August 10, 1942.

DEAR MR. AMBASSADOR: Since Newby Walmsley's return from Cuba after Ellis¹³ delivered his note to the Cuban Government based on our telegram 237 of May 7, we have been endeavoring to obtain more definite estimates for next year from the appropriate agencies.

I want to give you the trend of thought in some quarters here, and to ask for your comments.

You have reported that on August 5 about 2,120,000 long tons of sugar remained to be shipped. The maximum shipping schedule of sugar for June-December, 1942, as the Embassy was informed, is 1,075,000 short tons or say 950,000 long (680,000 long tons for August-December), and this may be pared down by as much as 14 percent. Therefore, a carryover may be expected of 1,440,000 long tons or more in Cuba on December 31.

As for the molasses, the probable reduction of the shipping schedule for the rest of the year to 7½ million gallons per month (all from Cuba) will leave a balance there at the end of the year, according to your figures, of close to 175,000,000 gallons.

The statistical estimates which have been made of sugar needs from Cuba next year for the United States and for lend lease shipment, in which these carryovers have of course been considered, indicate that Cuba should not make more than 2,260,000 short tons, for all purposes, including domestic consumption.

Obviously the shipping situation dominates these calculations.

It is my impression that no matter how vigorously Cuba should press its diversification program, the time before the new grinding season is insufficient to develop sufficient alternate work programs for the mass of Cuban sugar workers.

In order to form an opinion what amount of sugar should be made next year above statistical requirements for both current consumption and reserves, your comment is urgently required with regard to the amount of alternate work which will be available under the diversification program. I confess that this resembles a quick-sand foundation on which we ask you to build, but I should like nevertheless to have your thoughts as soon as possible.

As you are aware, Cuban income from sugar this year will be well over \$200,000,000. This large income, in the face of a decided shortage of imported supplies and a marked increase in their cost, may

¹³ Ellis O. Briggs, Counselor of Embassy.

set the stage for inflation; unless some means of diverting some of this income into other than consumption purchase channels is found. This aspect should receive careful attention.

I am looking forward to hearing from you soon.

Very sincerely yours,

PHILIP W. BONSAI

837.61351/3290

The Ambassador in Cuba (Braden) to the Secretary of State

No. 891

HABANA, September 2, 1942.

[Received September 10.]

SIR: I have the honor to report that the past few days have witnessed the inauguration of a local campaign for the apparent purpose of establishing a conviction in the mind of the Cuban people that Cuba has a vested right to a 1943 sugar crop of approximately the same size (4,000,000 long tons) as the 1942 *zafra*. This campaign has taken the form of numerous editorials arguing that the wartime economy of the country demands a large crop, with the implication that the United States Government has some moral obligation to make such a crop possible, in order to maintain Cuban economy.

The hand of the Government in this campaign emerged yesterday when the Prime Minister, Dr. Ramón Zaydín, made an address at a luncheon at the Lions' Club. The pertinent clipping from this morning's *Diario de la Marina* is enclosed¹⁴ and it will be observed that Dr. Zaydín made the following statement:

"The basic triangle, of urgent interest to the Government, consists of maritime traffic, the sugar crop, and fuel. It is stated that the amount of the *zafra* will be reduced, and in the name of the Government I declare that this cannot and will not be. A reduction of the sugar crop would bring about a civil war. With the misery existing in the fields, with the national economy battered, workers and the entire people would establish a protest based on reason . . ." ¹⁵

Also enclosed are clippings¹⁴ from the *Diario de la Marina* of August 30, 1942, containing an article written by Dr. Ramiro Guerra (now in Habana) in which he speaks optimistically of next year's prospects, and an editorial from the same paper, (September 1) praising Dr. Guerra's views. A few days earlier an editorial appeared in *El Avance*, the general purport of which was that the United States is in a position to purchase any amount of Cuban sugar that it decides to

¹⁴ Not reprinted.

¹⁵ Omission indicated in the original despatch.

buy, the implication being that should we purchase less than in 1942, this would indicate a lack of friendly cooperation.

It is obvious that the purpose of this campaign is to endeavor to jockey our Government into a position in which, should our 1943 purchases fall substantially below those of 1942, Cuba can appear in the role of "injured party", entitled to "compensations." Obviously the Cuban Government is behaving somewhat recklessly in this matter since it should be apparent to the industry, and no less to the Government, that our 1943 purchases will be based on our consumption requirements, our transportation availabilities, and the size of the carry-over. Moreover, I have already taken occasion to warn President Batista against over-optimism, and I shall seek an early opportunity to make statements to the same effect to the Prime Minister and the Minister of State.¹⁶

With the foregoing situation in mind, I consider it highly important that we convey to the Cuban Government at the earliest possible moment a revised estimate of our 1943 requirements, together with an indication of our views relative to purchase arrangements.

Respectfully yours,

SPRUILLE BRADEN

837.61351/3303

The Ambassador in Cuba (Braden) to the Secretary of State

No. 966

HABANA, September 10, 1942.

[Received September 14.]

SIR: I have the honor to refer to my despatch No. 891 of September 2, 1942 concerning a number of over optimistic statements issued recently in Habana relative to 1943 sugar prospects, and to report that at a luncheon given by the Federación Nacional de la Industria Minera yesterday I made the following statement:

"We have been able to assist materially by purchasing the major portion of the 1942 crop, which totalled almost 4,000,000 long tons. Unfortunately, as I have said so many times, it is not so much the submarines as the necessity of using vessels elsewhere that creates the difficulties in maritime transportation. The fact is that during the first eight months of 1942 we have transported only approximately 30% of the raw sugar and only slightly more than 40% of the molasses purchased under the Crop Sale Contract. This fact is of paramount importance in considering the amount of sugar which my Government may be in a position to buy next year. The various statements which I have read recently in the press lead me to wonder whether their authors may be indulging in wishful thinking, instead of basing their expectations on realities, however uncomfortable the latter may be.

¹⁶ José Agustín Martínez.

Certainly you may rest assured that your Government and my Government are doing and will continue to do everything humanly possible in this matter, but simultaneously you must bear in mind all of the numerous and difficult obstacles which we will have to overcome, such as the enormous and pressing call upon our shipping facilities to transport the soldiers and equipment of the United States and the other United Nations to the far-flung fighting fronts all over the globe. It is my personal belief that the transportation problem will not be solved in this part of the world for many many months to come and that it will deteriorate before it gets better. It is for these reasons that we have been unable so far to move to the United States and to our sugar-hungry allies the stocks which have accumulated in Cuba and for which we have already paid. It would seem prudent to take all these facts which I have mentioned today into consideration when making estimates for 1943."

My hearers included in addition to Sr. Amadéo López Castro and the Secretary of Agriculture,¹⁸ Dr. Ramiro Guerra and Dr. Delio Nuñez Mesa.¹⁹ The last two mentioned have been responsible for two of the most unjustifiable statements which have appeared recently, each maintaining that our purchases next year will be in the neighborhood of 4,000,000 long tons of sugar.

I shall further report on this matter as soon as the local industry has had an opportunity to consider my remarks on the subject.

Respectfully yours,

SPRUILLE BRADEN

837.61351/2962

The Secretary of State to the Ambassador in Cuba (Braden)

No. 698

WASHINGTON, September 25, 1942.

SIR: Reference is made to the Department's telegram No. 237 of May 7, 1942 authorizing you to inform the Cuban Government that estimated needs for Cuban sugar in 1943 by the United States and the United Nations would not exceed 3,600,000 short tons, including invert molasses and excluding local consumption, to the Department's instruction No. 504 of August 18, 1942²⁰ relating to alternate work programs in Cuba, and to other exchanges concerning next year's sugar problem.

It is believed on the basis of considerations set forth below that the maximum amount of sugar which Cuba would be warranted in producing for export purposes next year would be 2,600,000 short tons. You are, therefore, requested to deliver a memorandum to the Cuban Government along the lines indicated in the enclosure.²⁰

¹⁸ José M. Santos Burgo.

¹⁹ Member of the Cuban House of Representatives.

²⁰ Not printed.

For your own information only, you are advised that the Food Requirements Committee has determined that "our requirements for sugar from the offshore areas should be established at the quantities permitted by the use of such shipping facilities as are available after providing for our shipping needs for more critical commodities". On this basis, our shipping authorities estimate at the present time that from 2,000,000 to 2,240,000 short tons of sugar may be lifted in Cuba next year for the United States, including re-exports to other United Nations. It may be observed that the lower figure of 2,000,000 exceeds by about 800,000 short tons the quantity which could be moved on the basis of the shipping schedule for the remainder of this year and envisages, therefore, additional shipping facilities for sugar in 1943. Direct exports to countries other than the United States might range from none at all to possibly 448,000 short tons, the quantity which it is estimated by the British Food Mission may be taken by the United Kingdom, Canada, and other countries.

In presenting the attached memorandum to the Cuban Government, you are authorized to say orally that this Government appreciates the problems which may arise from the reduction in the crop. You may add that this Government stands ready to examine, with the appropriate Cuban authorities, measures of cooperation to maintain the amount of economic activity which may be considered necessary to take up this slack.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.61351/3340

The Ambassador in Cuba (Braden) to the Secretary of State

No. 1156

HABANA, September 30, 1942.

[Received October 3.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 698 of September 25, 1942 and to state that pursuant thereto the memorandum ²¹ placing our maximum sugar requirements from Cuba in 1943 at 2,600,000 short tons was handed to the Minister of State by Mr. Briggs on September 29. (I was unable personally to deliver this document inasmuch as I was confined to my house with tonsilitis.)

As will be observed from the enclosed memorandum ²¹ of Mr. Briggs' conversation with Dr. Martínez, the Minister expressed himself in a

²¹ Not printed.

highly pessimistic vein, and it is obvious that we must anticipate, at the least, great opposition on the part of the Cuban Government to the sale to us of what they consider an inadequately small amount.

Likewise enclosed is a memorandum²³ of a conversation yesterday between Mr. Briggs and Dr. Mañas which throws further light on the probable attitude of the Cuban Government, and in particular on the difficult situation in which the Prime Minister has placed himself by his recent public statements encouraging the Cuban people to believe that another 4,000,000 long ton crop is a practical possibility.

Respectfully yours,

For the Ambassador:
ELLIS O. BRIGGS
Counselor of Embassy

837.61351/3417

The Ambassador in Cuba (Braden) to the Secretary of State

No. 1344

HABANA, October 23, 1942.

[Received October 27.]

SIR: I have the honor to enclose a memorandum²⁴ of a three-hour meeting yesterday evening with Prime Minister Zaydín, Minister of State Martínez, Sr. Amadeo López Castro and Ambassador Concheso during which I explained in some detail why I did not believe it would be desirable for the Cuban Government to maintain its note of October 15 (please see despatch No. 1297 of October 17²³) as its official statement relative to the 1943 crop. Although President Batista had already volunteered to have the note withdrawn and had so informed the ministers prior to the meeting, I am glad to say that all of the Cubans present expressed themselves at the end of the meeting as satisfied that in all the circumstances the maintenance of this note could only impair the prospects for successful sugar negotiations in Washington.

Unless he changes his mind, (which I regard as improbable) Prime Minister Zaydín will head the Cuban delegation, which will also include Sr. Amadeo López Castro. I expect that Dr. Mañas will be named and I shall take the occasion to express the hope that he is a member of the group since I have found him unfailingly helpful and practical in his approach to the problem.

²³ Not printed.

²⁴ Not printed; Ambassador Braden stated the position of the United States and indicated his success in persuading the Cubans to withdraw their note described as provocative and unsatisfactory.

I shall report further as developments occur. No date has thus far been mentioned for the departure of the delegation for Washington.

Respectfully yours,

SPRUILLE BRADEN

837.61351/3342

The Secretary of State to the Ambassador in Cuba (Braden)

No. 851

WASHINGTON, October 26, 1942.

SIR: Reference is made to your despatch No. 1183 of October 3, 1942²⁵ in which you raise a number of questions with regard to the 1943 Cuban sugar crop.

"Purchase"

In the second paragraph of your despatch you raise the question whether it is necessary to negotiate a purchase. Instruction No. 698, September 25, 1942 authorized you to inform the Cuban Government that the maximum amount of sugar Cuba would be warranted in producing next year for export purposes would be 2,600,000 short tons. It did not say that "our probable maximum sugar purchase in 1943" would be 2,600,000 short tons (first paragraph of your despatch 1183), nor was mention made in the Department's telegram No. 237 of May 7, 1942 of a 1943 "purchase". While the purchase of next year's crop has been discussed with other interested agencies of the Government as a possible procedure, no decision has been made, as you will observe from the second paragraph of our instruction 698 and the fourth paragraph of the memorandum enclosed with the instruction, which you were authorized to deliver to the Cuban Government.

Blackstrap

The Department and other agencies of the Government concerned have long been in full agreement with regard to blackstrap in 1943. There is no intention to make any commitment at this time with regard to 1943 molasses.

Consumption Estimates

The Department is pleased to furnish you for your own confidential information only the following tentative estimates and schedules: The estimate of United States consumption of sugar in 1943 reached by the responsible agencies of the Government, including rationing authorities, is 5,411,000 short tons. To supply this amount and to build up if possible the present stockpiles, the Government counts

²⁵ Not printed.

upon a continental crop of 2,100,000 to 2,400,000 short tons and shipping schedules from off-shore areas estimated very roughly and tentatively at this time as follows:

Cuba	2, 000, 000	to	2, 240, 000	short tons
Puerto Rico	392, 000	to	448, 000	short tons
Hawaii	785, 000	to	896, 000	short tons
Other	34, 000	to	56, 000	short tons
	<u>3, 211, 000</u>		<u>3, 640, 000</u>	short tons

It is highly possible, however, that war developments may dictate a very radical revision of these tentative shipping schedules.

Additional Production over Requirements

Officials in Washington are giving special attention to the economic problems which the Cuban Government alleges would arise from a crop restricted to estimated requirements alone. One of the possible solutions which has been examined is a financing arrangement wherein the risk for the production of additional sugar would be borne by the producers. In this connection, reference is made to the last paragraph of the Department's instruction 698 in which you were authorized to state orally to the Cuban Government that this Government is ready to examine with the appropriate Cuban authorities measures of economic cooperation.

Storage

The Department is in complete agreement with you with regard to the burden of the cost of storage of unshipped 1943 sugars. In this connection it may be of interest to you to know that Dr. Oscar Albertini,²⁷ in speaking with officers of the Department on the alleged necessity for Cuba to produce a crop well in excess of that which is warranted by requirements, has stated very emphatically that the United States should have no misgivings about storage. The producers, he asserted, will find storage if that is the price for a larger crop.

Negotiations

The Department has reached the conclusion after giving the matter considerable thought that the negotiations should be handled in Washington. It is important that you give the Department at least two weeks' notice of the coming of the Cuban negotiators and of the make-up of the group.

Please also keep the Department currently informed of any problems such as the number of bags per sling and such items for which

²⁷ Representative of the Cuban Sugar Institute.

you believe the negotiations should furnish an opportune occasion to reach a solution.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.61351/3439 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, November 4, 1942—7 p. m.

1091. With reference to the proposal of the Cuban Government to send a group to Washington to discuss the 1943 crop, you are authorized to inform the Cuban Government that this Government will be prepared to initiate the conversations about November 12 or any time thereafter when it may be convenient for the Cuban officials to arrive.²⁸

Please notify the Department as soon as possible of the composition of the group and their expected date of arrival.

HULL

837.61351/3536a

*Proposal by the Department of State Concerning the 1943 Cuban Sugar Crop*²⁹

On Saturday, December 5, representatives of the United States Commission submitted to the Cuban Commission, a price of 2.65 cents per pound of raw sugar delivered into ocean carrier, all charges paid, this figure to include all Cuban taxes. This price would be applicable to 2,500,000 short tons of Cuban raw sugar to be produced in 1943, and was submitted subject to certain basic terms, the principal of which are as follows:

Size of crop

(a) The size of the crop is to be limited to 3,225,000 short tons of raw sugar, of which 2,500,000 tons would be purchased by Commodity Credit Corporation; 500,000 tons would be held in Cuba for a United Nations stockpile, as outlined below and, 225,000 tons would be produced for local consumption in Cuba.

(b) The 500,000 tons for the United Nations stockpile would be produced by Cuban producers at a figure to be negotiated between the Cuban Government and the producers without any participation by the United States.

²⁸ The conversations were begun in Washington on November 23 and continued through December; thereafter negotiations were continued in Cuba.

²⁹ Handed to the Cuban Commission on December 8, 1942.

The United States Government will contribute 1 cent per pound, the balance to be contributed by the Cuban Government and the sugar industry. The 1 cent per pound would be payable against presentation of warehouse receipts. Title to this stockpile sugar would be vested in a joint United Nations instrumentality, which would exercise jurisdiction of its final disposition as a relief undertaking.

Price

(a) The price which Commodity Credit Corporation has agreed to pay the Cuban Sugar Institute for the 2,500,000 short tons of raw sugar has been fixed at 2.65 cents per pound, delivered into ocean carrier, all charges paid, basis northside ports, with existing differentials between north and southside ports to be seller's account. This price includes all Cuban taxes.

(b) The 2.65 cents per pound price would be a firm price and would not be subject to change.

(c) Polarization allowances would be based on the contract price.

Terms of Payment

(a) On 1943 sugar that is shipped, payments would be made in the amount of 95 percent of the 2.65 cents price, against 10 day drafts on Commodity Credit Corporation or its assignees, with customary shipping documents attached, the documents to be drawn in such form and shall be forwarded in such manner as Commodity Credit Corporation may direct.

(b) On 1943 sugar that is not shipped, Commodity Credit Corporation would make an advance of 90 percent of the 2.65 cents price on sugar in port warehouses and 80 percent on sugar at *batey* or other points. This advance would be made on October 1, 1943. Sugar that may be moved from *batey* to port warehouses after October 1, 1943, but which remains unshipped, would receive an additional advance of 10 percent of the 2.65 cents price upon presentation of port warehouse receipts.

(c) Warehouse and other costs shall be included in the price until January 1, 1945. After January 1, 1945 warehouse charges shall be for the account of Commodity Credit Corporation.

Shipping

(a) Conversations between the Cuban Commission and the United States Commission have disclosed complete agreement regarding the urgency of facilitating rapid loading of vessels. It is recognized by both parties that any other procedure would simply perpetuate difficult problem regarding the movement of Cuban sugar and moreover, would not be compatible with the vital interests of the United Nations in their joint war effort. The War Shipping Administra-

tion, in order to accelerate the turnaround of vessels, is rewriting its charter party, copies of which will be provided the Cuban delegation within a few days. The charter party will require longer hours of loading and a higher rate of demurrage.

(b) The Cuban Government on its part will take the necessary action to expedite loading by removal of the limitation on the number of bags loaded per day per gang; and by suspending other practices which now tend to delay the loading of ships.

Because of the uncertainties in demands of the war, the United States Government must reserve the right to send ships to any port and the sugar is to be placed at that port by the sellers upon receiving instructions from Commodity Credit Corporation. Vessels arriving laden may discharge at any port, sub-port, or *embarcadero* which an agency of the United States Government may direct.

General Terms

(a) Raw sugar would be released by Commodity Credit Corporation under certain conditions to Cuban refiners who have received refining allocations from the Cuban Sugar Institute.

(b) The 1942 crop purchase sugars will be moved before 1943 crop shipments are made unless Commodity Credit Corporation, in order to facilitate shipments should direct in specific situations to the contrary.

(c) Certain changes will be necessary in the terms for shipment of sugar to other than United States destinations.

(d) If the 1944 Cuban sugar crop is not purchased by an agency of the United States Government, the Cuban Sugar Institute will agree that shipments to the United States of new crop free sugar shall not exceed one-third of the total raw and refined sugar exports to the United States until such time as sugars previously purchased by an agency of the United States Government shall have been shipped.

837.61351/3536a

Proposal by the Department of State Concerning the 1943 Cuban Sugar Crop

[WASHINGTON,] December 17, 1942.

A. Since the determination of the size of the 1943 crop, the discussions have revolved about the problem of price. The criteria of the Cuban and the United States Commissions have been similar; namely, that the grinding of a crop is to furnish labor income, not employer profit. The United States Commission on this basis made the offer of 2.65¢ f.o.b. in the ship's hold, certain charges previously borne by this Government to be borne by the industry. This price, together with

1.00¢ per pound for 500,000 tons of relief sugar, would provide Cuba an income from sugar production of \$142,500,000.

B. The Cuban Commission, in its memorandum of December 11,⁸⁰ set forth arguments designed to demonstrate the inadequacy of this price on the conditions stipulated. The United States Commission has been glad to re-examine the proposed terms in the light of the Cuban contentions and to set forth the following terms, which, after several days of exhaustive study, represent the final conclusions of the United States Government.

C. Certain modified and new conditions have been prepared, which are set forth hereafter. It is estimated that they will provide additional benefit to the Cuban sugar industry to the extent of at least \$12,050,000.

MODIFIED AND NEW CONDITIONS

(1) The total crop for export remains the same (i.e., 3,000,000 short tons), but 2,600,000 tons will be purchased by the United States at 2.65¢ subject to the provisions stated below:

(2) The price of 2.65¢ is for sugar placed within reach of ship's tackle, if the Cuban Government informs us now by note that the following conditions will obtain by January 15, 1943:

(a) The number of bags that a ship's captain or barge operator calls for per sling will be the rate for the loading of that particular ocean carrier.

(b) Any limitations on the rate of loading of a ship or barge, other than those governed by charter party or by mutual agreement between the ship or barge operator and the shipper of the sugar, will be eliminated.

(c) In the rotation of stevedores in the loading of ships and barges, there will be no men included who fail to do average work.

(d) These changes are to apply to all sugar now purchased or purchased in the future by an agency of the United States.

These changes, which represent a vital contribution of Cuba to the war effort, will be the equivalent of a considerable, although not precisely measurable, increase in merchant shipping, with corresponding effect on the ability of the United States to expedite movement of commodities and war materials among the United Nations.

If the changes in existing practice described under paragraphs 2(a), (b), and (c) above have not been effected by January 15, 1943, the 2.65¢ price will be on the basis of f.o.b. in ship's hold; and article 3, paragraph (a), of the new West Indies Sugar Charter Party, of which a copy will be furnished, will be modified accordingly.

(3) The United States will contribute 1.50¢ to the production of the remaining 400,000 short tons for relief.

⁸⁰ Not found in Department files.

The changes under paragraphs (2) and (3) represent a minimum increase of income to Cuba of \$7,300,000.

(4) The 2.65¢ price will be adjusted to changes in United States ceiling price for raw sugar, subject to the following conditions:

(a) The first 0.22¢ increase which may occur in the United States ceiling price will not be applied to the Cuban price;

(b) No increase in the ceiling price effective after May 31, 1943 will apply to the Cuban price.

(c) Any increase in the domestic ceiling price which may be applicable to the Cuban price will apply only to that portion of and sugar made subsequent to the effective date of the price ceiling change.

(5) The Commodity Credit Corporation will make the 80% and 90% advances on sugar at *batey* and port warehouses, respectively, as agreed to, on June 1, 1943 instead of on October 1, 1943. This will represent a net saving in interest on pignorated sugar, according to the Cuban memorandum of December 11, 1942, of about \$1,500,000.

(6) The Defense Supplies Corporation will purchase up to 75,000,000 gallons of the exportable surplus of the 1943 production of blackstrap molasses at ¼¢ per English pound of blackstrap molasses having a minimum sugar content of 52%, delivered f.o.b. ocean-going vessel at ports of shipment acceptable to an appropriate agency of the United States Government.

This purchase will increase the income from the crop by about \$2,250,000.

(7) On March 1, 1943, the Commodity Credit Corporation will pay over to the Cuban Sugar Stabilization Institute \$1,000,000 as a fund to defray excess cost of moving sugar from *batey* to ports other than natural shipping ports, which movement will be undertaken by the producer on direction of Commodity.

The Institute will draw on buyers for a portion of the value of each shipment (for example, 10 points). The proceeds will be placed in the same fund with the \$1,000,000 and utilized for the same purpose.

If the extra transportation costs in connection with movements to other natural ports should exceed the fund, the producers will be expected to pay the excess. If these costs are less than the fund, the surplus funds may be prorated among the mills when all of the 1943 crop has been exported from Cuba.

The net increase of income to Cuba under this proposal is therefore at least \$1,000,000.

(8) The Cuban producers will be expected to bear the cost of warehousing and insurance of unshipped sugars.

(9) The previously stipulated conditions for the sugar transaction, insofar as they are not affected by the foregoing modifications and conditions, remain as set forth in the memorandum delivered to the Cuban Commission on December 8, 1942, a copy of which is attached.^{30a}

^{30a} *Supra.*

(10) The United States Commission has heard with pleasure from the Cuban Commission that the Cuban Government will maintain the same level of wages in the sugar industry throughout the grinding season except as affected by an increase in price which may result from the operation of the arrangement described under paragraph (4) above, since the United States Government has given its contribution of 1.50¢ per pound on the 400,000 ton stockpile for the payment of wages at the same levels previously prevailing.

837.61351/3536a : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, January 9, 1943—9 p. m.

50. Reference the Ambassador's telephone conversation with Duggan and Walmsley. Our views may be summarized as follows:

1. On December 17 the United States Commission presented to the Cuban Commission a definite detailed proposal regarding the 1943 Cuban sugar crop. During the ensuing 2 weeks discussions occurred out of which emerged two modifications, which were communicated to the Cuban Commission on January 1. On the following day the Under Secretary reaffirmed the proposal as amended.

2. The Cuban Commission was clearly given to understand that this was the maximum arrangement that this Government was prepared to enter into.

3. The Cuban Commission returned to Habana after informing us that it was going to consult with its Government in order to obtain its Government's decision concerning our final proposal.

4. Your conversations with the Prime Minister have been of the greatest help in the sense of bringing out the probable reaction of the Cuban Government to our proposal.

5. Consistent with our understandings with the other agencies, however, we do not feel that the provisions of our proposal are subject to continuing negotiation. It is believed that the Cuban Commission itself left Washington with the impression that our proposition was final after talking with the Under Secretary. What we now await, therefore, is the decision of the Cuban Government as to the acceptability of our final proposition. We are prepared to start the negotiation of the contract immediately upon advice by the Cuban Government that the proposal is accepted.

6. While the Department and the other cooperating agencies believe we have gone as far as we can to meet the undefined Cuban

desires, and are not disposed to enter into negotiations for modification of the proposal as finally presented, they do not, of course, exclude the possibility of rectifying any points of minor detail which may come up in the course of the discussion of the terms of the contract.

In résumé, what we would like to have now from the Cuban Government is a clear decision whether the proposal as presented is accepted, so that the drafting of the contract can be started at once.

For your strictly confidential information and not to be communicated to the Prime Minister, the Department is prepared to recommend to the other agencies the following modifications in our proposal:

a. An agreement to carry warehousing costs and insurance costs of unshipped sugar after June 30, 1944. The other agencies will undoubtedly insist upon and the Department may feel obliged to agree to a date of December 31, 1944, since that date was in fact used in an earlier draft of the contract.

b. A modification of point (d) of the General Terms in our memorandum of December 8, 1942 in the sense that the two Governments will consult together along the lines suggested by you in your telephone conversation.

The other two suggestions of the Prime Minister are not of a character which we would like to take up with the other agencies. With regard to inland transportation it would not be proper for this Government to be a party to an arrangement of possible prejudice to the interests of a legitimate United States interest in Cuba, namely, the Consolidated Railroads. The Cuban Government has the jurisdiction and faculties to adjust railroad freight rates at all times and is at complete liberty to act in this regard.

With regard to the proposal on the stockpile, the BEW has clearly and definitely indicated its unwillingness to increase the contribution to the stockpile. The Department perceives no reason why the proceeds from the purchase of molasses could not be dedicated to the cost of the stockpile, particularly since the purchase of this molasses represents to Cuba totally unexpected income.

HULL

DISCUSSIONS CONCERNING THE PROBLEMS ARISING FROM STRINGENCY IN SHIPPING BETWEEN THE UNITED STATES AND CUBA

800.8836/699a

The Secretary of State to President Roosevelt

WASHINGTON, January 22, 1942.

MY DEAR MR. PRESIDENT: During the summer of 1941 the Seatrains Lines, carrying freight cars in an ocean service between Gulf

ports, Habana, and New York, placed two of its five vessels at the service of the Maritime Commission. The Seatrain service has for many years been an integral part of the transportation system between the United States and Cuba.

The importance of this service to Cuba is demonstrated by the fact that in December 1941 one-fifth of all imports by Cuba from this country and about one-third of the exports from Cuba to the United States were carried by Seatrains. Among the export cargoes from Cuba which move in this manner are strategically essential sugar, molasses, ores, minerals and scrap metals. The Seatrains are loading their capacity of about 90 to 105 American freight cars per trip. This means a very fast turn around and a considerable economy of relatively scarce labor.

The Department understands that the withdrawal of the remaining Seatrains is about to be recommended to you for approval. It may be that the exigencies of the national defense will require the use of these vessels for the specific purposes for which withdrawal will make them available. However, the service is not only vital to Cuban economy but is highly important to the United States. Defense ores and large quantities of sugar and molasses contracted for by the Federal Loan Agency and which cannot otherwise be transported are involved, as well as the distinct disturbance to the whole economy of Cuba.

Faithfully yours,

CORDELL HULL

800.8836/701

The Cuban Chargé (Barón) to the Secretary of State

[Translation]

WASHINGTON, January 26, 1942.

EXCELLENCY: Complying with instructions from my Government, I have the honor to write to Your Excellency, to refer to the withdrawal which has been made by the corresponding authorities of the steamship *Florida* of the Peninsular and Occidental S.S. Co., and of the steamship *Shawnee*, of the New York and Cuba Mail S.S. Co., from their respective runs—Miami—Habana and New York—Habana.

The steamship *Florida* has been replaced on the Miami—Habana run by the said Company's steamship *Cuba*, which previously operated on the Habana—Key West—Tampa run, on which no steamer has been left. The result is that tourist traffic, as well as the Commercial traffic which this route maintained, chiefly for the transportation of tobacco and vegetables—very heavy at this time of year—is suffering greatly.

Also, the withdrawal of the steamship *Shawnee* limits the possibility of exporting Cuban vegetables to the port of New York.

Both the Association of Fruit and Vegetable Growers and Exporters of Cuba and the National Tourist Corporation of Cuba have written to the Government, requesting that it use its good offices with Your Excellency's Government to the end that the United States Maritime Commission may seek to obtain some vessel which can reestablish traffic on the Habana-Key West-Tampa run and that the steamship *Shawnee* be returned to the New York-Habana service as soon as possible.

Although I recognize the urgency of war needs, and that the withdrawal of the two vessels mentioned is due to that, I shall appreciate it if Your Excellency, should you consider it proper, would be good enough to recommend to the Maritime Commission that it do whatever is possible to remedy the situation created, in the manner it considers most advisable.³¹

Please accept [etc.]

JOSÉ BARÓN

800.8836/700

President Roosevelt to the Secretary of State

WASHINGTON, January 27, 1942.

MY DEAR MR. SECRETARY: Careful consideration has been given to your letter of January 22, 1942, with regard to the vessels operated by Seatrain Lines between Gulf ports, Havana and New York, there being five (5) special design of ships under operation by this company, two (2) of which were taken by the Maritime Commission and turned over to the Navy Department for the necessary conversion and use for essential national defense purposes.

You, of course, are aware that this subject is a matter falling under the statutory cognizance of the Maritime Commission in accordance with Section 902 of the Merchant Marine Act of 1936, as amended.

I am advised that voluminous correspondence has already taken place between the Owner of the Line and the Maritime Commission so that all of the facts are available and these in turn have been made available to both the Navy Department and the War Department. During the past six months the question has been repeatedly considered by the Maritime Commission and the Navy Department of taking over either one, two or three of the remaining vessels. After

³¹ The Chairman of the United States Maritime Commission, Emory S. Land, in a letter of February 12, 1942, in reply to a communication of February 7, 1942, from the Department of State (neither printed), held out little hope for any alleviation of these difficulties (800.8836/722).

repeated investigations and discussion of the subject, the Navy Department finally relinquished its claims to these three (3) vessels, not because they could not utilize them satisfactorily but because of the commercial conditions existing which made it appear more desirable to retain them in commercial use rather than divert them to special Naval use.

In the meantime, December 7th occurred and the necessity of additional ships far beyond those available either under American flag or under American control became more and more evident. Specifically, the War Department has definite military uses for these three (3) vessels but in order not to seriously hamper commercial activities whenever and wherever it can be avoided, the present general status of the matter is to take these remaining three (3) vessels one at a time and then only if urgent military requirements necessitate such action.

It is of interest to note that this design of ship has many advantages for both commercial and military work but unfortunately some of the important advantages are entirely dependent upon shore installations, and the commercial operations of these vessels require primary utilization at those ports only where exist the particular port facilities essential to efficient handling of the cargo containers primarily utilized in their operations. This being true, it is necessary for the Navy to install cargo-handling devices on the ships themselves which the Navy took over and some similar modifications and installations will have to be made if and when any of the remaining three (3) vessels are taken over by the Army. Present investigations indicate that less elaborate conversions and installations will be necessary for Army purposes than have obtained for Navy purposes.

In conclusion, please be assured that full consideration has been and will be given to this matter and it is my understanding that final action will not be taken with regard to the remaining three (3) vessels until it is evident that the necessities of national defense require such action.

Very sincerely yours,

FRANKLIN D. ROOSEVELT

800.8836/740

*Memorandum of Conversation, by the Adviser on Political Relations
(Duggan)*

[WASHINGTON,] February 12, 1942.

The Ambassador³² informed me that the service of the United Fruit Company between New York, Habana, and Central America

³² The Cuban Ambassador, Aurelio F. Concheso.

had been totally suspended; also that the sailings of two of the four ships of the Fred Olsen Line from the north Pacific to Cuba via the Panama Canal had been discontinued. Moreover, it was rumored that the last ship in the service between Miami, Habana, and Tampa was to be removed. He said that this situation was going to create havoc in the movement of Cuban products, particularly fresh vegetables.

I telephoned Mr. Wilcox in the Maritime Commission who confirmed the foregoing³³ and added that the two remaining ships of the Seatrain Line were going to be put into service between New Orleans and Habana in lieu of New York and Habana. In this way they could make more sailings. He said that to move the sugar crop arrangements had been made for 75 to 80 thousand tons of shipping of which 50% would move to the east coast and 50% via New Orleans. On the southbound trips these ships would be available to carry cargo to Cuba. With regard to the carriage of Cuban vegetables, he admitted that the situation was going to be bad. He explained to me once again the reasons for the withdrawal of this shipping.

I told the Ambassador frankly that it had been necessary to remove the ships for military reasons; that Cuba, however, was not suffering any more than the other American countries; and that everything that could be done would be done to insure sufficient ships to move Cuba's imports and exports.

The Ambassador took the information as well as might be expected but naturally left very unhappy over the prospective situation.

800.8836/738 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, March 3, 1942—10 p. m.
[Received March 4—1:08 a. m.]

100. My telegram No. 95, February 28, noon.³⁴ The Minister of State³⁵ has expressed great concern over the maritime transportation problem. During a lengthy conversation this morning he made the following points:

1. That reports from Concheso are "altogether discouraging" notwithstanding sympathy with which the Ambassador has been

³³ A marginal notation at this point reads: "Not withdrawal of ship in Habana-Miami run."

³⁴ Not printed; in this telegram the Chargé reported that the Ward Line had no vessels for the southbound trade and suggested that the sugar ships bring cargo on their return trips to Cuba (800.8836/737).

³⁵ José Manuel Cortina.

received and the good faith of our Government which Cortina emphasized he did not for a moment question.

2. Because of Cuba's nearness to the United States and the traditional relationship between the two countries special consideration of Cuba's minimum requirements ought not [*sic*] to be accorded. Cuba has virtually no merchant marine and has always confidently depended on the United States.

3. The Cuban people cannot understand why if vessels can be sent for our requirements (sugars and scrap for example) Cuba's requirements should receive less attention.

4. Cuba has cooperated to the fullest extent possible as witness the delivery to us of the former Finnish vessel *Kou* "which is now not even being used in Cuban-American trade".

5. Unless Cuba's vegetable crop (peak this month) can be moved, hundreds of small Cuban producers will suffer disastrous losses.

6. Public opinion is becoming very difficult to control and our enemies are capitalizing the situation (in conjunction with the general military situation) and saying that if the United States is unable even to provide adequate transportation between Cuba and the United States this proves our inability in other directions, et cetera.

I, of course, endeavored to pacify the Minister but it is obvious that he feels very strongly on the subject and not improbable that López Castro³⁶ has been instructed to express these views during his forthcoming visit to Washington.

While the situation from the point of view of Cuba is far from satisfactory, I doubt whether any substantial losses have yet occurred through failure to move Cuban products (such losses will however become inevitable this month unless relief is afforded). The passenger situation is extremely difficult, present facilities being confined to Pan American Airways. Inadequacy of southbound freight service has thus far caused inconvenience rather than loss. I do not believe, however, that the Minister exaggerated the extent of public feeling or the capital which our enemies here are attempting to make of the situation. The Habana newspapers are clamouring daily for more shipping.

If it is possible to do so, I think it would be helpful if a statement could be made to Concheso or López Castro in sympathetic terms outlining what we may be in a position to do in the immediate future and in particular making some assurance with regard to moving the March vegetable crop.

BRIGGS

³⁶ Cuban Secretary of the Presidency.

800.8836/745 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, March 9, 1942—1 p. m.
[Received 3:13 p. m.]

115. My telegram No. 100, March 3, 10 p. m. The Embassy has carefully investigated the Habana maritime shipping situation alleged by the Ministry of State and has ascertained that while facilities for winter vegetables were inadequate during the week ended February 28 when from 10,000 to 15,000 crates were short shipped of which a part had to be dumped, facilities last week, when the Ward Line had two and the car ferry four northbound sailings, were not only adequate but the Ward Line steamer which sailed on March 5 had refrigerator space for 14,000 more crates of tomatoes than were actually shipped. (The Embassy has been informed that failure to use all the space available last week was due to unfavorable New York tomato market.)

The Ward Line expects to have one and the car ferry six weekly northbound sailings during the remainder of March so that the balance of Cuba's winter vegetable crop, whose peak season terminates this month, should apparently be moved without further serious difficulties.³⁷

A memorandum setting forth the above was transmitted to the Foreign Office today. Copy by airmail.³⁸

BRIGGS

811.20 (D) Regulations/6234 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, April 1, 1942—11 a. m.
[Received 3:45 p. m.]

163. For Scherer.³⁹ Unless a supply of newsprint reaches Habana early next week most of the newspapers in Cuba will be forced to cease publication. With the exception of *Marina*, all Habana papers have drastically reduced the number of pages. *Mundo* now publishes only one edition greatly reduced in size and has stopped its circulation in the eastern half of Cuba. The Reciprocal Trading Company here which sells newsprint to all of the large Habana newspapers and to the principal papers in the interior has supplied the following

³⁷ In telegram No. 135, March 17, 1 p. m., the Chargé reported continued improvement in the northbound shipping situation (800.8836/752).

³⁸ Not printed.

³⁹ George F. Scherer of the Division of the American Republics.

information which the Embassy considers accurate and which checks with estimates obtained from other sources :

(1) Fourteen Habana newspapers consume a total of 77 rolls of newsprint per day. As of yesterday their combined stocks consisted of about 362 rolls. Some newspapers have no newsprint whatever and are maintaining restricted publication by the purchase of a few rolls on a daily basis from other newspapers still possessing small stocks.

(2) Of the four principal provincial newspapers, three are now without newsprint and the fourth has a supply for about one week.

(3) Of the three largest weekly magazines published in Habana, two have no paper whatever and one has enough for only two more issues.

Publishers and editors are naturally greatly concerned and many believe that our Government is not making a serious effort to help them. Ships continue to arrive in Habana from New York with general cargo but no newsprint and publishers cannot understand why, if no space for newsprint is available on vessels from New York, it cannot be arranged to transport supplies of newsprint by railroad freight to a Florida port for transshipment by car, ferry, or otherwise ; it is, of course, highly important in terms of our good offices in Cuba that local newspapers not be forced to suspend publication due to our inability to arrange shipment of minimum necessities of newsprint from the United States. Publishers have exercised considerable patience thus far but always on the assumption their minimum needs will be met.

BRIGGS

800.8836/777

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3904

HABANA, April 25, 1942.

[Received April 27.]

SIR: I have the honor to enclose a copy of a memorandum dated April 25, 1942,⁴⁰ prepared by the Commercial Attaché, regarding certain difficulties which had arisen in connection with the shipment to the United States of this year's Cuban pineapple crop.

It will be noted that complaints had been made against the Florida East Coast Car Ferry Company on the ground that certain shippers were not being supplied with adequate shipping space, and that this matter appears to have been satisfactorily settled by the allocation of additional cars to the shippers in question.

It is encouraging to note that in spite of the scarcity of shipping facilities, Car Ferry officials estimate that barring unforeseen con-

⁴⁰ Not printed.

tingencies, their line, together with the Seatrain Lines, Incorporated, will be able to move roughly 830,000 crates of pineapples this season, which would be only slightly less than the 843,392 crates which they state were shipped via all lines during the 1941 season.

Respectfully yours,

ELLIS O. BRIGGS

800.8836/829

*Memorandum of Conversation, by Mr. George F. Scherer of the
Division of the American Republics*

[WASHINGTON,] May 1, 1942.

Participants: Mr. Morse, War Shipping Administration
Mr. Acheson, Assistant Secretary
Mr. Duggan
Mr. Collado ⁴¹
Mr. Corbett ⁴²
Mr. Scherer

Mr. Morse stated that he had come to the Department to give a complete picture of a situation that is about to arise with regard to shipping to Cuba.

According to Mr. Morse, the Navy has requested and will obtain in the very near future the two car ferries plying between Port Everglades and Habana, and carrying 26 cars on a six-day per week schedule. These vessels appear to be ideally suited for work as mine layers.

The remaining service by which railroad cars are carried between the two countries, consists of two vessels of the Seatrain Lines, Inc., at present running on a one-trip per week schedule between New Orleans and Habana. The President of these lines has proposed that the New York terminal facilities be transferred to Boca Grande, Florida, and that one of the remaining vessels be transferred to a route between that city and Habana. Mr. Morse stated that this possibility had been carefully investigated by the Seatrain Lines, and that it appears entirely practicable. It was estimated, for example, that some 710,000 tons of sugar alone could be moved to the United States annually, by means of one Seatrain of this route.

Mr. Morse spoke of the request made by the War Department for the two remaining vessels.

⁴¹ Emilio G. Collado, Executive Secretary, Board of Economic Operations of the Department of State.

⁴² Jack C. Corbett, Assistant Executive Secretary, Board of Economic Operations.

The unfortunate effect on Cuba was touched upon and it was determined that the Department would present its views to the War Shipping Administration for use in discussing the matter further with the War Department. The approach would be to determine, if possible, the minimum import tonnage to Cuba from the United States, covering her essential needs, below which minimum it would be difficult to go without serious repercussions.

Shipping facilities to move this minimum tonnage would probably require either the retention of a car ferry or Seatrain service, or the substitution of other adequate service.

A telephone request was made of the Embassy at Habana for an estimate of minimum tonnage requirements on an annual basis.

800.8836/790 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, May 14, 1942—8 p. m.

[Received 11:50 p. m.]

312. Pineapple shipping situation described in Embassy's airmail despatch no. 3982 of May 9⁴³ has become increasingly serious as car ferries are still immobilized and as agent has been notified that Navy proposes to take over the two vessels immediately.

As car ferries are only remaining means of shipping perishables their loss would make it impossible to ship balance of Cuban pineapple crop, the approaching avocado and the grapefruit crops, the next winter vegetable crop not to mention chilled beef and other perishables. This would spell ruin to many hundred of small Cuban growers who are dependent upon the American market, and the adverse effect on Cuba's economic structure and morale would be difficult to overestimate.

In addition to perishables car ferry has been handling large and increasing percentage of north and south bound general cargo as well as mail and express shipments.

BRIGGS

800.8836/797 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, May 23, 1942—4 p. m.

[Received 7:32 p. m.]

336. Embassy's telegram No. 312, May 14, 8 p. m. Local agent of car ferry has just been notified that ferries will be delivered to Navy

⁴³ Not printed.

on arrival at Port Everglades and will make no further trips. This of course is very serious blow to Cuba's economy and in my opinion renders it imperative that the sea service not only be maintained but the transfer of its operations to Boca Grande, Florida, be urgently undertaken. Also if possible return by War Department of sea-trains to this latter service now becomes of utmost importance.

BRADEN

800.8836/856a : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, July 20, 1942—5:10 p. m.

A-21. The Department is informed that the War Department now contemplates the removal of the Seatrain *New Jersey* from United States-Cuban service.

However, arrangements are being completed for the transfer at the expense and risk of the Seatrain Lines of the Seatrain terminal facilities from Hoboken to Port Everglades, Florida, to accommodate the Seatrain *New Orleans*, which will inaugurate a service to Cuba, from that port. This transfer would not, of course, preclude the removal of the Seatrain *New Orleans* for use by the armed forces should circumstances warrant.

HULL

800.8836/872 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, July 28, 1942—6 p. m.

[Received 7:47 p. m.]

617. I received a visit today from the Governor of Habana and the Mayor of the Isle of Pines regarding the difficult situation confronted by Isle of Pines grapefruit growers who have been informed that the United States Government has refused to authorize further importations of fresh fruit from Cuba.

These growers, many of whom are Americans, had, the Governor stated, just succeeded after considerable difficulty and on their own initiative in making arrangements for the shipment of the crop by schooner to Florida and inability to effect shipment will spell ruin to many of them who are dependent upon the crop for their livelihood.

I would appreciate it if the Department would inform me whether the above reports are correct and whether any remedial action is possible.

BRADEN

800.8836/872 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, August 7, 1942—11 p. m.

606. Refer your 617, July 28. War Production Board advise that upon application they will grant exemptions from M-63⁴⁴ to import Isle of Pines grapefruit. It is expected that grapefruit will be removed from the M-63 List when next amendment is printed.

HULL

800.8836/933 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, August 19, 1942—1 p. m.

[Received August 21—1:45 p. m.]

A-84. Referring to Department's telegram no. 606 of August 7, 11 p. m. and instruction no. 494 of August 15⁴⁵ regarding shipments of Isle of Pines grapefruit it is desired that War Production Board grant exemption from Order M-63 immediately for 8,000 crates to leave Habana August 26 on last voyage of one Seatrain vessel. Refrigerator cars for this purpose already are in Habana. Prompt action essential in order that fruit may be in Habana for loading before date mentioned. Cuba Representative War Shipping Administration⁴⁶ concurs in this recommendation.

BRADEN

800.8836/933 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, August 24, 1942—11 p. m.

716. Your A-84, August 19, 1 p. m. An exemption to General Imports Order M-63 will not be granted for the importation of grapefruit on one of the Seatrain vessels. The War Production Board does not want grapefruit to move by seatrain since it believes that such movement would prevent the shipment of more important com-

⁴⁴ General Imports Order M-63; 6 *Federal Register* 6796.

⁴⁵ Latter not printed.

⁴⁶ W. S. Loudermilk.

modities. The Board would give more sympathetic consideration to applications for exemptions permitting the importation of grapefruit if shipment were to be made on small steamers.

Since it is now evident that if grapefruit were removed from the lists of commodities covered by General Imports Order M-63 their movement would probably not be confined to small steamers, it appears likely that they will continue to be subject to the Order.

HULL

800.8836/946 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, August 26, 1942—1 p. m.
[Received August 28—10:10 a. m.]

A-112. Referring to Department's telegram No. 716 of August 24, 11 p. m., local office War Shipping Administration advises next Sea-train vessel will leave Habana with four cars canned pineapple instead of grapefruit in order to fill available space. Remaining 16 refrigerator cars here will carry canned pineapple if other products not available. Recommend exemption of grapefruit from Order M-63 for shipment on vessels of 1,000 deadweight tons or less.

BRADEN

800.8836/958a : Airgram

The Acting Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, August 31, 1942—7:05 p. m.

A-113. The normal imports of newsprint for Cuba have been approximately 1300 tons per month for all purposes, 300 tons of which have been used as wrapping paper. Due to the critical shipping situation, it is proposed that 700 tons be shipped monthly, which represents a 30 per cent reduction from normal imports for newspapers and magazines. The Department requests the Embassy to urge a curtailment in the number of editions and size of newspapers by 30 per cent. The Embassy's comments are requested.

WELLES

800.8836/946 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, September 5, 1942—4:10 p. m.

A-130. Your A-112, August 26. If higher priority cargo such as scrap, chrome, manganese, etc. is not available, the Stockpile and Ship-

ping Branch of the War Production Board would prefer having sugar rather than canned pineapple or grapefruit shipped on the Seatrain even in refrigerator cars. For your confidential information, the War Production Board is preparing an amendment which will place canned pineapple under General Imports Order M-63 so that imports of this product as well as of grapefruit will be controlled.

The War Production Board is prepared to grant exemptions to M-63 permitting the importation of grapefruit on vessels of 1,000 dead-weight tons or less.

HULL

800.8836/981

The Ambassador in Cuba (Braden) to the Secretary of State

No. 1024

HABANA, September 15, 1942.

[Received September 19.]

SIR: I have the honor to refer to my despatch No. 707 of August 13, 1942,⁴⁷ relative to certain suggestions made to the Cuban Government, at the instance of the Department, for more economic utilization and handling of vessels engaged in Cuban-American commerce, and to report that I took up this problem during a conversation with President Batista on September 11.

While I believe that the President is well disposed in principle, there is considerable reluctance to take action in matters which may involve opposition of Labor elements, such as increasing the per sling load of sugar bags or abandoning the newly established system of rotation for port workers in Habana. I again pointed out that not only was more efficient and expeditious handling of vessels necessary for our mutual war effort, but I said that a continuance of existing conditions would discourage authorities elsewhere from sending ships to Cuba when a quick turn around was required, thus labor was prejudicing itself.

I shall continue to press for favorable action on these proposals, but I anticipate that the Government may be somewhat reluctant to adopt our suggestions because of its unwillingness thus far squarely to meet the Labor issue.

Respectfully yours,

SPRUILLE BRADEN

⁴⁷ Not printed.

800.8836/1019

The Ambassador in Cuba (Braden) to the Secretary of State

No. 1432

HABANA, November 4, 1942.

[Received November 6.]

SIR: I have the honor to report that according to statistics compiled by the Reporting Section of the Embassy, exports from the Port of Habana to the United States, including shipments in transit to Canada, the United Kingdom, Mexico and Venezuela, totalled 74,657 long tons during the period October 14 to October 30, 1942, as against 25,272 long tons and 38,988 long tons, respectively, during the periods September 15 to September 29 and September 30 to October 13, 1942.

While the heavier shipments are, of course, partly due to an increase in available tonnage and to improved escort service, they are to a large extent the result of the well-directed and successful efforts of Mr. M. L. Wilcox, the Agent for the Caribbean Area of the War Shipping Administration, toward expediting the handling of vessels at this end and thereby speeding up their turn-around. As the Department is aware, Mr. Wilcox, who is ably assisted by Mr. W. S. Loudermilk, the Cuban representative of the War Shipping Administration, entered upon his duties here on October 1, 1942, succeeding Mr. Charles H. C. Pearsall.

Respectfully yours,

SPRUILLE BRADEN

800.8836/1013 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, November 4, 1942—8 p. m.

[Received 10:42 p. m.]

933. Personal for the Under Secretary of State. A decision appears to be imminent whether the Seatrain *New Orleans* will remain in service between Port Everglades and Habana or whether it will be withdrawn by the Army. The Seatrain *New Orleans* has recently made two voyages within 16 days handling virtually no southbound cargo; they have removed 978 American railway cars from Habana loaded with sugar and other merchandise. American cars in Cuba have thereby been reduced to minimum needed for continued service. If permitted to continue in the Port Everglades-Habana trade the Seatrain could if especially escorted by the Navy handle from 15,000 to 20,000 tons of cargo loaded in cars per month in each direction.

According to our information more barge and similar equipment is being assigned to the Florida Habana service which will result in the withdrawal of vessels suitable for handling northbound perishable commodities especially tomatoes, pineapples and other fruits and winter vegetables the exportation of which is essential to Cuba's economy. In addition the services of the Seatrain are particularly important in connection with southbound shipments of certain essential products which must be shipped in bulk in tank cars.

The Seatrain is a specially built vessel which is of doubtful utility for purposes other than those for which it is designed as was evidenced by the difficulties experienced here in its attempts to convert the Seatrain *Texas* to its uses (please see my letter to George Scherer of April 28⁴⁸ and subsequent correspondence regarding the Seatrain *Texas*).

According to my information the *New Orleans* is even less suitable for long voyages than the *Texas* due to overbearing fuel capacity, high fuel consumption and lack of speed.

In view of the above mentioned factors I feel justified in enlisting your personal intercession with the War Department and with the War Shipping Administration in favor of retaining the *New Orleans* in the Port Everglades-Habana service.

BRADEN

800.8836/1013 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, November 6, 1942—6 p. m.

1101. From the Under Secretary. Your 933, November 4, 8 p. m. I too appreciate the utility of the seatrain to Cuba. Nevertheless, the Army's experience with the seatrains, particularly in the movement of tanks, has been very good. The War Shipping Administration confirms this. It is true that these good results have been obtained with the faster seatrains. However, the War Department believes that it will have relatively good success with the seatrain *New Orleans* and in this the War Shipping Administration concurs.

Consequently, the War Department has warned the War Shipping Administration that the withdrawal of the *New Orleans* is imminent and has advised that agency to utilize the remaining time of this vessel in returning American railroad cars presently in Cuba to the United States. Once the total of these cars in Cuba has been reduced to a workable minimum and as long as the seatrain is permitted

⁴⁸ Not found in Department files.

to stay in the Port Everglades-Habana service, goods will be moved from the United States to Cuba by this vessel.⁴⁹

The War Shipping Administration is fully prepared to move the minimum Cuban import requirements. Thus far, the movement to Cuba has not been affected to nearly the same extent as has the movement of United States products to other American republics, which have been affected by a reduction in the northbound movement as well as by their distance from the United States.

In general, this Government has taken the position that the only reason for maintaining shipping to another area is to move the minimum import requirements and the strategic materials of that area. Non-essential imports from all areas have been stopped or reduced to a point where they present no real shipping problem. Where absolutely necessary, steps not involving the use of shipping have been taken to alleviate conditions in the areas most severely affected, but the over-all position of the economy of the country involved is considered carefully.

At present the Department is making known its views, which are readily recognized, that the seatrain *New Orleans* is an extremely useful vessel from Cuba's point of view, but I believe our guiding consideration in this case must be the opinion of the War Department as to the utility of this vessel from a military standpoint. [Welles.]

HULL

⁴⁹ The Seatrain *New Orleans* apparently continued to operate in the Cuban trade for some time.

DOMINICAN REPUBLIC

AGREEMENT BETWEEN THE UNITED STATES AND THE DOMINICAN REPUBLIC RELATING TO THE NON-INVOCATION OF CERTAIN PROVISIONS OF THE "MODUS VIVENDI" OF SEPTEMBER 25, 1924¹

638.3931/29

The Minister in the Dominican Republic (Warren) to the Secretary of State

No. 942

CIUDAD TRUJILLO, March 10, 1942.

[Received March 16.]

SIR: I have the honor to refer to the Legation's despatches no. 660 and no. 675 of September 23 and October 1, 1941, respectively,² referring to the Dominican-Haitian Commercial Convention which was signed in Port-au-Prince August 26, 1941.³

The Dominican press on March 6 announced that ratifications of this convention will be exchanged in Ciudad Trujillo at 10 a. m. on March 23, 1942. The Department will recall that by the terms of the convention, it shall be effective from the date of the exchange of ratifications.

The Legation has noted the Department's press release no. 76 of February 20, 1942⁴ in which the exchange of notes between the American Minister at Port-au-Prince and the Haitian Minister for Foreign Affairs was announced. According to its terms the United States has agreed not to evoke [*invoke?*] the pertinent provisions of the trade agreement of March 28, 1935⁵ for the purpose of claiming the benefit of reductions in customs duties which may be accorded by Haiti to the Dominican Republic in the Dominican-Haitian Convention. The Legation is aware that the Haitian imports upon which the Dominican Government has granted tariff concessions in the Dominican-Haitian Convention are of such nature there is little likelihood of any importations of importance of these articles from the

¹ For exchange of notes of September 25, 1924, between the United States and the Dominican Republic according mutual unconditional most-favored-nation treatment in customs matters, see *Foreign Relations*, 1924, vol. I, pp. 667-670.

² Neither printed.

³ *British and Foreign State Papers*, vol. CXLIV, p. 754.

⁴ Department of State *Bulletin*, February 21, 1942, pp. 174-175; see also *post*, pp. 460 ff.

⁵ For negotiations relating to the trade agreement between the United States and Haiti, see *Foreign Relations*, 1935, vol. IV, pp. 642 ff.; for text, see Department of State Executive Agreement Series No. 78, or 49 Stat. (pt. 2) 3737.

United States into the Dominican Republic. However, in view of the probability that some importations of these products will be made from the United States, the Legation would appreciate the Department's instructions as to the attitude which it should assume with reference to the unconditional most-favored-nation treatment to which the United States is entitled from the Dominican Republic as a result of the *modus vivendi* of September 25, 1924. It is to be assumed that American exporters and Dominican importers will request that they be granted the advantages of the Dominican-Haitian Convention with respect to the importations into this country of United States products on which the duty has been lowered by the present convention. On the other hand, it is to be expected that the Dominican Government will maintain that since the United States has not exercised its right as a most-favored-nation with Haiti with reference to this convention it should not exercise it with the Dominican Republic.

Respectfully yours,

For the Minister:

HALLECK L. ROSE

Second Secretary of Legation

638.3931/29 : Telegram

The Acting Secretary of State to the Minister in the Dominican Republic (Warren)

WASHINGTON, March 23, 1942—7 p. m.

84. Reference Legation's despatch 942, March 10. This Government does not intend to invoke most-favored-nation provisions of *modus vivendi* in respect of exclusive tariff reductions to Haiti specifically provided for in Dominican-Haitian Convention. However, a formal exchange of notes to this effect would be desirable, and you are therefore requested to propose such exchange to Dominican Government, to be effected, if possible, prior to exchange of ratifications of convention, or, if delay of latter can not be secured, shortly thereafter.

Meanwhile draft notes are being prepared here and will be forwarded as soon as possible.

WELLES

[Notes were exchanged between the United States and the Dominican Republic on November 14, 1942; for texts, see Department of State *Bulletin*, November 21, 1942, pages 953-954, Department of State Executive Agreement Series No. 274, or 56 Stat. (pt. 2) 1617. The notes were similar to those exchanged between the United States and Haiti relating to the same subject on February 16 and 19, 1942, Executive Agreement Series No. 238, or 56 Stat. (pt. 2) 1415.]

ECUADOR

COOPERATION BETWEEN THE UNITED STATES AND ECUADOR ON CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE¹

810.20 Defense/1891 : Telegram

The Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, January 10, 1942—8 p. m.

18. In view of the desire of the President that Salinas be used as an aerial base (your 18, January 6, 9 p. m.²) and inasmuch as signature of the cooperative defense agreement only awaits the approval of the President of Ecuador,³ to whom the text agreed upon with Dr. Tobar Donoso⁴ has been sent by the Ecuadoran Ambassador here,⁵ you are instructed to advise the President that representatives of the Navy Department have proceeded to Quito to discuss with him and the appropriate authorities of his Government arrangements for the establishment of an advanced air base for the operation of patrol planes at Salinas.

These negotiations will cover the selection of the site and the acquisition of the necessary property. The arrangement concluded by these negotiations would come under the terms and provisions of the cooperative defense agreement.

It is not desired that this Government appear as lessee or purchaser of the necessary site. All arrangements should be made in the name of the Ecuadoran Government which will be reimbursed for its reasonable expenditures, and will make the site available to our Navy on a basis of joint use and Ecuadoran cooperation.

The Department desires to impress upon you the extreme urgency of this matter.

HULL

¹ Continued from *Foreign Relations*, 1941, vol. VII, pp. 258-269.

² Not printed.

³ Carlos Arroyo del Río.

⁴ Ecuadoran Minister for Foreign Affairs.

⁵ Eloy Alfaro.

810.20 Defense/1934

The Minister in Ecuador (Long) to the Secretary of State

No. 2498

QUITO, January 15, 1942.
[Received January 19.]

Subject: Army or Navy or Both at Salinas.

SIR:

NAVY

Up to the writing of this despatch, January 15, 5 p. m., the instruction that I have from the Department is that the Navy is interested in establishing an advance Naval air base at Salinas and as we view it here everything has been done to facilitate the proper handling of whoever may come. (See Department's telegram No. 18, January 10, 8 p. m. and my reply No. 33, January 12, 2 p. m.⁶). Not only did Ecuador collaborate in sending to Salinas a representative of its Navy Department along with our Naval Attaché, but Captain Anda was given instructions to look carefully over the ground desired by our Naval Officers from Panamá, who visited Salinas on the 7, 8, and 9th of January.

The representatives of both navies (Captain Anda and Commander Greenacre) returned to Quito on January 14 and had an interview with the President which was satisfactory. He gave his approval to the plan after examining the map showing the land desired and reading a description thereof. To remove any possibility of misunderstanding I handed the President a confidential memorandum outlining the duties of each Government. See enclosure No. 1.⁷ He approved the procedure in principle.

Upon leaving the President we visited the home of the Defense Minister who had just returned from Cayambe, and reviewed the whole matter with him. Colonel Guerrero borrowed the outline map of the property to be used by our Navy, also the description, and while approving in principle, offered to go further into the matter upon returning from Salinas Friday. He also thought the outline of procedure satisfactory.

To both the President and the Minister we explained that the selection of lands as provisionally made by our Naval Officers from Panamá had been cut down by a couple of blocks by Captain Anda to avoid the removal of some rather substantial houses: we knew the land desired would not be less than indicated and it well might be more, depending upon military necessities.

⁶ Latter not printed; it indicated Ecuador's acquiescence (810.20 Defense/-1892).

⁷ Not printed. According to its terms Ecuador was to obtain the land, remove all buildings, and cooperate in maintaining the base by issuing police regulations; the United States was to build the base and compensate Ecuador for its expenses.

Thereafter my telegram No. 37 of January 14, 9 p. m.⁹ was despatched.

The President inquired as to its size and about when the Navy contingent would be reaching Salinas and we informed him that we were not as yet advised, but had the impression some 300 personnel would arrive most any time.

ARMY

In a telegram, through our Embassy at Panamá, dated January 13, 4 p. m.,¹⁰ General Andrews¹¹ indicated his desire to establish a small base of supporting ground troops temporarily at Salinas and Galápagos, as he understood Ecuador had made either available for such purposes.

He sent a representative, Colonel Connell, to Salinas, November 13th who is understood to have conferred with Major Renshaw also the Navy men indicated above, and tentatively to have indicated the approximate location the Army might prefer to utilize. We were not told its exact location, but as it neither interfered with what the Navy desired, or what the Chief of our Air Mission (Major Renshaw) wished for the primary training school, it was thought there would be no conflict. Moreover, the site indicated by the Army had no buildings on it which should simplify its occupation without delay.

Captain Anda and Commander Greenacre mentioned the above to the President and the Defense Minister on January 14th. All thought it would be satisfactory. The Ecuadoran Executive and his Minister wondered how many there would be of the Army contingent. None of us knew, but speculated there might be around 700.

We have neither map nor description of the lands desired by the Army, but if and when the contingent arrives we will endeavor to have a representative of the Ecuadoran Government on the ground to facilitate all arrangements.

Colonel Procter has notified the Defense Minister in writing of the Army's temporary interest at Salinas.

Rumor has it that Ecuador will install a full Colonel in charge of this country's troops at Salinas.

This despatch should be read in conjunction with our No. 2492 of January 13, 1942.¹²

Respectfully yours,

BOAZ LONG

⁹ Not printed; it indicated the President's acceptance of the Salinas arrangement (810.20 Defense/1901).

¹⁰ Not found in Department files.

¹¹ Maj. Gen. Frank M. Andrews, Commanding General, Caribbean Defense Command.

¹² Not printed; in this despatch the Minister reported that he had conferred with the President on Commander Greenacre's plans and received the President's approval (810.20 Defense/1908).

S22.20/211

The Minister in Ecuador (Long) to the Secretary of State

No. 2534

QUITO, January 25, 1942.
[Received January 30.]

SIR: I have the honor to report that the first tentative arrangement concluded under the Cooperative Defense Agreement¹³ was signed in Quito, January 24, at 7 p. m. by Colonel Alberto Romero, Colonel A. Alban Borja and Ricardo Astudillo, for Ecuador; E. B. Lyon, Brigadier General, U.S.A., and William M. Sergeant, U.S.N.R., for our country. Two copies in English and two in Spanish were signed. One of each remained with Colonel Romero and General Lyon. The latter took his to General Andrews, Quarry Heights. I attach hereto as enclosures Nos. 1 and 2 one copy in English and one in Spanish.

I am informed that the negotiations were conducted at Salinas where the agreement was drafted, but, as Ecuadoran officials felt they lacked authorization to sign, the negotiating parties flew to Quito, and after conferences with the Minister of National Defense (who previously consulted the President) received his approval to the plan and agreement. I think some slight reservations were made to the effect that if found to be susceptible of improvement (or possibly amplification) the agreement might be modified later.

The President of Ecuador received General Lyon a couple of hours previous to the signing of the agreement, and when reference was made thereto the President said that he was familiar with it and thought that instead of having it good for a year after the signing of peace, we might employ the same phraseology as had been used in the Cooperative Defense Agreement as to termination. It was explained that a year might be needed to dismantle the base and/or reach understandings and carry them out. The President did not press this point, so the signers did not alter paragraph fifteen.

EXTENSION OF DEFENSE ZONE TO INCLUDE PUNÁ, GUAYAQUIL,
PLAYAS, AND POSORJA

Oral Suggestions Made by Colonel Astudillo to General Lyon on
January 24th., 7:00 p. m.

Colonel Astudillo suggests for consideration of the commander of the 15th District that in the 4th military zone in Ecuador it might be hazardous to have only an air force at Santa Elena point. He urges,

¹³ The Cooperative Defense Agreement (not printed), under which this arrangement was made, was not actually signed until January 31, 1942. It provided that each government would go to the aid of the other, when requested, for defense from enemy attack, that defense installations were for joint use, that articles to be used in defense measures be entered duty free, and that the agreement remain in force for the period of the emergency and thereafter if agreed to.

that consideration be given to Playas and Posorja in order to prevent any force from going behind Santa Elena and isolating the point.

The Colonel, by the same token, pointed out that it would be wise to have some forces on Puná, which commands the entrance to the harbor at Guayaquil. He felt that with these two additions the troops at Santa Elena would have ample protection.

The Colonel also pointed out that at Punta Piedras there were 4 cannon (Armstrong, 105 mm) and in addition there were scattered along the coast 8 batteries (32 cannon) (Krupp 75 mm), but no ammunition. Could we assist Ecuador in this regard?

General Lyon said that such things were beyond his authority, but he would mention them to General Andrews.

Respectfully yours,

BOAZ LONG

[Enclosure]

*Agreement Concerning the Use of the Salinas District
as a Defense Site*

Duly empowered by Colonel Carlos A. Guerrero, Minister for the National Defense of Ecuador, and by the Commanding General of the Caribbean Defense Command of the United States of America, respectively, Colonel Alberto Carlos Romero, Superior Commander of the Army of Ecuador, and Brigadier General Edwin B. Lyon, United States Army, met and agreed on the following clauses which, to be of force, must be previously approved and ratified by the governments of Ecuador and the United States of America,

1. The governments of the United States of America and Ecuador have, through their diplomatic representatives, reached an agreement of Cooperation by both the countries for the defense of the continent.

2. To this effect, Colonel Alberto Carlos Romero empowers the Commanding General of the Caribbean Defense Command to occupy the fields of the district Salinas, belonging to the jurisdiction of the same name, in order to build on them landing fields, headquarters, storage for fuel, warehouses, quays for shipping, etc. and to use them for military, naval and aerial purposes; as well as to install in the waters of the same territorial section buoys and to use them for landing of airplanes and anchorage of all kinds of vessels, etc.

3. He also allows him to complete, within the same zone, radio installations, submarine cables, etc., and to use them for military purposes.

4. The boundaries of the fields and water areas where the above mentioned constructions and installations will be effected, are fixed in the adjoining sketch and plan.

5. He also allows the Commanding General of the Caribbean Defense Command to organize an American police for internal service during the stay of the personnel of the Army, Navy and Aviation of the United States of America on Ecuadorian soil.

6. The above mentioned constructions may be started as soon as the present agreement is signed. General Lyon agrees to recommend that there be paid immediately to the Government of Ecuador the sum of thirty five thousand American dollars for the expropriation of the terrains affected by this agreement and as indemnization for the constructions which must be demolished for the completion of the above mentioned works and installations, this sum to be the total cost under the present plan of the rights granted by Ecuador to the United States.

7. The Government of Ecuador takes charge of the legal procedure for the expropriation and evacuation of the real estate situated within the boundaries of the aforesaid district of Salinas which General Lyon may request.

8. The Government of the United States of America may empower any of its officials to carry out the works and installations comprised in the present agreement.

9. The Government of Ecuador grants, under its guarantee, the remaining capacity of transportation by the railroad Guayaquil-Salinas, in order that it may be used to carry the passengers and cargo necessary for the authorized works and installations and for mutual defense. Such transportation will be paid for by the United States Government at the regular tariff.

10. The armed forces of the United States of America are empowered to take all measures and steps for the sanitation of the places occupied by them and their surroundings.

11. The roads and all means of conveyance and communication which are within the territory and those leading to it comprised in the present agreement, may be freely used by the armed forces of the United States.

12. In any time and under any circumstance, the Government of Ecuador retains its sovereign power on the whole territory of the Republic, including the lands of the present territory.

13. The arrival of the American forces at the places comprised in the present agreement and their stay in them during the existence of the aforesaid agreement are permitted.

14. If it were necessary to use the American land forces outside the area of Salinas, in cooperation with the Ecuadorian forces for mutual defense against a common enemy, the said land forces of both

the nations would be put under command of the Ecuadorian officer whom the Government of Ecuador would appoint. The American Air forces, of the Army as well as of the Navy, will remain always under the commanding General, Caribbean Defense Command for the general defense of the Canal area.

15. The present agreement will be in force until one year after the signature of peace by the Government of the United States of America with the Axis Powers, and it may be renewed after this time by agreement of both parties.

Witnessed by Alberto Romero
Colonel Ecuador

Witnessed by E. B. Lyon
Brig. Genl. U.S. Army

QUITO, January 24, 1942

A. ALBAN BORJA
R. ASTUDILLO

WILLIAM M. SERGEANT
Lt. (C.E.C.) USNR

740.0011 European War, 1939/19187

The Minister in Ecuador (Long) to the Secretary of State

No. 2560

QUITO, January 30, 1942.
[Received February 3.]

SIR: I have the honor to report that last evening President Arroyo del Río telephoned to me to read the text of a note to be sent to the Italian Minister announcing the breaking off of relations with the Italian Government. He informed me that identical notes would be sent simultaneously to the German Minister and the Japanese Chargé d'Affaires. This event was reported to the Department in my telegram No. 71 of January 29, 7:00 p. m.¹⁶

I am taking up with the Foreign Office today, in accordance with the Department's Instruction No. 841 of January 4 [24],¹⁶ the question of repatriation of the Axis official personnel in this country.

Today's press gives prominence to the breaking of relations with the Axis, although there has not as yet been time for any significant editorial comment on the subject to appear. The signature of the Accord with Perú continues to overshadow in importance the action of the Ecuadorian Government in breaking relations with the Axis.

Respectfully yours,

BOAZ LONG

¹⁶ Not printed.

740.0011 European War 1939/19180

The Secretary of State to the Ecuadoran Ambassador (Alfaro)

WASHINGTON, February 2, 1942.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note of January 30, 1942¹⁷ informing me that the Government of Ecuador, in response to the unanimous recommendation of the Third Consultative Meeting of Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro,¹⁸ has severed diplomatic and consular relations with Germany, Italy and Japan.

This information has been given to President Roosevelt, and he has now sent the following message directly to His Excellency the President of the Republic of Ecuador:

"I have been informed by Your Excellency's Ambassador in Washington that the Government of Ecuador has severed diplomatic and consular relations with Germany, Italy and Japan.

"This decisive step by your Government conclusively demonstrates the earnest determination of the people of Ecuador to cooperate wholeheartedly in every practicable way to guarantee the continued independence of the free peoples of this Hemisphere. The people of the United States share with me a cordial satisfaction in welcoming Ecuador among the nations which have taken their stand in accordance with the unanimous recommendation of the recent Meeting at Rio de Janeiro.

"I also welcome this occasion to congratulate Your Excellency on the able manner in which Your Excellency's Minister of Foreign Affairs contributed to the memorable achievements of the Consultative Meeting at Rio de Janeiro.

"Please accept my cordial personal wishes for your own welfare and the expression of my sincere faith that our two Governments will continue in friendly and effective cooperation for the furtherance of the common objectives of the American republics."

I wish to assure Your Excellency that I share fully the views expressed by President Roosevelt in his message to His Excellency President Arroyo del Río, and I am confident that the practical measures of cooperation adopted after consultation among the governments of the American republics will safeguard them permanently from the dangers which threaten their free institutions. You may be sure that it is my constant endeavor to collaborate with you in all matters which will promote the welfare and security of the peoples of the American republics.

Accept [etc.]

CORDELL HULL

¹⁷ Not printed.¹⁸ Resolution I; for text, see Department of State *Bulletin*, February 7, 1942, p. 118.

Quito Embassy Files

Agreement Between the United States and Ecuador Amending That of January 24, 1942, Concerning an Advance Base for American Military Forces at Salinas

Duly empowered by Colonel Alberto C. Romero, Minister for the National Defense of Ecuador, and by the Commanding General of the Caribbean Defense Command of the United States of America, respectively, Colonel Ricardo Astudillo, Superior Commander of the Army of Ecuador, and Colonel Serafín M. Montesinos, United States Army, met to modify and amplify the Agreement which was effected January 24, 1942. These modifications and amplifications, as well as the Agreement mentioned, must be previously ratified by the Governments of Ecuador and the United States in order to be in effect.

Insert *a*) Articles 1, 2, 3, and 4 remain the same as stated in the Agreement.

Insert *b*) Article 5 of the Agreement is modified as follows:
He also allows the Commanding General of the Caribbean Defense Command to organize an American police for internal service during the stay of the personnel of the Army, Navy, and Aviation of the United States of America on Ecuadoran soil, the said American police to exercise its functions in the parish of Salinas. This will not prevent the Government of the Republic of Ecuador to maintain its own police in the said zone. In order to put this article into effect, the Commander of the North American Base and the Ecuadorian Commander of the Province of Guayas will determine the norms for its execution.

Insert *c*) Article 6 of the Agreement is modified as follows:
The constructions and installations authorized may be started immediately upon the signing of the present Agreement. General Lyon agrees to recommend that the sum of thirty-five thousand dollars (\$35,000.00) be delivered immediately to the Government of Ecuador for the expropriation and indemnization for the lands and dwellings of the Municipality of Salinas and of private citizens established on the lands pertaining to this Agreement, and for the demolition of the existing structures that may be necessary for the constructions and installations indicated above.

Insert *d*) Articles 7, 8, 9, 10, and 11 remain the same as stated in the Agreement.

Insert *e*) Article 12 of the Agreement is modified as follows:
It is understood that the Government of Ecuador does not lose sovereignty over the lands nor the territorial waters gratuitously ceded, and which will be occupied by the Arms and Services

referred to in this Agreement, and, therefore, the United States does not acquire ownership of them. Upon the termination of the life of this Agreement the structures erected, excepting armament, machinery, equipment, instruments, etc., will become the exclusive property of the Government of Ecuador.

Insert *f*) Articles 13 and 14 remain the same as stated in the Agreement.

Insert *g*) Article 15 of the Agreement is modified as follows:

This Agreement shall be in force and shall continue in effect for the period of the present war emergency and may continue thereafter, if, in the opinion of the two Governments, there still exists the danger of aggression by a non-American power against an American power.

Insert *h*) To the Agreement shall be added the following Article:

Art. 16. The Ministry of National Defense of Ecuador, through a duly authorized representative, shall have the right to inspect the works and constructions undertaken by the North American troops, and in general all the zone occupied by them, for the purpose of effecting coordination for the mutual defense.

Signed at Quito, the 20th day of February 1942.

CORONEL ING. RICARDO ASTUDILLO

SERAFÍN M. MONTESINOS
Colonel, U.S. Army

Witness:

A. Albán Borja

Witness:

T. S. Stern
Ensign, U.S.N.

822.24/164 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, February 25, 1942—9 p. m.
[Received February 26—11:26 a. m.]

153. General Andrews sent Colonel Montesinos here February 19 to negotiate amendments to the Salinas agreement of January 24.¹⁹ Amendments were signed February 20²⁰ and on the 21st or the 23d a similar agreement should have been signed covering Galápagos base.

About a month ago Colonel Montesinos was informed by the Minister of National Defense that Ecuador had been trying for over a year to get arms and equipment for the defense of its territory and no

¹⁹ *Ante*, p. 366.

²⁰ *Supra*.

agreement regarding Galápagos would be signed until some [apparent omission] under Lend-Lease.²¹

This evening, after a friendly chat with the President, he observed that he did not know precisely what his Defense Minister had in mind but would let me know soon.

He added that under his administration Ecuador has maintained a good record for paying its obligations. He wished to continue and not sign a lease-lend contract containing terms that Ecuador could not meet. He requested that I cable that he wrote Ambassador Alfaro at length asking some adjustment that would fall within Ecuador's capacity to pay, but in reply had been told how very busy Washington was.

The President said he was anxious to collaborate and hoped he would soon hear through Alfaro or me regarding a clarification of terms. Ecuador was very anxious to get the four planes recently discussed and as much additional material as we could supply but under the conditions outlined above.

LONG

822.24/165 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, February 27, 1942—9 p. m.
[Received February 28—2: 45 a. m.]

158. My 153, February 25, 9 p. m. The Minister of National Defense today informed Colonel Montesinos and Major Renshaw that work might proceed without interruption on Galápagos Islands but that he will not sign an agreement until some clarification had been arranged regarding equipment to be received under the Lease-Lend basic agreement.²²

President Arroyo later confirmed this to me saying that Alfaro's airmail letter due today might clear up the matter. He added that as we prepared ourselves for the war and his people learned what was going on at Salinas it naturally stimulated a desire for them also to make preparations which was impossible without constructive help from us. Montesinos is returning to Panama tomorrow and will inform General Andrews.

LONG

²¹ Lend-Lease Act of March 11, 1941; 55 Stat. 31. For correspondence concerning a Lend-Lease Agreement between the United States and Ecuador, see *Foreign Relations*, 1941, vol. VII, pp. 291 ff.; for text, signed April 6, 1942, see *post*, p. 379.

²² For draft text of basic agreement, see *Foreign Relations*, 1941, vol. VI, p. 139.

822.24/164 : Telegram

The Acting Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, February 28, 1942—6 p. m.

121. Your 153, February 25, 9 p. m. The Ecuadoran Ambassador has received a letter from the President of the Republic indicating that apparently the President and his advisers are under the impression that Ecuador under the proposed lend-lease agreement would be expected to repay \$17,000,000 over a period of 6 or 7 years. It is difficult to understand how such an impression could exist, since the text of the proposed agreement clearly indicates in Article II that Ecuador is expected to pay only 3.53% of the total, or \$600,000 over 6 years, at a rate of not over \$100,000 per year. In addition there are no interest payments to be made. The Government of the United States believes that the terms being offered Ecuador are exceedingly generous.

The President of Ecuador in his letter asked two questions: (1) Is there any possibility of Ecuador's having to pay less than \$17,000,000? The answer to this is as indicated above. (2) Does the lend-lease agreement include local expenditures and salaries of the Army? The answer to this is no—the lend-lease agreement covers only matériel to be furnished Ecuador from the United States.

The Ecuadoran Ambassador is cabling his Government at once answering these questions.

WELLES

810.20 Defense/2443a : Telegram

*The Acting Secretary of State to the Ambassador in Ecuador (Long)*²³

WASHINGTON, April 12, 1942—1 p. m.

239. The Lend-Lease Agreement with Ecuador was signed April 6²⁴ and the Embassy in Washington will now proceed to deal directly with the War Department on the materials which it desires. It is believed that President Arroyo's objection to signing an agreement on the Galápagos, similar to the one signed on January 24 between American and Ecuadoran military authorities on Salinas under the provisions of the general defense agreement, should now be obviated. The War Department believes this agreement on the Galápagos is of the utmost urgency for the defense of the hemisphere. You are re-

²³ The Legation in Ecuador had been raised to the status of Embassy March 5, 1942.

²⁴ *Post*, p. 379.

quested to take this question up with the President at once and secure at the earliest possible date a signed agreement on this question.

WELLES

740.0011 European War 1939/21031

The Secretary of State to the Ambassador in Ecuador (Long)

No. 1045

WASHINGTON, April 28, 1942.

SIR: You are informed that on April 8, 1942 the Ambassador of Ecuador left at the Department a memorandum, a copy of which, in translation, is enclosed²⁵ for your information, containing the text of a telegram which he received from the President and Minister of Foreign Affairs of Ecuador, relative to certain military information received by the Ecuadoran authorities, on the basis of which it was urged that most serious consideration should be given to instituting effective measures for the protection of the Galápagos Archipelago and the coast of Ecuador.

The contents of the memorandum were at once brought to the attention of the War Department and the Navy Department, which were requested to state whether they had received any information of the character indicated by the Ecuadoran authorities²⁶ and, if so, whether any measures of a defensive nature were being taken to protect the areas alleged to be menaced.

Replies, copies of which are also enclosed for your information, have now been received from both Departments,²⁵ from which it will be observed that neither the War Department nor the Navy Department has received any specific information which would confirm the plan or reports cited in the President's telegram and which indicate that, should an enemy attack materialize in the areas concerned, defensive measures, believed to be adequate to meet the threat, have been formulated.

You are authorized, in your discretion, to convey to the President of Ecuador, in response to the questions raised in his telegram under reference, the substance of the enclosed replies from the War Department and the Navy Department.

Very truly yours,

For the Secretary of State:

SUMNER WELLES

²⁵ Not printed.

²⁶ They had received reports of ship sinkings off the Ecuadoran coast and rumors of an impending attack on the Galápagos Islands.

810.20 Defense/2444 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, May 20, 1942—8 p. m.

345. Your 288, April 13, 9 p. m.²⁷ List of supplies and equipment submitted by Ecuadoran Embassy for procurement under Lend-Lease Act is now receiving the attentive consideration of the War Department which informs this Department that the following material has been made available to Ecuador :

- 8 81 mm mortars mounted
- 800 shells high explosive, light, for 81 mm mortars
- 12 30 caliber Browning machine guns with mount tripods
- 70,000 rounds ammunition for 30 caliber machine guns
- 8,000 rounds tracer ammunition for 30 caliber machine guns
- 12 45 caliber Thompson sub machine guns
- 6,000 rounds ammunition for 45 caliber sub machine guns
- 6 scout cars without armament
- 26,000 canteens
- 26,000 canteen covers
- 26,000 canteen cups
- 25,000 forks
- 25,000 knives
- 25,000 spoons
- 45,000 haversacks
- 24 sets of harness for artillery

The Department understands that a copy of the foregoing list has been given to the Ecuadoran Ambassador by the War Department.

As soon as the coast defense armament included in the Ecuadoran program becomes available, the War Department will give favorable consideration to a request for instructor personnel.

HULL

810.20 Defense/2890 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, July 8, 1942—6 p. m.

493. Your 530, June 26, 7 p. m.²⁸ You are authorized to inform the President that the War and Navy Departments would like to negotiate with the Ecuadoran Government an agreement for the use during the emergency of the Galápagos Islands along the lines of the

²⁷ Not printed; the President of Ecuador was reported to have expressed fear of an attack on the Galápagos Islands, and an intent not to enter into an agreement on the Galápagos until assurances were forthcoming as to the transfer to Ecuador of defense materials.

²⁸ Not printed.

agreement relating to Salinas, and inquire whether that is agreeable to him.

Please report the outcome of this conversation only to the Department. If the President expresses any views regarding the provisions of the new agreement different from the general lines of the Salinas agreement please report these fully.

HULL

810.20 Defense/3031

*Memorandum by the Liaison Officer (Wilson)*²⁹

[WASHINGTON,] September 1, 1942.

Major Hero, Operations Division, War Department, with whom the question, raised in your memorandum of August 28,^{29a} was discussed, states that the War Department is not engaged in working out an agreement for the cooperative defense of the Galápagos Islands.

He explained that the existing verbal understanding³⁰ seemed to be working satisfactorily and he assumed that General Andrews had decided that, as in the case of Salinas, it would be better to continue on the present basis rather than to open up negotiations and incur the risk of ultimately obtaining a less satisfactory arrangement. Major Hero pointed out that the decision in this matter rested with General Andrews.

ORME WILSON

811.34522/47

*Agreement Between the United States and Ecuador, Signed at Quito, October 1, 1942, Amending That of January 24, 1942, Concerning an Advance Base for American Military Forces at Salinas*³¹

Duly empowered by Colonel Alberto C. Romero, Minister of National Defense of Ecuador, and by the Commanding General of the Caribbean Defense Command of the United States of America, respectively, Colonel Ricardo Astudillo, Superior Commander of the Army of Ecuador, and Colonel Serafin M. Montesinos, United States

²⁹ Addressed to Mr. Bonsal, Chief of the Division of the American Republics, Mr. Woodward, Assistant Chief, and Mr. Melby of the same Division.

^{29a} Not found in Department files.

³⁰ A comment in the handwriting of the Assistant Liaison Officer, David Key, appears as follows: "In a liaison meeting last December, Mr. Welles made known the Ecuadoran Government's desire that the United States urgently cooperate in the defense of the Ecuadoran coast and the Galápagos and that there was no objection to proceeding in these matters without awaiting the signature of written agreements."

³¹ True copy of the original transmitted to the Department by the Ambassador in Ecuador in his despatch No. 3591, October 2; received October 8.

Army, met to modify and amplify Articles 4 and 6 of the Agreement signed January 24, 1942 as modified by the Agreement signed February 20, 1942. These modifications and amplifications must be previously ratified by the Governments of Ecuador and the United States in order to be in effect.

Article 4 is amended to read as follows:

The boundaries of the fields and water areas where the above mentioned constructions and installations will be effected, are fixed in the adjoining sketch plan,^{31a} except the North-South boundary which is changed as shown in the accompanying topographical map:^{31a} "War Department, Office of the Division Engineer, Panama Division, Dated August 26, 1942, Scale 1"=600'. Drawing N° 5767."

Article 6 is amended to read as follows:

The constructions and installations authorized may be started immediately upon the signing of the present agreement. The Government of the United States agrees to deliver to the Government of Ecuador the sum of seventy one thousand five hundred dollars (\$71,500.00) for the expropriation and indemnization for the lands and dwellings of the Municipality of Salinas and of private citizens established on the lands pertaining to this Agreement, and for the demolition of the existing structures that may be necessary for the constructions and installations indicated above.

Signed at Quito on the 1st. day of October, 1942.

sgd.) RICARDO ASTUDILLO,
Colonel Ing.

Witness:

sgd.) CRISTÓBAL TOLEDO S.,
Colonel Jefe E.M.G.

sgd.) SERAFIN M. MONTESINOS,
Colonel U.S. Army.

Witness:

sgd.) HARRY N. RENSHAW,
Lt. Col., A.C.

NOTE.—Of this document two (2) copies in Spanish and two (2) in English have been made, of which one in each language has been delivered to Colonel Montesinos and the other two have been delivered to the Ecuadorean General Staff. Each two of the above cited copies is accompanied by a topographical map authenticated by the signatures of Colonels Astudillo and Montesinos.

sgd.) CRISTÓBAL TOLEDO S.,
Colonel, Jefe del E.M.G.

^{31a} Not found in Department files.

811.34522/45 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, October 2, 1942—noon.

[Received 3:51 p. m.]

808. Reference my telegram 797, September 28, 4 p. m.³² The Minister of National Defense informed Colonel Montesinos that the President desired to conclude an agreement on the Galápagos within the next few days and before he makes his visit to the United States. Colonel Montesinos has with him a copy of agreement submitted by General Andrews for approval. Request instructions by cable.

Repeated to Panama for the information of General Andrews.

LONG

811.34522/52 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, October 13, 1942—7 p. m.

[Received October 14—12:39 a. m.]

835. The following telegram has been sent to Panama.

October 13, 6 p. m. For General Andrews. Galápagos negotiations have been postponed indefinitely. Captains Stone, Symington, and Colonel Montesinos returning to Canal Zone October 14. Repeated to Department.

LONG

811.34522/52 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, October 20, 1942—9 p. m.

772. Your 835, October 13, 1942, 10 [7] p. m. The Department would appreciate a full report on the background and reasons for the latest developments in the Galápagos negotiations mentioned in above telegram. It had been understood that the Salinas agreement had been negotiated by the Executive without the necessity for prior consultation with the Congress, that later discussion in Congress was purely informative, and that the same conditions would apply to the Galápagos agreement.

HULL

³² Not printed.

811.34522/55 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, October 22, 1942—8 p. m.

[Received 11 : 59 p. m.]

880. Reference Department's telegram No. 772, October 21 [20], 9 p. m. When the Salinas agreement was negotiated Congress was not in session.

When the Galápagos draft agreement was submitted Presidential powers had lapsed consequently it was referred to Foreign Relations Committee whose chairman told me today that changes mostly improvements in Spanish will be reported soon.

I have been assured that if negotiations are not resumed before the adjournment of Congress probably on October 29³³ they will be handled under special powers thereafter.

Repeated to Panama for the information of General Andrews.

LONG

**LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND
ECUADOR, SIGNED APRIL 6, 1942³⁴**

822.24/4-642

Agreement Between the United States and Ecuador Regarding Principles Applying to Mutual Aid in the Prosecution of the War, Signed at Washington April 6, 1942

WHEREAS the United States of America and the Republic of Ecuador declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Conference of American States on December 24, 1938,³⁵ they, together with all the other American republics, are united in the defense of the Americas, determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941,³⁶ and the President of the Republic of Ecuador have deter-

³³ The negotiations were suspended until October 1943.

³⁴ For previous correspondence respecting the Lend-Lease Agreement, see *Foreign Relations*, 1941, vol. vii, pp. 291 ff.

³⁵ For correspondence on this Conference, see *ibid.*, 1938, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

³⁶ 55 Stat. 31.

mined, that the defense of each of the American republics is vital to the defense of all of them; and

WHEREAS the United States of America and the Republic of Ecuador are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Republic of Ecuador have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the Republic of Ecuador under the terms of this Agreement armaments and munitions of war to a total value of about \$17,000,000.

In conformity, however, with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the Republic of Ecuador similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the Republic of Ecuador, the defense needs of the Republic of Ecuador or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

The Government of the United States of America agrees to accord to the Government of the Republic of Ecuador a reduction of 96.47 percent in the scheduled cost of the materials delivered in compliance with the stipulations of the present Agreement; and the Government of the Republic of Ecuador promises to pay in dollars into the Treasury of the United States of America 3.53 percent of the scheduled cost of the materials delivered. The Republic of Ecuador shall not be required to pay

more than a total of \$100,000 before January 1, 1943,
more than a total of \$200,000 before January 1, 1944,

more than a total of \$300,000 before January 1, 1945,
more than a total of \$400,000 before January 1, 1946,
more than a total of \$500,000 before January 1, 1947, or
more than a total of \$600,000 before January 1, 1948.

ARTICLE III

The United States of America and the Republic of Ecuador, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the Republic of Ecuador hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,³⁷ to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Ecuador is in a position to supply, the Republic of Ecuador will make such defense articles and defense information available to the United States of America, to the extent possible without harm to its economy and under terms to be agreed upon.

ARTICLE V

The Republic of Ecuador undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Ecuador.

³⁷ For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the Republic of Ecuador, transfer title to or possession of any defense article or defense information received in accordance with Article IV of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

ARTICLE VI

If, as a result of the transfer to the Republic of Ecuador of any defense article or defense information, it is necessary for the Republic of Ecuador to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Republic of Ecuador will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Ecuador who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the Republic of Ecuador.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed in the English and Spanish languages, in duplicate, at Washington, this sixth day of April, 1942.

For the United States of America:

SUMNER WELLES

*Acting Secretary of State of the
United States of America*

For the Republic of Ecuador:

C. E. ALFARO

*Ambassador Extraordinary and
Plenipotentiary of the Republic
of Ecuador at Washington*

PROGRAM FOR ECONOMIC COOPERATION BETWEEN THE
UNITED STATES AND ECUADOR

822.51/984 : Telegram

The Acting Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, February 28, 1942—3 p. m.

118. Arrangements with Salazar³⁸ to carry out the Rio economic agreements³⁹ have proceeded very satisfactorily as follows:

Point 1: No action can be taken on the municipal waterworks and other improvements at Quito and Guayaquil until del Valle's⁴⁰ report is received.

Point 2: Preliminary agreement has been reached between Salazar and the Export-Import Bank regarding the form of development corporation and the general conditions for the \$5,000,000 loan.

Point 3: A \$5,000,000 monetary stabilization agreement has been signed between Salazar and the Secretary of the Treasury.⁴¹

Point 4: An agreement for handling the \$2,000,000 health grant has been signed by Salazar and the United States.⁴²

With respect to other discussions between the two countries, a separate telegram has been sent to you describing fully the generous terms being offered in connection with the lend-lease agreement.⁴³ The El Oro matter⁴⁴ is receiving careful consideration.

At Rio members of the Ecuadoran Delegation declared that the Central Bank was in a precarious situation as a result of loans made to the Ecuadoran Treasury during the boundary dispute, and resulting increases in note circulation and decreases in reserves. We were informed that the Bank had exceeded its limit of loans to the Government, and had less reserves of dollars and gold against notes and deposits than the legal requirement of 30%. On our return to Wash-

³⁸ Eduardo Salazar Gomez, Minister Counselor of the Ecuadoran Embassy.

³⁹ Reference is to the program agreed upon between the Governments of the United States and Ecuador at the Third Meeting of the Foreign Ministers of the American Republics held at Rio de Janeiro, January 15-28, 1942. See memorandum to the Ecuadoran Embassy, June 9, p. 387.

⁴⁰ Carlos del Valle, a consulting engineer retained by the Export-Import Bank to make a study of the water and sewer systems of Quito and Guayaquil.

⁴¹ A detailed arrangement, not printed, providing for the purchase and repurchase of sucres up to \$5,000,000 in order to stabilize the rate of exchange; the Banco Central was designated as Ecuador's fiscal agent and the Federal Reserve Bank of New York as that of the United States.

⁴² The health program envisaged the sending of a group of experts to Quito with the object of improving the sewerage system, expanding malaria control, and advancing general disease control. For text of this agreement, effected by exchange of notes between Mr. Salazar and Under Secretary of State Welles, February 24, 1942, see Department of State Executive Agreement Series No. 379, or 57 Stat. (pt. 2) 1370.

⁴³ For text of the Lend-Lease Agreement, signed April 6, 1942, see p. 379.

⁴⁴ The project to rehabilitate an area evacuated by Peru in the settlement of the boundary dispute between Ecuador and Peru; see bracketed note, vol. v, p. 268.

ington Dr. Salazar obtained information through the Foreign Office from the President of the Central Bank which would indicate that the gold and dollar reserves of the country are higher than they have been in recent years and that the reserve ratio is actually 61%, making the Bank's technical position one of the best in all of the American republics. The letter of the President of the Central Bank indicates that total obligations of the Government are 38,000,000 sucres, and that this is 5,400,000 sucres in excess of the amount which the Bank is legally empowered to lend to the Treasury.

Dr. Salazar has been urgently requesting a loan of \$800,000 (although the equivalent of 5,400,000 sucres is only \$360,000) to enable the Ecuadoran Treasury to pay off the Central Bank. He agrees that there are no economic reasons requiring this and even that it would be disadvantageous to the Ecuadoran Treasury to convert a sucre obligation to the Central Bank into a dollar obligation to the United States. Nevertheless he states that commercial shareholders of the Central Bank can make political capital of this situation and that if it is not quickly corrected the Government will face a political difficulty which may be disastrous.

The Department and other interested agencies feel that the United States has gone to unusual lengths to support the Ecuadoran economy, and is most unwilling to create the precedent of making such a type of loan, which is obviously undesirable economically. The Government of the United States has never made such a loan, but has always restricted its credits to constructive development or public works programs on the one hand, or to stabilization and other monetary arrangements on the other.

In view of the urgency which Dr. Salazar attaches to his request, the Department would appreciate your discussing the matter fully and confidentially with Mr. Glasser⁴⁵ and informing it at once of your and his views.

WELLES

822.51/985 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, March 2, 1942—9 p. m.

[Received March 3—10:21 a. m.]

167. Reference Department's no. 118, February 28, 3 p. m. The following is submitted after consultation with Glasser.

⁴⁵ Harold D. Glasser, detailed by the Treasury Department to Ecuador, July 29, 1940, to provide financial advice. His original period of detail was one year, subsequently extended.

We agree with analysis in cable that the loan request of Central Bank lacks technical basis and is not in best economic interests of Ecuador. The emergency loan of the Government from the Central Bank of 17,000,000 sucres in 1941 was guaranteed by a pledge of 1.3 percent of current Government revenues and 60 percent of profits of exchange control and will presumably be paid off in less than 5 years. The emergency loan of 14 million sucres in 1942 was guaranteed by a series of new taxes which will yield 14 million before July 1943. By February 28 only 16 million of both loans have been used and Government deposits in Central Bank are running 8 million higher than corresponding period year ago. The Government is meeting all obligations faithfully and there is no technical reason for concern over condition of Central Bank. I am unaware of any public dissatisfaction over emergency loans or of any disturbing consequences likely to arise within the near future. I personally think the Government is really worried about where to secure funds for repaying bank and asked extra amount to be sure it could care for rehabilitation of El Oro.

LONG

822.48/46a : Telegram

*The Acting Secretary of State to the Ambassador in Ecuador
(Long)*⁴⁶

WASHINGTON, March 13, 1942—3 p. m.

153. Following memorandum has today been handed to Alfaro: ⁴⁷

“The Government of the United States is prepared to render technical and financial assistance in the execution of the program of the Government of Ecuador for the rehabilitation of the Province of El Oro. In order to define exactly the nature of this assistance, and at the suggestion of the Government of Ecuador, a group of experts is being sent to Ecuador at once to make a detailed, but rapid, study of conditions in the Province. This group is composed of an official of the American Red Cross experienced in relief work, an expert qualified in Farm Security Administration techniques and a representative of the Office of the Coordinator of Inter-American Affairs. The group will arrive in Quito about March 18, 1942.

This group of experts, in addition to making the study in question, will be in a position to render immediate and practical assistance in matters of major emergency connected therewith. The assistance which this Government agrees to furnish in the broad program of rehabilitation will be undertaken immediately following completion of the survey.”

⁴⁶ The Legation in Ecuador had been raised to the status of Embassy March 5, 1942.

⁴⁷ Eloy Alfaro, Ecuadoran Ambassador in the United States.

For your confidential information the Department believes that a certain amount of the rehabilitation work can probably be done by the new development corporation on a recoverable basis, hence the original estimate of \$1,000,000 for a grant from this Government would be too high. This Government is prepared to grant up to \$500,000 if necessary and recommended by the survey group.

The survey group will arrive in Quito on March 18. Details by air mail.

WELLES

822.50/75

*Memorandum by the Adviser on Political Relations (Duggan) to
the Under Secretary of State (Welles)*

[WASHINGTON,] June 3, 1942.

MR. WELLES:

FURTHER FINANCIAL ASSISTANCE FOR ECUADOR

As Mr. Collado's memorandum attached ⁴⁸ indicates a very generous program of financial and economic assistance to Ecuador has been embarked upon. It should have more far-reaching effects on the economic life of Ecuador than any program yet agreed upon for any other country. Within a few months this program should be well under way and the effects begin to make themselves evident.

It is therefore believed that the only ground for emergency financial assistance is to bolster the Government politically.

During the last two days I have endeavored to form a conclusion as to the gravity of the political situation. I have talked with the Ecuadoran Ambassador who has left with me the attached extract from a letter from the President ⁴⁹ to him dated May 22 ⁵⁰ which the Ambassador hopes that you will read. Others with whom I have spoken do not confirm the impression that the Ecuadoran Ambassador conveys that the political situation has deteriorated drastically during the last few weeks. . . . These persons in fact believe that the President is in a stronger position today than he was right after the Rio conference.

My personal view is that while the President is not in as weak a position as the Ecuadoran Ambassador portrays, he is probably under

⁴⁸ Memorandum dated June 3, not printed. Emilio G. Collado was Executive Secretary, Board of Economic Operations of the Department of State.

⁴⁹ Carlos Arroyo del Rfo, President of Ecuador.

⁵⁰ Not printed.

considerable pressure from the politicians of El Oro for assistance there and from the military for equipment, et cetera. . . .

In my opinion, if it is decided to give any assistance to Ecuador to help the Government politically, the aid which would produce the greatest political advantage would be a grant of money for the improvement of the housing facilities of the Ecuadoran Army. . . .

With the Army more solidly behind the President, it should be possible for him to ride out the criticism over the rehabilitation of El Oro Province. The report of the experts sent there indicates that the damage of the Peruvian forces was slight because there was very little to damage. The necessity of this province is for the development of new agricultural production which is in general the problem of all Ecuador. The Development Corporation would give preferential attention to the problem of new production in El Oro so that six months from now the criticism of the local politicians . . . should largely have disappeared.

LAURENCE DUGGAN

822.51/993a

*The Department of State to the Ecuadoran Embassy*⁵¹

MEMORANDUM

The status of measures of cooperation which have been agreed upon between the Governments of Ecuador and the United States is as follows:

PROGRAM AGREED UPON AT RIO DE JANEIRO

1) It was agreed that the Export-Import Bank would loan funds to finance the construction of water works and other municipal improvements for the cities of Guayaquil and Quito, up to a total sum of \$8,000,000, subject to the submission of suitable plans and specifications and subject to the availability of the materials and equipment which it might be necessary to obtain in the United States. An engineer assigned by the Export-Import Bank for the preparation of preliminary plans and recommendations has now finished his work in Ecuador and is expected to submit his recommendations to the Export-Import Bank within a few days, so that steps may be taken immediately to determine the availability of necessary materials upon the basis of the recommended plans.

2) It was agreed that the Export-Import Bank would extend initial credits up to \$5,000,000 for the development in Ecuador of agri-

⁵¹ Handed to the Ecuadoran Ambassador on June 9, 1942, by the Chief of the Division of the American Republics (Bonsal).

cultural, mining, and other industries and in the construction of adequate means of transportation, such developments to be carried out under the general supervision of an Ecuadoran Development Corporation to be created by the Government of Ecuador. All of the pertinent documents relating to the formation of the Corporation were submitted to the Ecuadoran Government in April 1942 and it is understood that on June 4, 1942 the decree authorizing the Corporation was issued. The loan agreement between the Corporation and the Export-Import Bank can now be concluded without further delay.⁵²

3) It was agreed that the Government of the United States would enter into a monetary arrangement involving an amount not exceeding \$5,000,000 in order to aid in the stabilization of the Ecuadoran currency, such funds to be provided upon mutually satisfactory terms and conditions. This agreement was implemented by the signature of a contract with the Treasury Department of the Government of the United States by the authorized representative of the Government of Ecuador on February 27, 1942.

4) It was agreed that \$2,000,000 would be granted by the Government of the United States through the Office of the Coordinator of Inter-American Affairs towards a cooperative program of health and sanitation in Ecuador. In the implementation of this health and sanitation program, contracts for almost the entire amount have already been concluded for the carrying out of health and sanitation developments in Quito and Guayaquil.

PROGRAM FOR THE REHABILITATION OF THE PROVINCE OF EL ORO

5) The Government of the United States agreed in February 1942 to make a grant for relief and rehabilitation in the Province of El Oro. The group of experts that was sent to the Province of El Oro by this Government to determine, in cooperation with the Ecuadoran authorities, the measures and expenditures that would be required for the rehabilitation work, has now returned to the United States and submitted its report. Arrangements have been made tentatively for the carrying out of this rehabilitation work under the supervision of the Ecuadoran Development Corporation, and now that the Corporation has been legally established by the Ecuadoran Government, this Government will assist immediately in the prompt carrying out of rehabilitation measures by the assignment of expert personnel for this purpose to work under the supervision of the Ecuadoran Development Corporation.

⁵² The final draft was transmitted to the Department by the Ambassador in Ecuador in his despatch No. 3343, August 2, 1942; it provided that the Export-Import Bank establish a line of credit of \$5,000,000 for public works and agricultural and development projects, repayable in 12 years in 20 installments with interest at 4 percent.

The group of experts of the Government of the United States which recently conducted an investigation in El Oro to assist in determining the measures that would be required for the rehabilitation work, was authorized to make immediate expenditures for particularly urgent relief work, and this authorization was utilized for the purpose of buying quantities of foodstuffs, tools and other necessities of life valued at approximately \$20,000 which were found to be urgently required in the El Oro area. It is felt that these expenditures were an important contribution to the efforts of the Ecuadoran Government to restore normal conditions in the Province.

OTHER ARRANGEMENTS FOR COOPERATION OF AN ECONOMIC NATURE
(INCLUDING HEALTH AND SANITATION)

6) Discussions are now in progress concerning an agreement between the Governments of Ecuador and the United States with respect to the exportation to the United States of Ecuadoran rubber,⁵³ and the conclusion of this agreement is regarded as an integral part of the program of cooperation between the two countries. The offers of the Government of the United States include the provision of an independent fund for necessary expenditures in connection with the increased exports of rubber from Ecuador.

7) It is understood that the highway construction work at present being carried out in Ecuador by the Ambursen Engineering Corporation with \$900,000 in credits extended to the Government of Ecuador by the Export-Import Bank, is at present progressing satisfactorily.

8) It is understood that a large proportion of the \$200,000 in credits which the Export-Import Bank agreed to extend to the Ecuadoran Government for the purchase of railway equipment has been committed for specific expenditures and that a considerable part of the \$200,000 has actually been expended.

9) It is understood that work is progressing satisfactorily, under the supervision of an expert formerly in the employ of the Government of the United States, in the program of cacao rehabilitation and agricultural experimentation which is being carried out with the credit of \$50,000 which the Export-Import Bank agreed to extend to the Government of Ecuador for this purpose.

10) Representatives of the Government of the United States are at present studying the practicability of undertaking expenditures for improved health and sanitation in the Salinas area,⁵⁴ which expenditures would supplement the grant of \$2,000,000 for health and sanitation in Quito and Guayaquil.

⁵³ See pp. 396 ff.

⁵⁴ For correspondence on the interest of the United States in this area as a defense site, see pp. 362 ff.

11) The Government of the United States assisted the Government of Ecuador in obtaining the services of a qualified expert to advise the Ecuadoran Ministry of Finance, and this expert has recently been relieved by another expert of similar qualifications.⁵⁵

12) Arrangements are being made for the detail to Ecuador by the Government of the United States of a group of experts to assist in increasing the exportation of Ecuadoran balsa wood to the United States and the United Kingdom.

13) An Economic Resources Mission of the Government of the United States is now completing a survey in Ecuador which will be used by the Ecuadoran Development Corporation in the consideration of specific projects for agricultural and related developments.

MILITARY AND NAVAL COOPERATION

14) A United States Military Aviation Mission is at present serving in Ecuador to give advice and assistance to the Ecuadoran Army in aviation matters.

15) Arrangements have been made by the Government of the United States to assist the Government of Ecuador in the establishment of aviation training schools at Quito and Salinas, respectively, and funds have already been allotted for this purpose by the Government of the United States.

16) Four training airplanes were recently delivered to Ecuador for operation under the direction of the United States Military Mission for the training of Ecuadoran pilots.

17) A United States Naval Mission is at present serving in Ecuador to provide advice and assistance to the Ecuadoran Navy.

18) The United States Naval Mission to Ecuador is at present assisting with arrangements for the establishment of an Ecuadoran Naval Training School at Salinas.

19) A radio goniometer is being operated in Ecuador for the detection of clandestine radio stations, with the assistance of the United States Naval Mission.

20) The armed forces of the United States are assisting in the establishment of a Cooperative Hemisphere Defense Area at Salinas.

21) The United States Navy is providing assistance in preliminary construction work with a view to the establishment of a cooperative defense area in the Galápagos Islands.

22) A Lend-Lease Agreement has been concluded between the Governments of the United States and Ecuador for the transfer to the Ecuadoran Government, on very advantageous terms, of matériel up to a total value of \$17,000,000.

⁵⁵ Joseph B. Friedman succeeded Harold D. Glasser.

23) The United States Navy has partially completed a hydrographic survey of the Ecuadoran coast and off-lying islands, but it has been considered advisable to postpone completion of the survey until after the war in view of the need for all naval vessels for war purposes. The aerial photography of the Ecuadoran coast and off-lying islands in connection with the hydrographic survey was almost entirely completed, and it is expected that the photographs of the coast in the Ecuador-Peru boundary area may be of considerable use in the work of the Ecuador-Peru Demarcation Commission.

COOPERATION IN CIVIL AVIATION

24) The Governments of Ecuador and the United States have recently cooperated in the reorganization of commercial airlines in Ecuador and an improved service is now being provided between Quito, Cuenca, Loja, Guayaquil, Salinas, Manta and Esmeraldas.

25) The Government of the United States has in recent months assisted in making arrangements for a large increase in the international commercial aviation services connecting Ecuador with neighboring countries and with the United States.

26) Under the Inter-American Aviation Training Program, 29 students have been brought to the United States from Ecuador for training as pilots, engineers, instructor-mechanics, and airplane service mechanics.

With respect to recent suggestions that have been received from the Ecuadoran Ambassador at Washington concerning new cooperative arrangements which might be entered into by the Governments of Ecuador and the United States, the following comments are made:

1) It is believed that the proposal for the construction of a railway between Sibambe and Cuenca is the type of project which the Ecuadoran Development Corporation is qualified to study with a view to making appropriate recommendations.

2) The appropriate agencies of the Government of the United States would be glad to give every consideration to the possibility of making arrangements for the construction of military barracks in Ecuador with reasonable amounts of the funds allocated for lend-lease expenditures on behalf of the Government of Ecuador in the event the Ecuadoran Government should wish to provide specific information concerning the nature, location, and use of such barracks, the amounts of funds which would be required for their construction and the quantities of materials which it might be necessary to import into Ecuador for such construction.

WASHINGTON, June 9, 1942.

822.50/82 : Telegram

*The Ambassador in Ecuador (Long) to the Secretary of State*QUITO, July 1, 1942—10 p. m.
[Received July 2—1:41 a. m.]

542. President Arroyo yesterday mentioned the memorandum⁵⁶ which accompanied the Department's instruction no. 1161 of June 15th,⁵⁷ expressing great appreciation for all that is being done by us to help his country.

However the President reminded me that summer has begun and water shortages have precipitated general public complaint. He is, therefore, hopeful to learn what practical steps will be taken now that the Del Valle reports mentioned in the Department's telegram no. 403, June 12, 10 [4] p. m.⁵⁷ are available. In short the President asks our views with respect to the next steps to be taken to the end that both Guayaquil and Quito may be informed regarding the procedure to be adopted looking to the rehabilitation of their water systems. It is assumed that dams [*plans?*] are sufficiently complete to enable contracting firms to make bids.

LONG

822.50/82 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, July 8, 1942—5 p. m.

492. Your 542, July 1, 10 p. m. The Export-Import Bank is now going over the del Valle report in detail. A preliminary estimate of it is that it is a most excellent and comprehensive piece of work upon which the program can go forward. The Department feels strongly, however, that President Arroyo should realize very definitely at the outset that in all probability it will be quite hopeless to obtain materials and machinery for these projects in the United States for the duration of the emergency. The Bank is, however, quite willing to extend the credit with the definite understanding that only such work can be taken prior to the conclusion of the war which will not require American materials and machinery. The Bank will have completed within a few days its estimates of how much work can be done on this basis. At an opportune moment please make this point very clear to the President so that there will be no possibility of future misunderstandings on the score of American materials.

HULL

⁵⁶ *Supra.*⁵⁷ Not printed.

822.50/99 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, July 25, 1942—7 p. m.

536. Your 601, July 23, 3 p. m.⁵⁸ It will be impossible for the Export-Import Bank to advance any funds at present for emergency work on the waterworks since there as yet is no signed agreement between the Bank and the Republic. Furthermore, the Bank's studies have not yet reached a point where it is prepared to commit itself on any specific program. Any program which the Coordinator⁵⁹ might wish to undertake with his own funds would be a matter for him to decide on the basis of his own reports and after consultation with the Department.

As stated above the Bank is not prepared to consider advancing any funds until its studies have been completed and an agreement signed. Hence any acquisition of material or options for material and equipment would have to be purely on the responsibility of the Coordinator's people or the Republic without any obligation or approval on the part of the Bank or the Department.

HULL

822.50/99 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, July 27, 1942—8 p. m.

539. For Earle⁶⁰ from Rockefeller. Reference Ambassador Long's cable 601, July 23,⁵⁸ regarding water supply project for Quito to cost from \$100,000 to \$150,000. Have talked with Warren Lee Pierson, Export-Import Bank, who states that Bank cannot finance this project. Suggest reallocate funds from Health and Sanitation project, Quito, for this purpose if you deem it advisable and if requested by Ecuadoran Government. Please advise decision. [Rockefeller.]

HULL

⁵⁸ Not printed.

⁵⁹ Coordinator of Inter-American Affairs, Nelson A. Rockefeller.

⁶⁰ Walter C. Earle, one of a group of health officials of the Office of the Coordinator of Inter-American Affairs in Ecuador to assist in the Health and Sanitation Program.

822.5151/597: Airgram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, September 15, 1942—4: 55 p. m.

A-58. Please take appropriate action on the following communication which the Department has received from the Acting Secretary of the Treasury in regard to the request of the Minister of Finance of Ecuador⁶¹ transmitted by your despatch no. 3024, dated May 25, 1942,⁶² for the opinion of the Treasury Department with respect to the interpretation which should be given to paragraph 10 of the Stabilization Agreement of February 27, 1942.

"I note that the Minister of Finance expresses his disappointment that the interpretation given to paragraph 10 by Dr. Salazar is not in conformity with this Department's interpretation and in consequence the Ecuadoran Government increased the dollar value of the sucre by approximately 6 percent believing that this would not be regarded by this Department as a "substantial" change in the sense of paragraph 10. I also note that the Finance Minister particularly regrets this occurrence since the change cannot be corrected and since it was never the intention of his Ministry or of his Government to violate the terms of the Agreement.

"This Government has an interest in the dollar-sucre exchange rate which is scarcely less direct than the interest which the Ecuadoran Government has in the sucre-dollar exchange rate. Paragraph 10 of the Stabilization Agreement with Ecuador is an expression of this bilateral interest in the exchange rate between the two currencies and requires that the Secretary of the Treasury shall be given an opportunity for consultation before substantial changes in the exchange rate are made.

"The Treasury Department takes the position that the above-mentioned change in the dollar value of the sucre made by the Ecuadoran Government was a "substantial" change within the meaning of paragraph 10. In fact, a change in the exchange rate of much less than 6 percent may be a "substantial" change. For example, under certain conditions, a change of 1 or 2 per cent in the exchange rate may be expected to have a substantial effect on the delicately balanced financial relationships that normally exist between any two currencies.

"I shall appreciate it if you will communicate the above to the Minister of Finance in Ecuador. Please also convey to the Minister my satisfaction in his assurances that no further changes in the dollar-sucre rate of exchange are contemplated unless, after some time, special and important circumstances intervene to require a change. Now that this Department's interpretation of paragraph 10 has been made

⁶¹ Vicente Illingworth.

⁶² Not printed; it reported that the Ecuadoran Minister of Finance had failed to advise the United States Treasury Department of a change in the exchange rate of the sucre.

clear, I am sure that the Ecuadoran Government will afford me an opportunity for consultation on such an occasion."

HULL

822.51/1016a : Airgram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, December 8, 1942—7:30 p. m.

A-177. For your confidential information the following memorandum covering conversations between President Arroyo ⁶³ and this Government is being given to President Arroyo :

"1. An agreement by the Export-Import Bank to extend credits of \$1,200,000 for

- a. The completion of the last link in Ecuador of the Inter-American Highway between Guamote and Tambo, and
- b. The construction of a connecting road from Guayaquil to Tambo.

2. A grant of \$550,000 from the Coordinator of Inter-American Affairs to be used in the smaller Ecuadoran towns, principally Cuenca and Loja and adjacent communities, for malaria control, sewage disposal, hospitals and medical care for rubber workers engaged in the rubber program in Ecuador and such other projects as may be agreed upon.

3. The Inter-American Navigation Company, a subsidiary of the Office of the Coordinator of Inter-American Affairs, will send an expert to Ecuador to investigate the possibility of constructing a number of small wooden ships for coastwise trade.

4. The possibility of expediting delivery of military equipment under the Ecuadoran Lend-Lease Agreement is being explored. Two vessels suitable for patrol purposes will shortly be assigned to the United States Naval Mission in Ecuador and will be transferred to the Ecuadoran flag as soon as adequate provision has been made for the training of Ecuadoran officers and crews.

5. The Federal Bureau of Investigation is being requested to consider an invitation to the Chief of Carabineros to visit Washington for consultation regarding the extension of assistance to Ecuador for the training of the Carabinero force.

6. It was agreed that two mining fellowships will be available for duly qualified Ecuadoran students, one at Louisiana State College and the other at Pennsylvania State College. The Government of the United States will pay tuition and provide maintenance of \$100 per month."

HULL

⁶³ President Arroyo was in Washington on the invitation of President Roosevelt.

NEGOTIATION AND APPLICATION OF AN AGREEMENT CONCERNING
THE PRODUCTION AND EXPORT OF ECUADORAN RUBBER

811.20 Defense (M)/5743a : Telegram

The Acting Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, March 13, 1942—11 p. m.

157. Rubber Reserve Company⁶⁴ is prepared to enter into commitment to purchase entire production of rubber in Ecuador, except appropriate amount (to be agreed upon) necessary for domestic consumption, commitment to run for period of years, at prices to be negotiated but in general designed to increase output to maximum, agreement to contain other provisions appropriate for stimulating production of wild rubber. Please consult immediately with proper Ecuadoran authorities and request their immediate consideration of proposal, details to be worked out subsequently.

For your confidential information we have been reliably informed that representatives of Argentine Government plan to approach Ecuadoran Government with offer to buy entire output. It is urgent that this production be acquired by our Government and you are requested to take all appropriate measures to that end.

WELLES

622.3531/2 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, March 14, 1942—noon.

[Received 7:37 p. m.]

198. The Argentine Government has made preliminary overtures looking to a barter agreement which would involve supplying crude rubber from Ecuador in return for authorizing exports of tires from Argentina. The Minister of Finance⁶⁵ desires an expression of opinion as to the attitude of the United States to such an arrangement. Actually Argentina and other buyers are offering higher prices for Ecuadoran rubber than is being offered in the United States.

LONG

⁶⁴ United States purchasing agency operating under the Department of Commerce.

⁶⁵ Vicente Illingworth.

811.20 Defense (M)/5744: Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, March 16, 1942—6 p. m.

[Received March 17—12:30 a. m.]

204. Referring to the Department's 157, March 13, 11 p. m. Minister of Finance in principle is in sympathy with the Department's proposal and will oppose purchase agreement with any other nation. He would like to have negotiations begun as promptly as possible but says that the matter must be taken up with the Foreign Office. This will be done immediately and a further report submitted as soon as possible.

LONG

622.3531/2: Telegram

The Acting Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, March 17, 1942—9 p. m.

168. Your 198 March 14. The attitude of this Government is that it wishes to acquire all Ecuadoran rubber and requests you to take immediate steps to prevent the conclusion of any barter arrangement with Argentina or any other commitment with respect to Ecuadoran rubber. If Ecuadoran authorities agreeable in principle to the sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately to acquire it and is prepared to offer 35 cents per pound C & F United States continental ports for usual good quality Ecuadoran scrap as understood in New York (otherwise known as Manta or Andulla or Esmeralda Sausage Scrap), with other grades, if any, at appropriate differentials. It is understood that any Hevea type rubber is presumably exported through Brazil and loses its identification as Ecuadoran rubber. Reply urgently.

WELLES

811.20 Defense (M)/5806: Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, March 23, 1942—10 p. m.

[Received March 24—1:55 a. m.]

227. Reference Legation's telegram No. 215, March 19, 5 p. m.⁶⁶ The Legation is informed that the Argentine Chargé d'Affaires⁶⁷ has approached the Ecuadoran Government indicating that Argentina is very desirous to reach an early agreement regarding the purchase of

⁶⁶ Not printed.⁶⁷ A. Barbosa van Sice.

Ecuadoran rubber. The Ecuadoran Government has been requested to submit terms under which it would be agreeable to establish a Government control and monopoly on the exportation of rubber including minimum f.o.b. Guayaquil price, the duration of the contract and the amount of tires it would expect in return for crude rubber. The Chargé d'Affaires indicated that Argentina would be prepared to establish immediately a credit for 1 to 2 million pesos Argentine as a guarantee for the payment of rubber shipped and further indicated that if the Ecuadoran proposals were at all reasonable very little would be required in the way of negotiations.

Based on prices of actual shipments during February and March it is not believed that a price of less than 50 cents per pound f.o.b. Guayaquil could be accepted by the Ecuadoran Government for crude rubber or maroma. Two shipments of washed rubber and pressed rubber were made during March at 72 cents f.o.b. Guayaquil.

It is understood that the Minister of Finance has indicated to the Argentine Chargé d'Affaires that for the time being he cannot make a definite proposition. It is felt, however, that action by our Government should be taken promptly.

LONG

811.20 Defense (M)/5806 : Telegram

The Acting Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, March 27, 1942—9 p. m.

199. Your 227 of March 23. While the question of price is secondary to the urgent need for our acquisition of Ecuadoran rubber output, a system of competing with Argentina at successively higher prices as the negotiations proceed in the various Latin American producing countries would not procure for us the maximum of crude rubber. Dissatisfaction would result in countries where negotiations have been concluded. A price has now been agreed on with Brazil,⁶⁸ and Brazil is expected to be our biggest source of supply. If the price is too low to bring out the maximum amount it will be changed. Any local factors affecting price are of course to be taken into consideration in fixing the price. A further telegram will shortly be sent you outlining the general attitude of the Department in this connection.

Rubber Reserve Company is prepared to agree to pay a premium of 2½ cents per pound for rubber in excess of 300 tons purchased annually and of 5 cents per pound for rubber in excess of 600 tons annually, the premiums to be paid to the Ecuadoran Government for

⁶⁸ See telegram No. 640, March 13, 1942, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

use in increasing wild rubber production. In addition, Rubber Reserve would agree to establish a fund of \$500,000 for use in increasing wild rubber production, premiums paid as above referred to to be credited to the fund.

WELLES

811.20 Defense (M)/6016: Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, April 8, 1942—9 p. m.
[Received April 9—3:12 a. m.]

271. Reference Department's telegram No. 200, March 27, 10 p. m.⁶⁹ In a long conference the Minister of Finance indicated his approval in principle to the proposal for the purchase of Ecuador's entire rubber production by the Rubber Reserve Company. I am confidentially informed that before discussing this matter with me the Minister of Finance discussed it with the President⁷⁰ and his opinions were authoritative.

He stated that in order to construct a portion of trunk road to the principal rubber producing area a fund in excess of \$500,000 would be advisable and suggested \$1,000,000 but he thought this should be verified by technical studies. He also proposed that a bonus of 7½ cents be paid to the Government on annual purchases in excess of 1,000 tons and a 10 cents bonus on annual purchases in excess of 1500 tons. This would facilitate amortization of the larger cash advance.

The Minister of Finance requested a quota for tires for Ecuador but if this is not possible he requested assurance that tires would be allocated to Ecuador to cover needs for essential public service as provided to Americans in the United States plus needs for public transportation in Ecuador. This assurance is necessary to support the Government when announcing a monopoly on the sale of rubber in view of the reported offers by Argentina which includes the supplying of tires.

For the same reason he would appreciate receiving details as to the prices agreed upon in the contracts with other Latin American countries for rubber of a quality similar to that of Ecuador. He also asks if price of 35 cents (reference Department's telegram No. 168, March 7 [17], 9 p. m.) applies to "Andulla" type or to "Maroma" grade and what will be price for washed and pressed rubber.

LONG

⁶⁹ Not printed; according to this telegram the plan of the Rubber Reserve Company was to purchase through 1946, and this long-range plan offset any immediate price disadvantage.

⁷⁰ Carlos Arroyo del Rfo.

811.20 Defense (M)/6058: Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, April 20, 1942—11 p. m.

256. Your 271 of April 8 and 282 of April 10.⁷¹ While anything reasonably designed to increase rubber production, including the trunk road you refer to, will be favored, nevertheless it does not seem appropriate for this to be undertaken by Rubber Reserve out of the fund to be set up by it. This type of project is more closely related to the general development of Ecuador, and we suggest that it be carried out through the Ecuadoran Development Corporation.

The bonus payments suggested in your 271 would make the price to Ecuador out of line with other countries, and various other producing countries have requested assurances that no more favorable prices will be granted to the other producing countries. You can readily understand that it seems undesirable to vary the price from country to country for the same type of product without some justification for the difference.

You refer to amortization of the larger cash advance. The fund proposed to be set up by Rubber Reserve is not an advance, but a fund to be used to increase production which Ecuador is not obligated to repay. If there are any premiums paid, the amount of the fund not theretofore expended which Rubber Reserve is thereafter bound to provide is reduced by the amount of the premiums. Accordingly, there is no principle of amortization involved.

The Government has under consideration the fixing of quotas for the various Latin American countries for the purpose of allocating rubber products to be delivered from here, and while the basis of allocation and the adoption of any such principle generally has not yet been finally determined, in all probability it appears that Ecuador's essential needs will be provided and its agreement to send us rubber could be conditioned upon this being done.

The price offered to Ecuador is the same as that offered the other rubber producing countries for the same grade. All these prices are based on the price agreed upon with Brazil, which is 39 cents per pound f.o.b. Belem for Upriver Acre Fine on a washed and dried basis with appropriate differentials for unwashed types and lower grades. As pointed out in Department's no. 168 of March 17, 1942, it is understood that Ecuador does not produce any Hevea type rubber except that exported through Brazil. However, if there is any Hevea type rubber of the same grade as the top grade in Brazil, on a washed and

⁷¹ Latter not printed.

dried basis, Rubber Reserve Company is prepared to pay the same price as to Brazil.

If the Ecuadoran Government would prefer it, Rubber Reserve Company is prepared to pay 33 cents per pound f.o.b. Guayaquil instead of 35 cents c. & f. New York price already quoted.

The price quoted is intended to apply both to the Andulla type and to the Maroma grade. It is not possible to quote a price for washed and pressed rubber unless you can give us some information as to type and grade.

HULL

811.20 Defense (M)/6402 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, April 29, 1942—2 p. m.

[Received April 30—3:32 a. m.]

344. Embassy's telegram 271, April 8, 9 p. m. At a meeting this afternoon in the office of the Minister of Finance, Minister of Agriculture,⁷² Miguel Aspiazu and Pedro Leopoldo Nunez, representing the Chambers of Agriculture in Guayaquil and Quito, respectively, it was agreed in principle to contract with the United States through the Rubber Reserve Company for the sale of all Ecuadorean rubber for a period of 5 years in accordance with the terms provided in the Department's telegram 256, April 20, 11 p. m.

We were requested to present a draft of the contract, which Rubber Reserve Company wishes to sign, in order that a detailed provision might be discussed. In this connection, the group desired a copy of a contract signed with some other American Republic which would serve as an indication of the conditions which are being granted. There should also be an indication as to who will act for Rubber Reserve Company in signing any contract.

In addition the group desires information on the following points:

1. What technical or advisory assistance will be given in the formation of an organization to implement the contract.

2. A definition of the "essential needs" of Ecuador for manufacture of rubber since Ecuador feels that it must be able to count on receiving tires for its public transport system. Information is also required regarding the manner in which tires are to be made available for private automobiles and an indication of the basis used for distribution in the United States. It is hoped that a specific quota on a moderately liberal basis can soon be announced.

3. Information regarding the manner in which payments will be made from the allotment of \$500,000 as well as information as to any

⁷² Ricardo Crespo Ordóñez.

controls or accounting which will be required. Ecuador desires to be assured that a substantial portion of the amount will be available on signature of the contract.

LONG

811.20 Defense (M)/6402

The Secretary of State to the Ambassador in Ecuador (Long)

No. 1119

WASHINGTON, May 27, 1942.

The Secretary of State transmits herewith copies of a draft agreement between Rubber Reserve Company and the Republic of Ecuador,⁷³ providing for the purchase by Rubber Reserve Company of the exportable surplus of wild rubber produced in Ecuador. The contract has been drafted on the basis of the telegrams recently exchanged between the Ambassador and the Secretary of State.

It will be noted that under paragraph 6 of the agreement, a development fund of \$500,000 is to be expended by Rubber Reserve Company. In the very near future Rubber Reserve plans to establish an agency in Ecuador in order to correlate all plans of this Government with respect to rubber development work in Ecuador. Such agency would, of course, operate under the supervision of the Embassy and only to the extent approved by the Government of Ecuador. This agency would be under an administrative head and would furnish the technical or advisory assistants referred to in paragraph number one of the Embassy's telegram 344 of April 29, 1942. In addition, this organization would make and carry out all the necessary arrangements relating to the purchase of rubber.

It will be noted that certain provisions of the contract are given in general terms. In other countries it has been found desirable to commence operations on this basis and to work out the details as the matter proceeds. The organization which it is planned to send to Ecuador will be prepared to discuss and decide these matters, which include the price differentials to be paid for various grades of rubber.

Paragraph 3 of the draft agreement provides for the fixing of an amount as sufficient to satisfy the essential requirements of Ecuador for rubber products. On the basis of information available here, it appears that, even on a very liberal basis, this amount should be approximately 100 tons. It will be noted that the agreement contemplates an increase in this amount for justifiable causes.

⁷³ Not printed. The draft agreement provided that the Rubber Reserve Company should have an exclusive right to buy Ecuadoran rubber except for an amount stipulated for domestic use. The Company was to pay a fixed price per pound, provide shipping, and establish a fund for developing raw rubber production. Ecuador agreed to prevent hoarding and to provide a fair wage to the laborers. For the text of a similar agreement with Brazil, see telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

The proposed agency of Rubber Reserve Company will be fully informed with respect to the conservation measures in effect in the United States, including the information referred to in paragraph two of the Embassy's telegram no. 344 of April 29.

It is suggested that the Ambassador request the appropriate officials of the Ecuadoran Government to issue an embargo on the export of crude rubber and of rubber products pending the signature of the agreement.

It is suggested that when the form of the contract has been agreed to, it be signed by the Republic of Ecuador and forwarded to the Ecuadoran Embassy here for delivery to the Department to obtain the signature of Rubber Reserve Company. At that time notes would be exchanged here between the Department and the Ecuadoran Embassy confirming the execution of the agreement.

811.20 Defense (M)/7435

The Ambassador in Ecuador (Long) to the Secretary of State

No. 3142

QUITO, June 19, 1942.

[Received June 24.]

SIR: I have the honor to report that, following the receipt of the Department's telegram No. 423 of June 17, 10 p. m.,⁷⁴ an appointment was made to discuss the rubber purchasing agreement with the Minister of Finance. Messrs. Lamb,⁷⁵ Tewksbury,⁷⁶ and I called on Mr. Illingworth late yesterday afternoon, and he is in accord in principle with all of the conditions outlined in the various instructions from the Department.

The Minister of Finance stated that it would be necessary to issue a decree by which stocks of rubber would be embargoed and exportation of rubber to any country, except the United States would be prohibited. Provision would be made in the decree for the payment of the price established in the contract for all stocks of rubber now on hand in ports in Ecuador. The decree would also authorize some member of the Government to sign a contract on behalf of Ecuador for the purchase of rubber.

The one point regarding which Mr. Illingworth apparently feels somewhat uneasy is the question of rubber which has been purchased by Ecuadoran exporters and which may have been purchased at prices in excess of 33 cents. He inquired if there was not some provision

⁷⁴ Not printed.

⁷⁵ Eric Lamb of the Rubber Reserve Company.

⁷⁶ Howard H. Tewksbury, Commercial Attaché.

which could be made to protect Ecuadoran exporters who have made legitimate purchases, indicating that the Ecuadoran Government would be prepared to carefully check all such purchases and refuse to give consideration to any cases concerning which there was the slightest doubt. It was emphasized that the Rubber Reserve did not contemplate protecting Ecuadoran exporters and that to do so would establish a precedent which would be very prejudicial to pending negotiations with other countries.

Mr. Illingworth was under the impression that there were probably large stocks of rubber in the ports, but the latest figures that he had covered such stocks as of April 28. Figures which were compiled in the Consulate General indicated that there were approximately 270 tons of rubber on hand as of June 13. It is not believed that stocks in other ports exceed 50 or 60 tons. Thus the rubber exportable at present is not excessive.

It was explained to the Minister of Finance that Rubber Reserve had authorized Grace & Company to purchase all available stocks on hand as soon as the agreement was concluded, and that Grace & Company had indicated that in all probability most of the rubber held in ports had been purchased at less than 33 cents per pound. Mr. Illingworth was pleased that arrangements had been made whereby purchases could be undertaken immediately following any decree which might be issued by the Government restricting exports of rubber.

Mr. Illingworth indicated that he would immediately discuss the entire matter with the President and the Minister of Agriculture in order to conclude as rapidly as possible the final details in connection with the agreement.

Respectfully yours,

BOAZ LONG

811.20 Defense (M)/7573: Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, July 4, 1942—11 a. m.

[Received 3:30 p. m.]

550. My telegram No. 546, July 3, 9 a. m.⁷⁷ I am confidentially informed that at last night's Cabinet Council Meeting an agreement is said to have been reached which changes the rubber agreement substantially in favor of Ecuador. As today is a holiday we do not expect details until Monday.

LONG

⁷⁷ Not printed.

811.20 Defense (M)/7595 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, July 6, 1942—3 p. m.

[Received 11:28 p. m.]

555. I called on the President this morning to say we had been informed that 172 tons of rubber were being shipped southward from Guayaquil about July 8 and to ask whether decrees as prepared some time ago (see enclosures to despatch No. 3156, June 23)⁷⁸ could not now be signed, thus carrying out the spirit and substance of our understanding.

After some discussion, the President dictated the following which in translation reads:

“The Cabinet in three consecutive sessions has been engaged in the study of the decrees referring to rubber. It has made some modifications which while preserving in substance the exclusive exportation to the United States through the Reserve avoid the constitutional difficulty of declaring a monopoly. The matter has been settled in a definitive manner. (See solution outlined in section 3 of this telegram.⁷⁹)

The Government has some changes which could be considered of minor importance or of terminology. The only important change is with reference to the premiums of 2½ cents (and 5 cents) which according to the contract would have to be applied to the unexpended balance of the development fund of \$500,000. This fund is to be spent by Reserve according to its judgment and the Government of Ecuador complains that if the expenditure does not depend on this Government it would be unjust for premiums which it should receive to be applied to the said balance as this is an expenditure over which it (the Government) has no jurisdiction. The Government believes that if the contract were thus drafted the case might arise where it would not actually receive the premiums if these had to be applied to the development fund which the Reserve in its judgment might not have spent.

The Government suggests one of the following: (1) that the expenditure of the development fund be made by the Government in order that then in case this had not been completed up to 1944 the premiums may be applied to the unexpended balance; (2) that if it is desired that this expenditure (development fund) be left to the judgment of the Reserve the payment of the premiums be independent and be made directly to the Ecuadoran Government, as said premiums become available.”

In continuation the Executive spoke about as follows: the first decree would provide that no rubber shipments could be made save

⁷⁸ Not printed.

⁷⁹ See penultimate paragraph of this telegram.

to countries designated by mutual arrangement. In another decree the President would permit exports only to the order of the Rubber Reserve Company. He concluded: "Now the responsibility is with you. Should your Government accept either of the above suggestions, we will endeavor to sign quickly and might be able to finish the business in a day or two."

The President's second proposal may offer a formula for definitely concluding the rubber agreement. Carlton⁸⁰ concurs.

LONG

811.20 Defense (M)/7594: Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, July 7, 1942—4 p. m.

487. Your 555 and 557 of July 6.⁸¹ Rubber Reserve agrees that premiums do not have to be deducted from unexpended balance of development fund but shall be paid to Ecuadoran Government independently of status of fund and used by Ecuadoran Government for financing the immediate expansion of production and improvement of quality of wild rubber in Ecuador. The amounts so paid should not be used by the Government to increase the price paid to producers, since this may throw out of line prices paid in Ecuador and in neighboring countries.

If it is necessary to obtain the signature of the agreement within the next day or two, you are requested to inform the Ecuadoran officials that this Government regards it as of the greatest importance that the agreement be concluded immediately. For a period of approximately a month the agreement is supposed to have been ready for signature and no action has yet been taken but instead additional suggestions put forward by the Ecuadoran authorities. In the meantime rubber shipments appear to be continuing to other countries. For instance Consul at Guayaquil in telegram 137 of July 1⁸² reports a total of approximately 242 tons for shipment to Argentina, Chile and Mexico. . . .

Please advise triple priority when agreement has been signed so announcement can be made here.

HULL

⁸⁰ Marshall G. Carlton, rubber expert of the Rubber Reserve Company.

⁸¹ No. 557 not printed.

⁸² Not printed.

811.20 Defense (M)/8075

The Ambassador in Ecuador (Long) to the Secretary of State

No. 3289

QUITO, July 21, 1942.

[Received August 1.]

SIR: I have the honor to refer to the Embassy's despatch no. 3287 of July 18⁸³ regarding developments in our negotiations for a rubber contract.

The Decree (No. 1192), authorizing the Ministers of Agriculture and of Finance to sign a contract with the Rubber Reserve Company, was approved by the President on the morning of July 20. Following the approval of the Decree, the formal contract was drawn up both in English and in Spanish, and this was signed in duplicate in the two languages in the afternoon.

A signed copy of the Spanish contract and the original signed copy of the English are attached.⁸⁴ It is understood that these copies were desired for the files of the Rubber Reserve Company.

Copies of the signed contracts are also attached for the use of the Department.

Respectfully submitted,

For the Ambassador:
HOWARD H. TEWKSBURY
Commercial Attaché

811.20 Defense (M)/7945: Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, July 27, 1942—5 p. m.

[Received July 28—11:26 a. m.]

615. Reynolds⁸⁵ to Rosenthal⁸⁶ and Bicknell.⁸⁷ It is view of the Ambassador and Ecuadoran officials concerned that rubber development and collection should be handled by Ecuadoran Development Corporation. I concur this view and suggest following action.

(1) Arrange a contract in Washington at once between Rubber Reserve and Ecuadoran Development Corporation similar to the chicle contract which contract should authorize Development Corporation to make necessary contracts here with other individuals and companies

⁸³ Not printed; it indicated some disquietude that rubber exports destined for Argentina were blocked at Guayaquil through United States pressure (811.20 Defense (M)/7897).

⁸⁴ Not printed.

⁸⁵ Presumably George M. Reynolds of the Board of Economic Warfare.

⁸⁶ Morris Rosenthal, Assistant Executive Director of the Board of Economic Warfare.

⁸⁷ John W. Bicknell, Vice President of the Rubber Reserve Company.

using development fund. This contract should require approval of local Rubber Reserve representative on development expenditures of under \$10,000 and in addition Washington approval on larger expenditures particularly on road and transportation expenditures. Contracts should be subject to cancellation by either party on 30 days' notice. Rubber Reserve to make no other development contracts in Ecuador. Development Corporation to be responsible for collection and development program and delivery of rubber to Rubber Reserve at ports designated by Reserve. The Corporation will distribute supplies, establish necessary communication transportation, appoint buying agents at agreed points, employ other necessary personnel to handle development collection and delivery of rubber to seaboard.

(2) Suggest you confer immediately with Kinnear⁸⁸ and have him bring in David Yale who Development Corporation plans to employ for rubber work. If satisfactory send him down at once. If not select another man satisfactory to Kinnear, Rubber Reserve, and BEW. Kinnear will [be?] authorized by Lamb to act for Development Corporation on contract and selection of staff.

(3) Suggest Rubber Reserve in its contract with Development Corporation agree to pay all expenses of rubber program including salaries of employees working on rubber plus not exceeding one-half cent per pound for management commissions.

(4) Pending formal agreement with Development Corporation Wylie⁸⁹ should have letter of credit for \$50,000 to start work immediately on collection and development projects now ready for action. These arrangements to be worked out by Wylie cooperating with Lamb and in name of Development Corporation and to be financed with above letter of credit by advances to Development Corporation.

(5) It will be necessary to maintain small Rubber Reserve staff here to perform following important functions: to obtain complete knowledge of rubber areas, to report weekly on progress of Development Corporation, to cooperate with and stimulate projects to be carried out by Development Corporation, arrange for purchase of supplies in United States needed in rubber program, take over rubber at port and arrange shipping, in cooperation with Embassy, encourage rationing program in Ecuador and arrange through Rubber Reserve and BEW for necessary finished rubber products for Ecuador, pay out development fund as provided by contract, make premium payments to proper Government officials, direct work of Rubber Reserve technicians, audit Development Corporation books on rubber ex-

⁸⁸ Edwin R. Kinnear, representative of the Ecuadoran Development Corporation.

⁸⁹ David S. Wylie, representative of the Rubber Reserve Company.

penditures. It should be made clear in contract that Rubber Reserve or BEW representative shall be entitled to full information at all times and that Rubber Reserve representative in Ecuador shall be an active participant in settling major questions of policy.

It is extremely important if agreement is made with Development Corporation that Kinnear and rubber man selected reach here within a week.

(6) Please cable at once if it is decided to work out above arrangement. Please clear any with us here major changes. [Reynolds.]

LONG

811.20 Defense (M)/7945: Telegram

The Acting Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, August 1, 1942—5 p. m.

557. For Reynolds. Your 615, July 27 and 232, July 30.⁹⁰ Substantial agreement has been reached with Kinnear and Moore⁹¹ along lines outlined by you. Certain details remaining to be agreed upon are expected to be settled on Monday or Tuesday. The only important variation from your plan is that Rubber Reserve may make other contracts with respect to rubber in Ecuador after suitable notice to the corporation, the amount of notice required now being under discussion.

Question of management commissions not yet discussed. It is acceptable to BEW and will be discussed with Kinnear on Monday.

WELLES

811.20 Defense (M)/8069: Telegram

The Acting Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, August 4, 1942—11 p. m.

562. Your 626, July 31 and 632, August 1.⁹² Rubber Reserve has instructed Grace and Company to purchase rubber at agreement price pending conclusion of arrangements with Ecuadorian Development Corporation. Reports received from Grace and Company indicate rubber destined for Argentina referred to in your no. 587 of July 18⁹³ has been acquired for Rubber Reserve. Please confirm.

WELLES

⁹⁰ Latter not printed.

⁹¹ Ross E. Moore, Office of Foreign Agricultural Relations, Department of Agriculture.

⁹² Neither printed.

⁹³ Not printed.

822.24/341 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, August 31, 1942—9 p. m.

[Received September 1—11:30 a. m.]

708. In a long conference with the Minister of Finance at which Wiley and Lowry⁹⁴ were present he pointed out that under the contract Rubber Reserve agreed to supply the essential requirements of Ecuador and that up to the present time no tires have been received nor has any indication been given as to when these may be expected. This despite shipments of approximately 590 tons of crude rubber to the United States. A shipment 810 tires are now due to arrive from Argentina and criticism of the contract is mounting. The Minister feels that immediate shipments must be made by us in order to counteract this and has suggested the following as a means of expediting deliveries. See the Embassy's telegram No. 660, August 14, 7 p. m., and Department's telegram 607, August 19, 11 p. m.⁹⁵

The Minister desires to submit a single Certificate of Necessity to Rubber Reserve covering the balance of tires provided in the quota the third quarter. The Certificate of Necessity would specify in detail the number of each passenger car and truck tires according to size which are required to complete this quota and shipment would be made by Rubber Reserve direct to the Office of Priorities and Distribution of Importations regardless of the particular brand, but only recognized first quality tires would be supplied. The Office of Priorities would establish the necessary credit and would assume responsibility for the equitable distribution of shipment among the various dealers. It is requested that an immediate answer be given as to whether the balance of the third quarter quota can be handled in this way. If not, please suggest means by which immediate shipments can go forward for the situation is becoming critical. In any event please indicate approximately how soon some shipments may be expected.

In addition to the Minister's comments reference is made to paragraph 4 of the Embassy's telegram No. 694, August 26, 6 p. m.⁹⁶ It is reported by the Ecuadoran representative of the Michelin Company in Argentina who is receiving the 810 tires that his principals announce they can supply approximately 3,500 additional tires for Ecuador. It

⁹⁴ Walker W. Lowry, representative of the Rubber Reserve Company.

⁹⁵ Neither printed. In his telegram No. 660, the Ambassador asked for information concerning shipments of tires and food needed in Ecuador; in Department's telegram No. 607, the Embassy was reminded that few Certificates of Necessity for these commodities had been presented (822.24/319, 322a).

⁹⁶ Not printed; paragraph 4 of this telegram reported that Argentina was supplying Ecuador with 900 tires and might eventually acquire a part of Ecuador's rubber unless the United States acted immediately (811.20 Defense (M)/8619).

is stated that these arrangements are possible in conformity with a reported Argentine decree effective May 1 authorizing the exportation of tires and other products to countries shipping crude rubber to Argentina. It is said that Argentine firms can supply tires up to 25% of the weight of crude rubber received and other products up to 5%. Presumably above shipments would represent 25% of the crude rubber shipped from Ecuador to Argentina between January 1 and July 8. Argentina seems to be doing whatever possible to discredit our contract and it is essential that Rubber Reserve deliver some tires in Ecuador without any delay.

LONG

811.20 Defense (M)/9369 : Telegram

The Acting Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, October 10, 1942—3 p. m.

736. Your A-66, September 24.⁹⁷ The Department has discussed this matter fully with Rubber Reserve, Board of Economic Warfare, Export-Import Bank and Dr. Moore. It concurs fully in the objective of having the Development Corporation play an active and substantial part in the rubber program. While recognizing the factors pointed out by the Minister of Finance, the urgent need of the United Nations for rubber leads the Department to the view that Rubber Reserve should be permitted to continue its operations.

However, in order that the Corporation may be afforded the opportunity of maximum progress in rubber, Rubber Reserve is prepared to agree that the development fund of \$500,000 shall be expended by the Corporation in projects approved by Rubber Reserve, the amounts necessary to carry out each particular project to be transferred by Rubber Reserve to the Corporation upon its approval of the project. Provision would be made for periodic accounting by the Corporation to Rubber Reserve for expenditures theretofore made. Rubber Reserve would remain free to continue operations, and Rubber Reserve would establish, in favor of its representatives in Ecuador, credits available for financing operations initiated by Rubber Reserve.

This proposal has the merit of carrying out what is understood to have been Illingworth's expectation at the time the rubber agreement was signed. It also puts the Corporation in a position to take an energetic part in the rubber program. The success of the arrangement will naturally depend to a considerable extent on the ability of the

⁹⁷ Not printed; in this airgram the Ambassador commented upon the proposal to turn over to the Ecuadoran Development Corporation for exploitation a wild rubber area that the Rubber Reserve Company was expected to develop.

Corporation and of the Rubber Reserve local representatives to plan their activities to their mutual satisfaction. The Department would anticipate no difficulty in this respect. It will be particularly necessary for them to agree on prices to be paid producers.

Moore and Mercereau⁹⁸ will bring with them documents intended to express the suggested arrangement. Pending their arrival please do not inform Ecuadoran authorities of proposal, but it is suggested you advise Rubber Reserve for its confidential information. Moore and Mercereau will discuss the matter with Kinnear upon their arrival.

WELLES

811.20 Defense (M)/9636 : Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, October 14, 1942—6 p. m.
[Received October 15—3:11 a. m.]

842. For Collado⁹⁹ and Cissel.¹ The letter agreement with Rubber Reserve has been approved by the Corporation with no change except for slight revision in phraseology.

The letter agreement will be signed both in English and in Spanish, the Spanish being an accurate translation. Both texts in airmail but conditions indicate desirability of immediate approval by Rubber Reserve by cable which would authorize Lowry to sign both texts. Ecuadoran Government approves agreement. No further changes possible in either text.

Ecuadoran Government suggests and we concur that Rubber Reserve representative here be given full and immediate authority to approve projects under terms of letter agreement.

The full English text is as follows:

“In accordance with the terms of the agreement entered into on July 20, 1942, and ratified as a public contract on September 18, 1942,² between the Government of the Republic of Ecuador and Rubber Reserve Company, Rubber Reserve Company agreed to establish a non-reimbursable development fund of \$500,000, hereinafter called the fund, to be expended by the Rubber Reserve Company according to its judgment and taking into account the suggestions of the advisor of the Ecuadoran Government to encourage and increase the production and improve the quality of rubber produced in Ecuador

⁹⁸ James F. Mercereau, official of the Export-Import Bank.

⁹⁹ Emilio G. Collado, Executive Secretary, Board of Economic Operations of the Department of State.

¹ T. Ross Cissel, Assistant Chief, Division of Defense Materials, Department of State.

² For a brief indication of the principal terms, see instruction No. 1119, May 27, and footnote 73, p. 402.

and the methods of treatment thereof and to stimulate favorable conditions for maximum production.

As the result of subsequent discussions between your representatives and representatives of Rubber Reserve Company as to methods by which your organization might, to the greatest feasible extent, engage in activities designed to obtain the maximum production of rubber in Ecuador, Corporación Ecuatoriana de Fomento and Rubber Reserve Company have agreed as follows:

The fund of \$500,000 referred to above shall be expended by Corporación de Fomento on projects designed to encourage and increase the production of existing natural rubber resources of Ecuador, to improve the quality of such rubber and the method of its treatment and to stimulate favorable conditions for its maximum production. Prior to undertaking any such projects, to be financed from the fund referred to above, Corporación Ecuatoriana de Fomento will submit such project to Rubber Reserve Company for its approval, and, upon such approval, Rubber Reserve Company will transfer to Corporación Ecuatoriana de Fomento such part of the fund as is required to carry out such project. Corporación Ecuatoriana de Fomento shall render to Rubber Reserve a monthly statement of expenditures made by it from the amounts so transferred.

In addition to the projects to be undertaken by and through the Ecuadoran Development Corporation as contemplated above both Rubber Reserve Company and the Ecuadoran Development Corporation intend to initiate and continue additional projects for the purpose of obtaining the maximum development of existing natural rubber resources of Ecuador and Rubber Reserve will from time to time make expenditures in addition to the fund above mentioned as appear to it desirable to effectuate such purpose.

This agreement shall become effective upon the approval of the Government of the Republic of Ecuador which approval shall include the consent by the Government of the Republic of Ecuador to the transfers from the funds under the conditions mentioned above, as performance of the obligations of Rubber Reserve Company with respect to the development fund provided for under clause 6 of the agreement of July 20, 1942, to the extent of the amounts transferred by Rubber Reserve Company.

If the foregoing is in accordance with your understanding of the agreement between Corporación Ecuatoriana de Fomento and Rubber Reserve Company, kindly indicate that fact by signing the enclosed copy of this letter in the space provided for that purpose and return it to the undersigned."

The approval reads as follows:

"The Government of the Republic of Ecuador hereby approves the foregoing agreement between Corporación Ecuatoriana de Fomento and Rubber Reserve Company, and hereby consents to the transfers from the funds referred to therein as constituting, to the extent of the amounts so transferred, full performance by Rubber Reserve Company of its obligations with respect to the development fund provided for under clause 6 of the aforesaid agreement of July 20, 1942."

LONG

811.20 Defense (M)/9636: Telegram

The Acting Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, October 16, 1942—9 p. m.

757. Your 842, October 14. Rubber Reserve Company approves letter agreement in form quoted by you and authorizes Lowry to execute on its behalf both English and Spanish texts of the agreement. Rubber Reserve also authorizes Lowry on its behalf to approve projects submitted by Ecuadoran Development Corporation under the terms of the letter agreement.

WELLES

811.20 Defense (M)/10165c: Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, November 6, 1942—8 p. m.

814. For Lowry from Rubber Reserve. The following is intended to give you our ideas as to the purpose and scope of development funds. The sooner useful projects can be developed and financed, the sooner we will get rubber.

In general development funds may be used for any purpose which will serve to procure more rubber.

1. The funds may be used for permanent improvements, such as construction of airports, roads, wharves, ship repair units, houses, drainage and health facilities, provided such projects contribute to the production of rubber, and, of course, further provided that such projects shall have been initiated or approved by the appropriate authorities of the governments concerned, to whatever extent the Rubber Agreement and local laws require.

2. The funds can be used to acquire and repair transportation equipment which will contribute to rubber production.

3. They can be used to facilitate distribution of supplies and movement of workers into the producing areas.

4. They can be used to make available medicines, foodstuffs and other supplies at less than cost to Rubber Reserve if advisable.

5. They can be used to equalize or defray freight and forwarding costs. For instance, if it is desired to stimulate production in the interior, you may use development funds to absorb freight charges either partially or wholly on supplies of rubber between the interior and the f.o.b. buying points.

6. You may use development funds to create more powerful incentives for the movement of additional labor into the rubber areas; to improve living and working conditions in producing areas with a view to retaining the laborers now there and increasing their productivity.

7. The criterion by which such expenditures should be judged is whether there is a reasonable expectation that they will result in giving us additional rubber.

8. We request that you explore, as promptly as possible, into the feasibility of initiating projects in addition to any which may already be under consideration, so that rubber will begin to flow to us in greater quantities at the earliest possible date.

It is emphasized that you are already authorized to commit up to \$10,000 a single project without prior approval from here, but that as stated in our previous communications, if sums in excess of this amount are involved, such approval must be obtained. [Rubber Reserve.]

HULL

EFFORTS OF THE UNITED STATES AND ECUADORAN GOVERNMENTS
TO CONTROL FINANCIAL TRANSACTIONS INVOLVING THE AXIS

811.51/4458

The Ambassador in Ecuador (Long) to the Secretary of State

No. 3307

QUITO, July 24, 1942.

[Received July 28.]

SIR: I have the honor to refer to the Embassy's Despatch No. 3257 of July 14, 1942,³ concerning the restrictions which have been placed by the Banco Central on United States currency transactions.

This matter has been discussed with the Minister of Finance,⁴ who has been somewhat disturbed by the provisions adopted by the Banco Central. After discussing with the Minister of Finance and Mr. Friedman of the United States Treasury Department the regulations which have been adopted in the United States and by other American Republics, Mr. Friedman has drawn up a proposed decree which would regulate all transactions in United States currency in Ecuador, as well as the importation and exportation of United States currency.⁵ The Minister is now studying the matter and probably will soon prepare a revised draft decree. From the course of the discussions it seems likely that the draft submitted by the Minister will be considerably changed.

In the proposed draft there is a provision which would permit travelers coming into Ecuador from the United States to carry with them amounts of currency not exceeding fifty dollars in any one

³ Not printed.

⁴ Vicente Illingworth.

⁵ This was to supplement a decree of February 9 by which transactions with individuals and firms on the Proclaimed List were prohibited, banks were required to block the accounts of Axis nationals, and the Central Bank was authorized to administer these accounts which could be used for certain limited purposes.

month. In view of the fact that we are not well acquainted with the character of the export control which is now in effect in Panama and the United States, we would appreciate your advice as to the desirability of eliminating such a provision entirely.

We would also appreciate the Department's comments with respect to one point raised by the Minister of Finance. The Minister desires some assurance that, if Ecuador requires all persons within the country to deliver all United States money to the Banco Central, such money will be purchased by the United States Government. The Minister feels that this arrangement could be worked out somewhat as follows:

Upon delivery of the dollars to the Banco Central, the dollars would be placed in blocked accounts. The persons for whose accounts such deposits were made would be given an opportunity to file proof that these dollars had not come from any Axis source. If the Minister is satisfied with this proof, he would authorize the Banco Central to pay to the depositor an equivalent amount of sucres for the dollars. In this case the dollars would then be transmitted to the Federal Reserve Bank or the Treasury Department by the Banco Central. In cases where the Minister is not satisfied as to the origin of the dollars, he would nevertheless like the dollars to be converted into sucres, the sucres to be retained in the blocked account and not returned to the owner, and the dollars to be sold by the Banco Central to the Federal Reserve Bank. There may well be several objections to this procedure, but it seems desirable that we be in a position to give the Minister a definitive answer in this respect.

As long as Mr. Illingworth remains in office as Minister of Finance, it is believed that the payments of sucres to certain depositors and the retention of sucres in blocked accounts would be carefully controlled. However, if there should be a change in the Ministry of Finance, the situation might be different and there does not seem to be any sound objection to requiring that dollars of uncertain origin be retained in a blocked dollar account in the Banco Central rather than maintaining blocked accounts of sucres.

We propose to discuss the matter further with Minister Illingworth upon the basis of the enclosed draft decree.⁶

Respectfully yours,

For the Ambassador:
ROLLIN S. ATWOOD
Junior Economic Analyst

⁶ Not printed.

840.51 Frozen Credits/7293

The Ambassador in Ecuador (Long) to the Secretary of State

No. 3326

QUITO, July 29, 1942.

[Received August 6.]

SIR: I have the honor to inform the Department that long before the receipt of the Department's instruction No. 1251 of July 20,⁷ we became disturbed because of the receipt of evidence which we deemed to be reliable that the provisions of the Decree of February 9, 1942 were being laxly administered.

Our evidence comes from the Consulate General and contact with our British colleagues. It looks like substantial evidence but we must remember that the Decree was virtually a wholesale freezing measure and probably caught a considerable number of accounts, particularly those belonging to Italians who were not regarded (by some) as sympathetic to the Axis.

METHODS FOR IMPROVING ADMINISTRATION

It is suspected that little could be accomplished in the way of improving the administration without direct authorization from the Executive, who is one of Ecuador's outstanding lawyers, numbering among his former clients many of the leading business people of the country.

At the time of deporting Axis nationals we learned some lessons, namely that there was a divergence of opinion as to which of the former clients were pro-Axis. In the light of this experience we are inclined to believe that evidence against firms or even other evidence, which could not stand up under the severe attack of talented lawyers, might possibly be omitted in our initial negotiations and our efforts might preferably be guided along the following lines:

a) That as six months has elapsed since the issuance of the Decree we would appreciate it if an examination might be made of the results of the administration under the committees of three at Guayaquil and Quito, and that we would be disposed to assist in an examination of the record supplying at our own expense the American personnel necessary to collaborate in this survey.

b) Should the survey reveal as many violations as we think have taken place we might possibly then be in a position to continue our representatives, having them appointed as members of the Committees or as technical assistants.

Our telegram no. 620 of July 28, 5 p. m.⁸ requested instructions. However, it failed to mention that our British colleague would pre-

⁷ Not printed; it concerned the investigation of the Ecuadoran Committee that handled the freezing of Axis assets (840.51 Frozen Credits/6638).

⁸ Not printed.

fer to take joint action. The Department's advice on this particular point is requested. It is my own impression that parallel action might accomplish the same results, although I have no objection to the joint action if the Department approves.

One of the problems to be faced in the event the Ecuadoran Government should accept our offer to lend a technician to examine the records would be the finding of the individual who could do the job. There are no competent certified public accountants in this country so far as we know, however we are inclined to believe that we could take a member of the staff of the Economic and Reporting Section of the Embassy who has a pretty fair background extending over a period of years.

We recognize, of course, that we have no individual who might be as skillful at this particular task as some of the accountants of the large foreign companies located in Ecuador. For example, the British Anglo-Ecuadoran Oilfields Ltd., or the South American Development Company. Possibly one or both would lend a competent technician. If not we might be able to get someone from the Ecuadoran Corporation (Norton Interests) who would be available on a part time basis.

Respectfully yours,

BOAZ LONG

811.51/4476 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, August 7, 1942—6 p. m.

572. Your despatch no. 3307, July 24, 1942; Department's telegram no. 506, July 9, 1942, 9 p. m., and your unnumbered telegram of August 5, 11 a. m.⁹ The proposed decree submitted with your above-mentioned despatch provides that the Minister of Finance may determine whether dollars delivered to the Banco Central del Ecuador may be converted into sucres. It was stressed in the Department's above-mentioned telegram of July 9 that currency held in the Central Bank on that date would be accepted by the United States Treasury Department upon the basis of controls outlined in that telegram being instituted and effectively enforced. It was stated that any other currency should be forwarded to the United States through the Central Bank on a collection basis, except for amounts under \$50 received from travelers from the United States and except for remittances under \$50 received in Ecuador from Ecuadoran citizens working in Panama upon presentation of a letter and the postmarked envelope indicating that

⁹ Telegrams not printed.

the funds were forwarded from Panama. The Department and Treasury strongly urge that the proposed decree be amended to provide that such currency be accepted by the Central Bank on a collection basis only. No assurances can be given the Central Bank that any currency, except currency held by the Central Bank on July 9, 1942 and amounts under \$50 accepted from travellers from the United States and remittances under \$50 from Panama as described above, will be accepted for redemption in the United States. In this connection you should point out to the appropriate Ecuadoran authorities that practically all of the other American Republics have instituted United States currency controls supplementing those established by this Government and that those controls provide that currency will be accepted on a collection basis only.

Relative to your inquiry concerning the provision which would allow travellers entering Ecuador from the United States to carry with them amounts of \$50 in any one month, it is the view of the Department and the Treasury Department that such provision is not objectionable.

With reference to your unnumbered telegram of August 5, 11 a. m., the matter has been discussed with Treasury and it is felt that the questions raised by you must be answered in the negative. Should this Government accept currency converted by the local Ecuadoran agency, either for free or blocked sucres, special privileges would be accorded to Ecuador which have not been accorded to the other American republics which have already instituted appropriate controls over the movement of dollar currency. It is believed that this Government would be open to criticism if it should thus discriminate at this time between the other American republics in favor of Ecuador. In addition, the U.S. Treasury alone is in a position to determine whether currency is counterfeit.

HULL

811.51/4498: Telegram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITTO, August 11, 1942—9 p. m.
[Received August 12—12:48 a. m.]

650. The Minister of Finance has submitted to the President for approval a decree regulating dealings in United States currency which conforms with the instructions of the Department¹⁰ except that remittance by Ecuadoran workers in any foreign country up to \$50 monthly will be accepted up to September 30. Tourists with passports issued by Ecuadoran or American authorities may cash

¹⁰ Reference appears to be to telegram No. 572, August 7, 6 p. m., *supra*.

amounts up to \$50 monthly up to September 30. After this date neither provision will be effective. In view of the very limited amounts which will be involved as a result of these modifications and in view of the generally favorable character of the decree it is recommended that no objection be made to these provisions. The Minister of Finance requests that the Treasury Department give assurances that if the United States currency forwarded from Ecuador to the Federal Reserve Bank is found to be of Axis origin this will be returned to the Central Bank to be held in the blocked account of the depositor. He feels very strongly on this point. No indication was given as to what decision the Treasury Department might make. An early reply is requested.

LONG

811.51/4498 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, August 20, 1942—7 p. m.

610. Your 650, August 11, 9 p. m. Treasury is opposed to making any commitment with respect to currency forwarded by the Central Bank to the United States for collection and found to have an Axis taint. All of the other countries in the Western Hemisphere in a position similar to that of Ecuador have made arrangements which do not provide for the return of Axis tainted currency. If the Finance Minister cannot be induced to change his position, it would be preferable to delay any decision until the currency is actually forwarded to the United States since it is not known at the present time precisely how much, if any, currency of this character will be forwarded. Each case can then be discussed as it arises in an endeavor to work out mutually satisfactory arrangements.

HULL

840.51 Frozen Credits/8393

The Ambassador in Ecuador (Long) to the Secretary of State

No. 3721

QUITO, November 4, 1942.

[Received November 18.]

SIR: I have the honor to report that a conference was held this morning by the Ambassador, the Minister of Finance, and the writer, at which time the question of freezing controls was discussed. The Minister of Finance explained that he did not consider there was sufficient time to effectively revise the existing legislation and establish the new system of administration prior to his leaving for Washing-

ton. It was pointed out that it had been hoped that new legislation could have been adopted in order that the freezing controls in Ecuador might be made more effective prior to his departure.

Mr. Illingworth explained that it was his desire to place the freezing controls under the jurisdiction of the Office of Priorities and Distribution of Importations. He added that the Director General of this office ¹¹ had recently returned from Guayaquil, where he had made a detailed survey of the situation, and that he had found the Guayaquil office in a very disorganized state. It will apparently be necessary to replace a large part of the present staff of the Guayaquil office. Furthermore, the Director General will leave for Washington on November 9 in order to take up various matters prior to the arrival of the Minister of Finance. The necessity for replacing most of the Guayaquil staff of the Office of Priorities and the absence of the Director General from Ecuador would, in the opinion of the Minister, make it difficult to put into effect new legislation and regulations of a drastic character.

As indicated in the Embassy's telegram no. 861 of October 16, 12 [11] p.m.,¹² Mr. King, of the Consulate General, and Mr. Reid of this office, worked up a draft revision of Decree No. 171 of February 9, and also a complete set of regulations to implement the revised decree. This work was done in cooperation with Mr. Friedmann, the technical adviser to the Minister of Finance, and the material was prepared both in English and Spanish. Insofar as possible all of the recommendations contained in the resolutions approved by the Inter-American Conference on Economic and Financial Controls ¹³ were incorporated with few unimportant exceptions in either the revised decree law or the regulations. In addition a memorandum explaining the purposes of the decree law and regulations was drafted and all of this material was submitted to the Minister of Finance through Mr. Friedmann. Copies of the suggested decree law, the regulations and of the memorandum are attached.¹²

The Minister of Finance today stated "You may be sure that I will adopt regulations which will make the control of blocked accounts, et cetera, effective, and this will be done before the end of the year." It is felt that the Minister is definitely sympathetic to a much more rigid decree law and effective administrative control. He indicated that there might be small points in the draft decree law and regulations which he would find necessary to change, but intimated that the contents in general met with his approval.

¹¹ Paul Thur de Koos.

¹² Not printed.

¹³ For correspondence concerning this Conference, see vol. v, pp. 58 ff.

While it is to be regretted that immediate action can not be expected on the revised control measures, it is felt that the Minister of Finance is entirely sincere in his statement to the effect that measures will definitely be taken upon his return to Ecuador.

Respectfully submitted,

For the Ambassador:
HOWARD H. TEWKSBURY
Commercial Attaché

740.00112A European War, 1939/17981 : Airgram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, November 20, 1942—7:05 p. m.

A-144. Reference is made to discussions with the Ecuadoran authorities which are now in progress relative to the tightening up of the Ecuadoran freezing controls. Information available to the Department indicates that Ecuadoran banks have for some time felt themselves beyond the reach of the Proclaimed List and have continued to make loans to Proclaimed List firms in Ecuador. A specific example of such a loan is contained in your despatch no. 3526, September 16,¹⁵ wherein you mention a loan by the Banco de Préstamos to Jeremías y Robinson, although it is not completely clear whether this loan was made prior to the date when Jeremías y Robinson was included on the Proclaimed List.

It is obvious that the policy of the Ecuadoran banks to continue to make loans to Proclaimed List firms sustains the existence of those firms and consequently nullifies one of the objectives of the Proclaimed List. It is suggested that if you have not already done so, you should bring this matter up in your present discussions with the Ecuadoran authorities to the end that appropriate measures will be taken to prevent Ecuadoran banks from continuing to make loans to Proclaimed List firms.

HULL

840.51 Frozen Credits/8832

The Secretary of State to the Chargé in Ecuador (Nester)

No. 1573

WASHINGTON, December 14, 1942.

SIR: There are enclosed herewith the original and one copy of a memorandum concerning the institution and effective enforcement by Ecuador of appropriate controls over undesirable economic and financial transactions.

¹⁵ Not printed.

Representatives of the Department had intended to discuss the matters outlined in this memorandum with Señor Illingworth, the Ecuadoran Minister of Finance, during his recent trip to the United States. During the course of these discussions, it was contemplated that the memorandum would be delivered to Señor Illingworth upon the basis that it was prepared for use in the Department but that it was thought that the memorandum might be helpful to Señor Illingworth in working out the various problems connected with the Ecuadoran freezing controls upon his return to Ecuador. In particular, the Department wished to stress the importance of the role of the Ecuadoran Development Corporation¹⁶ as a possible agency for implementing plans for the disposition of Proclaimed List properties.

It was not found possible to discuss these matters with Señor Illingworth during his initial visit in Washington and it has now been determined that he will not be returning to Washington prior to his departure for Ecuador. It is suggested, however, that, unless you perceive some objection, it may be desirable for you to deliver this memorandum to Señor Illingworth with an explanation of the reasons why it was not possible to deliver it to him in Washington.

The Department would appreciate being advised of any comments which you may wish to make on this memorandum and, should it be delivered to Señor Illingworth, of any comments which may be made by him.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

[Enclosure]

MEMORANDUM

[WASHINGTON, undated.]

The institution and effective enforcement of appropriate controls over economic and financial transactions which may be of benefit to the Axis nations is a matter of great concern to all the American republics. This concern has been evidenced by Resolution V of the Conference of Foreign Ministers held in Rio de Janeiro in January 1941 [1942]¹⁷ as implemented in detail by the Resolutions of the Inter-American Conference on Systems of Economic and Financial Control, held in Washington in the summer of 1942. In general, the primary objectives of these Resolutions fall into two broad categories: (1) the prevention of economic and financial transactions between

¹⁶ For correspondence concerning this Corporation, see pp. 383-391 *passim*, and 400-414.

¹⁷ Third Meeting of the Foreign Ministers of the American Republics; for Resolution V, see Department of State *Bulletin*, February 7, 1942, p. 124.

each American republic and other nations, particularly nations outside the Western Hemisphere, which may be of benefit to the Axis or to persons whose activities are inimical to the security of the Western Hemisphere, and (2) the elimination from the economic life of each American republic of all undesirable influence of persons whose activities are inimical to the security of the Western Hemisphere. The ultimate goal is, of course, the effective participation by each American republic in a broad program designed to aid in the defense of all the American republics and in the winning of the war.

The Government of Ecuador has already, through the adoption of a decree on February 9, 1942, instituted freezing controls and the Department is pleased to learn that discussions have been held recently between the Minister of Finance and representatives of the American Embassy at Quito relative to the adoption of additional measures designed to strengthen and expand the existing Ecuadoran controls and that the Minister of Finance at the present time has under consideration draft texts of a proposed decree and of regulations thereunder.

Before the enactment of additional measures there are certain matters which the Department of State feels should be given primary consideration in determining the form in which the decree and the regulations are finally to be adopted.

It is understood that persons and firms in Ecuador appearing on the United States Proclaimed List have in their possession or under their control substantial stocks of scarce materials which are urgently required by the Ecuadoran Development Corporation as well as by other deserving firms and persons in Ecuador to carry on their business operations and which are difficult to obtain in sufficient quantity from the United States due to the exigencies of the war effort. The primary function of the Ecuadoran Development Corporation is to assist in the coordination of the resources of Ecuador so that the economy of Ecuador will be strengthened and benefited to the maximum possible degree. However, the Ecuador Development Corporation, pursuant to its agreement with the Export-Import Bank, cannot make purchases or otherwise deal with persons and firms on the Proclaimed List. Consequently, means should be devised whereby the Ecuadoran Development Corporation can carry out its function and acquire and equitably dispose of the scarce materials now held by Proclaimed List persons and firms in Ecuador. It is believed that the most effective way to achieve this result is to provide a means, through vesting, forced sale or liquidation of the assets of such persons and firms, for eliminating their undesirable influence and activity from the economic life of Ecuador, rather than merely to

provide for the requisitioning of scarce materials in their possession. Requisitioning alone even though accompanied by effective blocking of funds would only be a temporary and partial expedient, whereas appropriate measures for the elimination of the undesirable influence and activity of such persons and firms would be of permanent benefit to the economy of Ecuador.

Such measures will necessarily vary from case to case. In general, however, the types of cases may be divided into three broad categories:

(1) *Those firms in which minor changes in organization and personnel will not be sufficient to eliminate their undesirable influence and activities, but whose continued business activity is essential to the economy of Ecuador.*

In these cases, it will be necessary to reorganize the business organizations completely. This can be done by forcing the sale of the business organizations (or that part which is owned by undesirable persons) to desirable purchasers, the proceeds of the sale to be effectively blocked, the undesirable employees eliminated, the undesirable business connections severed, et cetera. Article 5 of the proposed new decree specifically gives the Minister of Finance the power to force such sales. However, there may be cases in this category where because desirable purchasers cannot be found immediately, or where because a forced sale would not be desirable for other reasons, the Ecuadoran Government may itself desire to operate the business organization on a temporary or permanent basis. In such cases, it might be appropriate for the Ecuadoran Government to consider the advisability of vesting in itself or in some appropriate governmental agency the title to these business organizations (or that part which is owned by undesirable persons) and then take such further steps as may be necessary to cleanse the firms. This procedure could, of course, be used in all cases in this category with sales to desirable purchasers being made in appropriate cases after vesting.

Vesting is the procedure utilized by the United States and it has been found to be very satisfactory. When a firm is vested by the United States Government no immediate payments are made to the owner of the property vested. However, the owners may be permitted to file claims with this Government but the disposition of such claims will be determined at some later date, probably at the end of the war. The Ecuadoran Government may for the reasons stated above also wish to utilize this procedure. Should this be the case, it is believed that attention should be given to revising article 5 of the proposed decree so as to make certain that the Minister of Finance, or such agency as he may designate, will have the power to vest. It may be that article 5 already gives the Minister this power, but this is not absolutely clear.

(2) *Those firms in which minor changes in organization and personnel will not be sufficient to eliminate their undesirable influence and activities, but whose continued business activity is not essential to the economy of Ecuador.*

In these cases, the primary objective should be liquidation. This can be accomplished through a refusal by the Minister of Finance to license transactions by such firms except for this purpose or by the issuance of directive licenses for this purpose. As a consequence, the business activity of these persons and firms will die out. It is believed that, under article 5 of the proposed decree, the Minister of Finance has sufficient power to carry out this objective. However, it should be noted that in some cases in this category, where the assets of the business are large and important, affirmative participation by the Ecuadoran Government in the liquidation may be advisable. In such cases, it may be desirable for the Ecuadoran Government to vest in itself title to the assets of such business and to carry out the liquidation directly. Consideration has already been given to the vesting procedure under category (1).

(3) *Those firms where only minor changes are necessary.*

In this category, there are a myriad of cases. For example, there will be those firms who have in the past merely engaged in a few isolated undesirable business transactions. In such cases, the application of the general freezing controls will probably be sufficient. Another example will be business organizations with merely a few undesirable officers or employees or with an undesirable business connection. All that is necessary in these cases will be to eliminate these officers or employees or to sever the undesirable business connection. Here, attention should be given to clarifying the proposed decree in order to be certain that the Minister of Finance has the required authority.

Of the utmost importance in the program for eliminating from the economic life of Ecuador the undesirable influence and activity of the above-mentioned persons and firms is the governmental agency through which the program is carried out. It is believed that the Ecuadoran Development Corporation could be utilized very effectively in many of the situations previously discussed. The Corporation, as the agency for coordinating the use of Ecuador's resources, is ideally equipped to coordinate the disposition of the assets of undesirable persons and firms. The Corporation is in a position to supply funds for the operation of business firms after the undesirable elements have been eliminated. The Corporation is in a position to supply funds to desirable purchasers of the business interests of undesirable persons or firms, where the forced sale technique is utilized and funds are necessary. The Corporation has the technical experts on its staff to operate business firms falling in category (1) and to liquidate those falling in category (2). It is, therefore, suggested that the Minister of Finance may wish to consider utilizing the facilities of the Ecuadoran Development Corporation to assist him in carrying out some of his functions under the proposed new decree.

It is believed that, in expanding and strengthening the Ecuadoran freezing controls, special attention should also be given to the establishment of an adequate staff which can devote its full time to these matters. If this is done, it will be possible to strengthen many phases of the Ecuadoran freezing controls, some of which are the following:

(1) Blocking of *all* property covered by the freezing controls can be assured. Appropriate investigations can be made to discover such property and steps taken to compel persons holding such property to conform to the requirements of the freezing controls.

(2) Cash operations in violation of the freezing controls can be prevented. In this connection, it is understood that this is one of the difficulties in connection with the existing controls and that business firms on the Proclaimed List have been able to make a substantial number of sales out of their stocks and of purchases of new supplies through cash transactions.

(3) Applications for licenses to withdraw blocked funds can be checked carefully in order to make certain that the withdrawals are not excessive.

(4) Investigations can be made to discover violations of the controls and the violators can then be prosecuted. This will serve as a deterrent to further violations.

It is hoped that appropriate steps will be taken as quickly as possible to expand and strengthen the Ecuadoran freezing controls and thus further participate in the common defense of the Western Hemisphere.

AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR PROVIDING FOR A HEALTH AND SANITATION PROGRAM, SIGNED FEBRUARY 24, 1942

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 379, or 57 Stat. (pt. 2) 1370.]

AGREEMENT APPROVING A MEMORANDUM OF UNDERSTANDING, SIGNED AUGUST 12, 1942, PROVIDING FOR THE ESTABLISHMENT BY THE UNITED STATES OF AN AGRICULTURAL EXPERIMENT STATION IN ECUADOR, SIGNED OCTOBER 20 AND 29, 1942

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 284, or 56 Stat. (pt. 2) 1787.]

EL SALVADOR

AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR EXTENDING THE AGREEMENT OF MARCH 27, 1941, REGARDING A MILITARY MISSION TO EL SALVADOR

[For text of agreement effected by exchange of notes signed at San Salvador October 14 and November 24, 1942, see Department of State Executive Agreement Series No. 281, or 56 Stat. (pt. 2) 1778. The agreement of March 27, 1941, provided that the United States detail a military officer to El Salvador to serve as director of the military school and of the military academy of El Salvador.]

AGREEMENT BETWEEN THE RUBBER RESERVE COMPANY AND EL SALVADOR GRANTING THE COMPANY EXCLUSIVE PURCHASING RIGHT TO ALL OF EL SALVADOR'S EXPORTABLE RUBBER

811.20 Defense (M)/5849k : Telegram

The Acting Secretary of State to the Minister in El Salvador (Frazer)

WASHINGTON, March 19, 1942—2 p. m.

59. Rubber Reserve Company is prepared to enter into commitment with El Salvadoran Government to purchase entire production of rubber in El Salvador except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at price of 35 cents per pound c. and f. United States continental port for usual good quality castilloa rubber as understood in New York, with appropriate differentials for other grades. The term of the agreement would be for 5 years, prices being subject to adjustment after 2 years by mutual agreement if conditions change. The Government of El Salvador would agree to restrict export licenses to Rubber Reserve Company or its nominees. The exportation of manufactured rubber, if any, would be restricted to the United States. El Salvador would agree to use its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some Salvadorean agency might be designated as the single buying agency under the contract, if this seemed best way of securing results; otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

Foregoing proposal corresponds generally to agreements entered into with Brazilian Government on March 3.¹

For your information we understand certain other American republics are negotiating to acquire rubber production in some Latin American countries. Please consult immediately proper El Salvadoran authorities and request their prompt consideration of proposal. If El Salvadoran authorities agreeable in principle to sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately to acquire it. Upon consummation of purchasing agreement we will be prepared to discuss with El Salvadoran authorities any useful joint arrangements to increase rubber production.

WELLES

811.20 Defense (M)/6465

The Vice Consul at San Salvador (Ellis) to the Secretary of State

No. 2368

SAN SALVADOR, May 1, 1942.

[Received May 4.]

SIR: I have the honor to refer to the Department's telegram No. 59 of March 19, 1942 (2 p. m.) transmitting the proposal of the Rubber Reserve Company to purchase the entire rubber production of El Salvador and to this Legation's despatch No. 2286 of April 9, 1942, transmitting the preliminary reply and report of the Salvadoran Committee of Economic Coordination.²

This Legation has now received a note from the Salvadoran Ministry of Foreign Affairs transcribing a communication from the Ministry of Finance and Commerce, which reads, in translation, as follows:

"I refer to your note No. A-631-I-1002, dated March 26th, transcribing a communication from the Minister of the United States of America, stating that his Government was ready to make arrangements with our Government for the exclusive purchase of the total rubber production of this country, excepting the amount needed for domestic consumption, at the rate of \$0.35 per pound, c & f, United States continental ports; this agreement would be for a term of five years and export licenses would be extended to the above mentioned Company only. In reply I beg to state that, according to statistics prepared by the General Customs Bureau (Dirección General de la Renta de Aduanas) on the exportation of Salvadorean rubber during the years 1930 to 1939, our rubber production is very meager and it is

¹ See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

² Despatch No. 2286 not printed; in summarizing the preliminary reply and report of the Committee, it indicated that at present annual rubber production would not exceed 30 tons and cited a survey indicating that soil and climatic conditions were not favorable for extensive production.

scarcely sufficient for the national industry which manufactures soles and heels, raincoats and dresses. Nevertheless, should there be a surplus in the national rubber production, our Government would accept the offer of the Rubber Reserve Company, provided that the minimum price be \$0.35 per pound and that the maximum price to be quoted from prices of the New York Exchange on the day or date of each contract. As the note under reference suggests that a Governmental bureau would be established to purchase all the rubber produced in the country and export it to the Rubber Reserve Company, it is thought convenient that the Mortgage Bank of El Salvador could be nominated for this purpose, as it is in contact with different agricultural and industrial circles of the country."

Although the Ministry of Finance and Commerce signifies its willingness to meet the offer of the Rubber Reserve Company for all rubber produced in this country over and above its domestic needs, production at present is so disorganized and sporadic that considerable organization of rubber gathering, cleaning and picking is necessary before any actual shipments can be offered.

The Committee of Economic Coordination is at present working on this problem and as soon as more concrete offers can be made the Department will be notified without delay.

Respectfully yours,

OVERTON G. ELLIS, JR.

811.20 Defense (M)/8678

The Vice Consul at San Salvador (Ellis) to the Secretary of State

No. 2816

SAN SALVADOR, August 25, 1942.

[Received August 29.]

SIR: In compliance with the Department's airgram of August 19, 1942 (3:35 p. m.),³ I have the honor to forward herewith a copy of the contract as finally drawn up and signed by Mr. Ernest G. Holt, Special Representative of the Rubber Reserve Company, and the Government of El Salvador.⁴

Mr. Ernest G. Holt and Mr. Merdith C. Dack arrived at San Salvador on Sunday, August 16, and spent the week negotiating with the representatives of the Salvadoran Government for the conclusion of this contract, and in conference with Mr. W. W. Renwick, of the Salvadoran Committee of Economic Coordination, Mr. A. O. Chalmers, of the Salvador Railway Company Limited, Mr. J. H. Wilson, of the International Railways of Central America, and others, in connection with the purchase and shipment of rubber.

³ Not printed.

⁴ Not printed; this contract was similar to the one with Costa Rica, printed on p. 233.

The contract with the Salvadoran Government was finally signed at 11:30 a. m. Saturday, August 22, by Mr. Holt and Mr. Daniel Francisco Montalvo, Chief Clerk of the Ministry of Agriculture. Only one or two changes, of a very minor nature, were made on the original form of contract, and Mr. Holt and Mr. Dack expressed entire satisfaction with the result of their stay in San Salvador and with the cordial cooperation extended to them by Government officials and private businessmen.

The original copies of the contract, in Spanish and English, bearing the signatures of Mr. Holt and Mr. Montalvo, will be forwarded as soon as they are received from the Salvadoran Ministry of Foreign Affairs, together with the copy of the Governmental decree putting the contract into force.

Respectfully yours,

OVERTON G. ELLIS, JR.

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR, SIGNED FEBRUARY 2, 1942⁵

[The Lend-Lease Agreement between the United States and El Salvador, signed at Washington February 2, 1942 (not printed), provided that El Salvador was to repay 54.88 percent of the scheduled cost (about \$1,640,000) of the armaments and munitions transferred by the United States to El Salvador in installments for a total of not more than \$150,000 before January 1, 1943; \$300,000 before January 1, 1944; \$450,000 before January 1, 1945; \$600,000 before January 1, 1946; \$750,000 before January 1, 1947; or \$900,000 before January 1, 1948. The agreement, otherwise, is substantially the same as the draft of the basic agreement printed in *Foreign Relations*, 1941, volume VI, page 139.]

AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR REGARDING CONSTRUCTION OF THE INTER-AMERICAN HIGHWAY

[For text of the agreement effected by exchange of notes, signed at Washington January 30 and February 13, 1942, see Department of State Executive Agreement Series No. 294, or 56 Stat. (pt. 2) 1842.]

⁵ For previous correspondence respecting the Lend-Lease Agreement, see *Foreign Relations*, 1941, vol. VII, pp. 310 ff.

**AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR
REGARDING A HEALTH AND SANITATION PROGRAM**

[For text of the agreement effected by exchange of notes, signed at San Salvador May 4 and 5, 1942, see Department of State Executive Agreement Series No. 367, or 57 Stat. (pt. 2) 1303.]

**AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR AP-
PROVING A MEMORANDUM OF UNDERSTANDING, SIGNED OCTOBER
21, 1942, REGARDING THE ESTABLISHMENT AND OPERATION OF AN
AGRICULTURAL EXPERIMENT STATION**

[For text of the agreement effected by exchange of notes, signed at Washington November 24 and December 2, 1942, see Department of State Executive Agreement Series No. 285, or 56 Stat. (pt. 2) 1795. The text of the Memorandum of Understanding signed by the Secretary of Agriculture and the Salvadoran Minister is embodied in the notes exchanged between the Secretary of State and the Salvadoran Minister.]

GUATEMALA

COOPERATIVE MILITARY DEFENSE MEASURES OF THE UNITED STATES AND GUATEMALA; LEND-LEASE AGREEMENT

814.24/148 : Telegram

The Minister in Guatemala (Des Portes) to the Secretary of State

GUATEMALA, January 22, 1942—5 p. m.
[Received 9:10 p. m.]

27. The Minister for Foreign Affairs¹ has just informed me that President Ubico had requested him to approach me confidentially regarding the possibility of securing for Guatemala arms and military equipment under the Lease-Lend plan. The President proposes for consideration the loan from the United States Government of the materials included in the list which was prepared by Generals Sierra and Mendoza last June while in Washington.

President Ubico said, "If we are at war with the aggressor powers, it is to cooperate with the United States in its defense, therefore it seems only equitable and just that in view of the Lease-Lend Act,² the United States Government should lend Guatemala what she needs to arm herself so she may be ready for that defense. Upon the end of the war, in the most honorable way, whatever has been received by Guatemala as a loan will be returned to the United States Government and the Guatemalan Government would pay for whatever it has taken over for its own use or which has been damaged in any way".

Urgent reply requested.

DES PORTES

810.20 Defense/2074 : Telegram

The Minister in Guatemala (Des Portes) to the Secretary of State

GUATEMALA, February 17, 1942—4 p. m.
[Received 7:49 p. m.]

69. In accordance with Department's telegram number 228 of December 13, 8 p. m.,³ understanding was reached covering several aspects of United States airbase in Guatemala, but it did not specifically

¹ Carlos Salazar.

² Approved March 11, 1941; 55 Stat. 31.

³ *Foreign Relations*, 1941, vol. VI, p. 56.

envisage permanent construction projects. General Andrews⁴ has latterly decided that construction of some 80 buildings at Guatemala City and San José is essential for housing. Approximately 1000 army engineers have arrived for purpose and they desire to let contracts immediately. General Andrews and the engineers strongly feel that the agreement covering permission for erection of buildings and their sites [*sites?*], etc., should take shape of formal undertaking between Legation and Guatemalan Government. Construction program thoroughly acceptable in principle to Guatemalan authorities.

Since engineers wish commence work immediately and complete it in 60 days it is most urgent that Department advise me at once by telegraph whether I am authorized to exchange notes with Foreign Office incorporating understanding apparently desired by War Department representatives.

DES PORTES

810.20 Defense/2074 : Telegram

The Secretary of State to the Minister in Guatemala (Des Portes)

WASHINGTON, February 18, 1942—8 p. m.

76. Your 69, February 17, 4 p. m. You are requested to render every possible assistance to General Andrews. You are therefore authorized to exchange notes at once effecting an agreement in principle, which will permit construction to start immediately with the understanding that a definitive agreement satisfactory to both Governments will be concluded as quickly as possible thereafter.

Please transmit as soon as possible by air mail copies of notes exchanged and detailed statement of provisions which General Andrews wishes to have included in agreement. After study of this statement Department will further instruct you regarding the conclusion of the definitive agreement.

An instruction which may be of assistance in the preparation of the statement is being airmailed to you.⁵

HULL

814.24/148 : Telegram

The Secretary of State to the Minister in Guatemala (Des Portes)

WASHINGTON, February 19, 1942—9 p. m.

78. Your 27, January 22, 5 p. m. The Department has been informed by the Guatemalan Legation that it is keeping its Government

⁴Lt. Gen. Frank M. Andrews, Commanding General, Caribbean Defense Command.

⁵Instruction No. 898, February 27, 1942, not printed; it enclosed draft of an arrangement prepared to cover a somewhat analogous case in another American Republic.

fully advised concerning the proposal to furnish the latter military equipment to the value of \$3,000,000, under the provisions of the Lend-Lease Act, and that the Minister is requesting full power to sign the basic agreement on behalf of his Government.

The conclusion of such an agreement, which now requires only the consent of the Guatemalan Government, constitutes the essential prerequisite for the delivery of this equipment for which Guatemala would pay a certain stipulated amount.

Please indicate to the Guatemalan authorities that the provisions of this contemplated agreement are the same in principle as those contained in the basic agreements⁶ concluded with other American republics, some of which are now belligerents, and that although this Government deeply appreciates the sincere cooperation and loyalty to the cause of hemisphere defense displayed by President Ubico, it would not seem possible, in fairness to the other republics, to make an exception in the case of Guatemala.

The War Department has prepared the list of armaments in accordance with the requests of Generals Mendoza and Sierra, and the Lend-Lease organization will take the necessary steps to procure this equipment as soon as the agreement is concluded.

HULL

814.24/196

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 2632

GUATEMALA, March 10, 1942.

[Received March 12.]

SIR: I have the honor to refer to my despatch No. 2602 of March 4, 1942 (File No. 711/824.2),⁷ reporting the preliminary reaction of the Guatemalan Government to the observations contained in the Department's telegram No. 78 of February 19, 9 p. m., 1942, the substance of which was conveyed to the Guatemalan Minister for Foreign Affairs in a Note of February 20, 1942, regarding the furnishing of military equipment to this Republic.

The Foreign Office by a Note No. 3229 of March 6, 1942, a copy and translation of which are enclosed, has now made formal reply setting forth its point of view relative to the type of engagement which it deems appropriate for the procurement of the arms and ammunition. It may be observed that the spirit and sense of the formal reply closely approximates that of the preliminary response as contained in the President's oral statements and the Ministry's Memorandum⁷ summarizing negotiations in the matter.

⁶ For draft text of basic agreement, see *Foreign Relations*, 1941, vol. VI, p. 139.

⁷ Not printed.

No material technical difficulty should be encountered in supplying the Guatemalan Government with the equipment it desires for its own immediate military needs and for which it proposes to pay cash. The matter of the larger amount of equipment which Guatemala needs for cooperation with the United States Government in hemisphere defense presents a much more difficult problem. It occurs to me that this phase might possibly be solved by an arrangement whereby Guatemala would secure the equipment under the normal terms of the Lend-Lease Act, without any exceptions of principle in its favor which might be considered as unfair departures by other American Republics, but at the same time the contract to be so drawn as to afford in substance the end sought by Guatemala. Concretely, it is suggested as a compromise that perhaps Guatemala might be induced to make small installment payments over the usual period of years, with the proviso that at the end of the war the Guatemalan Government would be permitted, as it evidently desires, to return to the United States such equipment as it has not expended and which is in good condition. The value of the equipment so returned would be credited against the obligation contracted by this Republic under the Lend-Lease Act. If the amount of equipment returned were to exceed the monetary balance due by Guatemala subsequent to installments effected, the sum of the excess would be refunded to the Guatemalan Treasury. If the equipment returned were not sufficient to liquidate the monetary balance due, the Guatemalan Government would be obligated to discharge the sum of the deficit. Such a proposal of course presupposes, on the side of the United States, that the arrangement is legally possible and within the policy adopted, and, on the Guatemalan side, that the installment payments called for would be so spaced and in such moderate amounts that the demands could be met by Guatemala within its extraordinary budgetary resources and without resort to public loans.

I do not know whether such a plan would be agreeable to the Guatemalan authorities. Doubtless the Department may evolve a more satisfactory arrangement, the present suggestion being advanced by me merely as one solution which might merit exploration and without any attempt to pass on the justice of Guatemalan pretensions. The ostensible value of the plan, which the Legation ventures to submit for examination, is that the United States would be assured of payments in keeping with the provisions of the Lend-Lease Act and Guatemala would obtain acceptance of its contention that it be not obliged to pay for arms and ammunition over and above its immediate needs and which are not actually expended by it.

Respectfully yours,

FAY ALLEN DES PORTES

[Enclosure—Translation]

*The Guatemalan Ministry for Foreign Affairs to the American
Legation*

No. 3229

MEMORANDUM

The Ministry for Foreign Affairs has the honor to refer to the memorandum from the Legation of the United States dated February 20 last, relative to the matter of furnishing arms in accordance with the lend-lease act.

The Ministry had delayed replying to the kind memorandum of the Legation in order to make clear the status of pending negotiations. The questions which arose having been elucidated, the Minister is today able to make a clarifying and definitive reply with regard to the decision of the Government of the Republic relative to the draft contract submitted for its consideration.

The President of the Republic has taken up directly with His Excellency the Minister of the United States the different phases of the pending negotiations; and His Excellency the Minister is aware of the good will of the Government of Guatemala to cooperate with that of the United States in matters pertaining to continental defense. Apart from this consideration, on which the Ministry for Foreign Affairs wishes to emphasize the resolve of this Government, it believes that it will be advantageous and useful to state as clearly as possible the attitude of the Government of the Republic regarding the matter of arms.

I.

The Government of Guatemala is grateful for the benevolent offer of the United States to furnish to it armament and munitions of war; and declares that, as regards arms which it needs for its own defense and local use, it has determined to pay in currency and for cash.

This Government considers that the payment, made at the moment of the delivery of the material, ought not to bring to it greater burdens (*no ha de reportarle mayores gravámenes*), and, moreover gives it the right to the usual discounts to those who pay cash.

A simple and clear contract could be drawn up setting forth exactly the reciprocal obligations of buyer and seller; and, as soon as that draft contract is approved, this Government would proceed to sign it without further delay.

II.

Having concluded drawing up the terms of the contract for the purchase of arms for Guatemala's own defense and local use as set forth in the preceding paragraphs, it is pertinent to consider another

aspect of the special situation of the Republic in relation to the present international emergency : This aspect is as follows :

As the Legation is aware, the Government of Guatemala has placed at the disposition of the United States whatever it has and possesses in its territory which could be used for cooperation in defense of the fundamental interests of the hemisphere at the head of which the United States has placed itself in the crusade for liberty and human rights. Notwithstanding the danger of thereby attracting attacks of totalitarian forces, airports and coasts of the Republic have been fortified or are being fortified for the defense of the continent.

It is logical, as a consequence of the measures of military nature that, in order to collaborate with the United States forces presently and in the future on Guatemalan soil, the Guatemalan Army needs to import arms adequate for the defense which is being organized : The Government of the Republic deems that its conduct in this matter is to cooperate with the United States in the collective defense ; it does not consider it just that, under the circumstances referred to in the preceding paragraph, the armament which may have been ceded to it for mutual defense and which may be in good condition and not needed after the cessation of hostilities, should be an expense to the Guatemalan Government.

The Government of Guatemala has been referring to this type of armament, as His Excellency the Minister of the United States will recall, with the insistent request that such matériel be furnished as a loan under the United States law of March 11, 1941, with the option of returning it after the war, provided it is in good condition or unused.

The Government of Guatemala has not pretended that, under similar circumstances, it be given advantageous concessions over the other American Republics. Now, by reason of the explanations made, whether orally or in the extract of the diplomatic correspondence which the Ministry for Foreign Affairs had the honor to place in the hands of His Excellency the Minister of the United States, it (the Ministry for Foreign Affairs) understands that the matter is elucidated and crystallized in the aforementioned terms.

In summary, the Government of Guatemala is disposed :

1. To buy arms which it needs for its own defense and local use, paying cash ;
2. To obtain under the terms of the lend-lease law, arms which are needed to collaborate with the United States in the defense of the American continent.

As has been explained, the Government of Guatemala has hastened to place at the service of collective defense all the national resources

which are necessary to repel direct aggressions of the Axis powers: In order to fight against those forces, the Government of Guatemala will have to make great sacrifices over and above the material damages which the aggressors may cause. This not being exactly the case of the other American Republics which have already signed contracts for arms with the United States, and, on the other hand, which probably will not pay cash for those for local use only, the Government of Guatemala does not see the reason why those Republics should find unfair the conditions proposed by Guatemala. Moreover, if Guatemala gives as much as it has and proposes the return after the war of the arms in good condition or unused, it surely is not seeking a unilateral agreement for the exclusive benefit of Guatemala.

The Ministry for Foreign Affairs takes this opportunity to reiterate to the Legation of the United States the assurances of its highest and most distinguished consideration.

GUATEMALA, March 6, 1942.

814.24/211

*The Guatemalan Minister for Foreign Affairs (Salazar) to the American Minister in Guatemala (Des Portes)*⁸

[Translation]

No. 4011

GUATEMALA, March 20, 1942.

MR. MINISTER: When Your Excellency and Colonel Serafin Montesinos⁹ were good enough to come to this Ministry to discuss the plan of cooperation by which Guatemala would take part in the defense of the Caribbean, I had the honor, under instructions from the President of the Republic, to present a counter-proposal¹⁰ which basically was in accord with the thought developed in the clauses of the proposal¹⁰ drawn up by the Caribbean Defense Command.

I also had the opportunity to give full explanations which justified the modification of some of the clauses of that proposal, as regards its external form, with the object of protecting ourselves—the Government of Guatemala as well as the great Republic to the North—from malicious comment from our enemies.

Nevertheless, it was necessary to propose an article of a compensatory character which seemed to be just to the President inasmuch as the assistance which is now asked of Guatemala and which the Republic will grant with pleasure, has substantially changed that which had previously been requested and likewise granted.

⁸ Copy transmitted to the Department by the Minister in Guatemala in his despatch No. 2690, March 24; received March 27.

⁹ United States Army officer, in Guatemala for the negotiation of a provisional agreement with Guatemala regarding United States Army bases in that Republic.

¹⁰ Not printed.

I consider that the reasons which prevailed when that article was drawn up will have a part in forming a complete and exact concept of the contents of Article 18 of the counter-proposal of the Government of Guatemala. I desire to express these reasons in this Note with the request that they be incorporated in the report which Your Excellency will send to his Government in the matter.

I. When my Government requested that of Your Excellency to give to Guatemala as a loan certain armament in conformity with the Lend-Lease Act, the Department of State replied that the proposal seemed unilateral and that, in case Guatemala were given what it requested, the rights of the other Hispano-American Republics which had acquired armament through purchase in accordance with the draft contract which had been drawn up, would surely be injured.

The Department of State added that it could not make any transaction if the Government of the United States did not receive some compensation in money, work, or other form equivalent to money.

The Government of Guatemala believed on that occasion that it had offered cooperation which was of benefit, utility and advantage to the Government of the United States: The La Aurora airport had been placed at the disposition of the Government of the United States for military purposes; the open and unlimited concession had been granted for vessels and planes of war and for officers and troops of the United States crossing Guatemalan territory to do so without reservation and without prior notice, as they had previously done; the highways which crossed the country, particularly the Pan-American which is complete from the Mexican border to the border of El Salvador, as well as the railways which communicate between the Pacific Ocean and the Atlantic Ocean and from the Mexican border to that of El Salvador, all were placed at the disposition of the United States Government.

The President of the Republic held various friendly conferences with Your Excellency, having explained that the Guatemalan Government needed certain armament for its local and limited use for the purpose of internal defense; such armament would be paid for at a reasonable price with money and for cash. But the additional armament which would certainly be required in the event that the Government of the United States needed the cooperation of armed troops which the Guatemalan Government could put under arms, to the number of 40,000 to 60,000 men, it was considered should, in equity, be loaned in accordance with the Lend-Lease Act to be returned at the termination of the conflict provided that they were in good usable and conserved condition. That which was destroyed, used or made useless, would then be paid for by the Government of the Republic.

Such was the plan which was under study and which, with the kind assistance which His Excellency Minister Des Portes was good enough to offer since he considered the proposal of the Government of Guatemala to be just, awaited the final word which the Government of the United States might give.

II. At this stage of the matter, Colonel Montesinos brought a draft of the full plan by which the Republic of Guatemala and its Government was to grant to that of the United States, for the defense of the Caribbean and the Panama Canal principally, the concessions set forth in each of the articles or clauses which that draft contained.

The simple reading of the plan brought by Colonel Montesinos reveals that the assistance which the Guatemalan Government had voluntarily offered that of the United States, is augmented and amplified considerably:

lands adjacent to the airports of La Aurora in the City of Guatemala and those of the Port of San José would be occupied;

landing fields, offices, warehouses, barracks, etc., for military purposes would be constructed;

in the event the construction of new auxiliary airfields, barracks and other military installations become necessary, it shall be made the subject of a special agreement;

the Government of Guatemala would agree to facilitate the acquisition of land by means of declaring it to be of public utility in order that the military forces of the United States may rent or buy it, all or in part, as may be necessary;

the coast at Puerto Barrios, San José and other strategic points would be occupied for defense;

all ports, anchorages for vessels and seaplanes in the territory of the Republic, would be made available for the use of the United States.

Even though this last point would be under the heading of reciprocity, such reciprocity does not exist because the Government of Guatemala has no vessels, fleet and air squadrons to use ports and air fields of the United States.

This plan also requests the authorization of the Government of Guatemala to:

establish a North American military police;

grant permission to carry out any work useful to the North American troops;

the Government of Guatemala would agree to the organization of a supply commission for the purpose of assisting the construction of American military works, and this commission would lend itself to negotiating in the local market for the immediate provision of any materials which defense works require;

free from all payment of import duties or taxes, merchandise, equipment, etc., which may be brought for the use of the armed forces of the United States; and

permit the occupation of military zones for defense.

III. The equitable principle of compensation had been used by the Government of the United States to deny to the Government of Guatemala the provision of armament required to cooperate with the United States forces.

It appears to be reasonable that the Government of Guatemala now invokes this principle, in order that it be granted as its property, the armament and munitions which are listed on list No. 1 which I had the honor to send to Your Excellency with a copy of the counter-proposal of this Government; and that it be granted as a loan, the munitions and arms set forth in list No. 2, which I was pleased to send to Your Excellency, in entire conformity with the United States Lend-Lease Act.

I wish to invoke the perfect understanding which the Minister of the United States, His Excellency Mr. Des Portes, has of the Government of the Republic of Guatemala, in order that it may have the certainty that this Government is not animated in a spirit of gain or commercialism, which is very far from being the motive of its cooperation: operations of mutual advantage and equity are concerned, and by no means a unilateral gain that the Government of Guatemala in any form contemplates.

The sincerity which I owe to the good will and upright spirit of justice which I am pleased to recognize in His Excellency the Minister of the United States, leads me to hope that he will be the interpreter of the sentiments of my Government before the Government of the United States, in order that on discussing and studying the Guatemalan counter-proposal, a decision may be adopted which will be in accord with the sentiments of reciprocal friendship and decided assistance which guide the procedure of both Governments.

On this new occasion I beg of Your Excellency to accept the assurances of my highest consideration and singular appreciation.

CARLOS SALAZAR

810.20 Defense/2970 : Telegram

The Secretary of State to the Minister in Guatemala (Des Portes)

WASHINGTON, July 20, 1942—9 p. m.

280. Your A-3, July 10, 5 p. m.¹¹ The principles that underlie the proposed Air Base and Lend-Lease Agreements have been informally agreed upon between this Department and the War Department. This Department has transmitted the proposed texts of these Agreements to the War Department, and is now awaiting a

¹¹ Not printed; in it the Minister recommended that an air base agreement with Guatemala be signed as soon as possible since United States military personnel in Guatemala already numbered 1,668 and was to be increased within the next few weeks to 1,793.

reply which is expected in a few days. Should the Guatemalan Government complain of the delay or of the number of soldiers now stationed in Guatemala, you may informally indicate the Department's regret at the delay and express confidence that the draft as worked out between the different agencies of this Government will be most acceptable to the Guatemalan Government.

HULL

814.24/372

*The American Minister in Guatemala (Des Portes) to the Guatemalan Minister for Foreign Affairs (Salazar)*¹²

No. 337

GUATEMALA, November 16, 1942.

EXCELLENCY: I have the honor to acknowledge receipt of Your Excellency's Note of November 16, 1942¹³ referring to the conversations between the representatives of the Government of the United States of America and of the representatives of Guatemala in connection with the Agreement on the Principles Applying to Mutual Aid in the Prosecution of the War against Aggression signed this day.^{13a}

The conversations referred to have disclosed a mutual understanding on the part of the Governments of the United States and of the Republic of Guatemala with respect to the application of the provisions of the Agreement, as follows:

1. The Government of the United States will endeavor, subject to unforeseen contingencies and within the limits imposed upon it by other military demands, to transfer to the Government of Guatemala during the present emergency armaments and munitions of war, of types to be agreed upon by the two governments, to a total scheduled cost of about \$5,000,000.

2. The Government of Guatemala agrees to permit the use by armed forces of the United States of America of the zones of Guatemalan territory expressly provided in the Memorandum of Agreement attached hereto.¹⁴

3. The concessions granted by the Government of Guatemala to the Government of the United States of America pursuant to Paragraph 2 above are valued at, and shall be credited exclusively for the purpose of the present agreement to the value of \$3,000,000 against the cost of armaments and munitions of war transferred to the Government of Guatemala under the provisions of Paragraph 1 above to a total scheduled cost of \$5,000,000. In excess of the scheduled value of \$3,000,000 up to a total scheduled value of \$5,000,000, the Government of the United States of America agrees to accord to the Govern-

¹² Copy transmitted to the Department by the Minister in Guatemala in his despatch No. 3378, November 17; received November 20.

¹³ Not printed; it embodied the provisions of the agreement as quoted in this document, and otherwise was almost identical with this note.

^{13a} *Infra*.

¹⁴ *Post*, p. 448.

ment of the Republic of Guatemala a reduction of 40% in the scheduled cost of the materials delivered in compliance with the stipulations of the present agreement; and the Government of the Republic of Guatemala promises to pay in dollars into the Treasury of the United States of America 60% of the scheduled cost of the materials delivered. The Republic of Guatemala shall not be required to pay more than a total of

\$ 200,000 before January 1, 1944, more than a total of
 \$ 400,000 before January 1, 1945, more than a total of
 \$ 600,000 before January 1, 1946, more than a total of
 \$ 800,000 before January 1, 1947, more than a total of
 \$1,000,000 before January 1, 1948, more than a total of
 \$1,200,000 before January 1, 1949.

In respect of armaments and munitions of war transferred to the Government of Guatemala pursuant to Paragraph 1 above, in excess of a scheduled value of \$3,000,000 and up to a scheduled value of \$5,000,000 the Government of Guatemala may return to the United States of America at the end of the present emergency as determined by the President of the United States of America such defense articles which shall have been transferred under this Agreement which are of use to the United States, which shall be determined by the President of the United States of America in consultation with the President of the Republic of Guatemala, and upon the return of such defense articles to the United States the Republic of Guatemala shall be credited for any sums paid or which it is obligated to pay for such defense articles under the terms of this agreement.

4. All of the works carried out on Guatemalan territory on the initiative and at the cost of the Government of the United States of America, pursuant to the provisions of the Memorandum of Agreement attached hereto, shall, upon the termination of that agreement, become the exclusive property of the Government of Guatemala, with the exception of the organic armament and equipment of the United States forces, the clothing of the troops, the manual instruments, and everything that constitutes the equipment of such forces.

I am glad to inform Your Excellency that the foregoing statement of understanding which has been reached in the negotiations is acceptable to my Government and that it therefore considers the understanding to be in effect as of this date.

Please accept [etc.]

FAY ALLEN DES PORTES

814.24/372

*Agreement Between the Governments of the United States and of the Republic of Guatemala on the Principles Applying to Mutual Aid in the Prosecution of the War Against Aggression, Signed at Guatemala November 16, 1942*¹⁵

WHEREAS the Governments of the United States of America and the Republic of Guatemala declare that they are engaged in a

¹⁵ Copy transmitted to the Department by the Minister in Guatemala in his despatch No. 3378, November 17; received November 20.

cooperative undertaking, together with every other nation or people of like mind, to the end of laying the basis of a just and enduring world peace securing order under law to themselves and all nations;

AND WHEREAS the Governments of the United States of America and the Republic of Guatemala, as signatories of the Declaration by United Nations of January 1, 1942,¹⁶ have subscribed to a common program of purposes and principles embodied in the Joint Declaration made on August 14, 1941 by the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland, known as the Atlantic Charter;¹⁷

AND WHEREAS in conformity with the Declaration of Lima of December 24, 1938¹⁸ and Declaration XV approved July 30, 1940 at the Second Meeting of the Ministers of Foreign Affairs of the American Republics held at Habana,¹⁹ and in harmony with the spirit and purpose of the Third Meeting of the Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro,²⁰ the Governments of the United States of America and the Republic of Guatemala have determined to cooperate further in the defense of the security and integrity of all the American Republics against acts of aggression directed against any of them;

AND WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America on March 11, 1941, and the President of the Republic of Guatemala, in accordance with paragraph 19 of Article 77 of the Constitution of the Republic, have determined that the defense of each of the American Republics is vital to the defense of all of them;

AND WHEREAS the United States of America and the Republic of Guatemala are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Re-

¹⁶ For text, see vol. I, p. 25.

¹⁷ For text, see *Foreign Relations*, 1941, vol. I, p. 367.

¹⁸ Declaration of the Principles of the Solidarity of America, *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189; for correspondence concerning the Conference, see *Foreign Relations*, 1938, vol. V, pp. 1 ff.

¹⁹ For correspondence concerning this meeting, see *ibid.*, 1940, vol. V, pp. 180 ff.; for text of the Final Act, signed July 30, 1940, see Department of State Treaty Series No. 977, or 54 Stat. (pt. 2) 2491.

²⁰ For correspondence concerning this Meeting, held January 15-28, 1942, see vol. V, pp. 6 ff.

public of Guatemala have been performed, fulfilled or executed as required;

The undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

ARTICLE I

The Government of the United States of America will supply the Government of the Republic of Guatemala with such defense articles, defense services, and defense information as the President of the United States of America shall authorize to be transferred or provided.

ARTICLE II

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Guatemala is in a position to supply, the Government of the Republic of Guatemala will make such defense articles and defense information available to the United States of America, to the extent possible without harm to its economy and under terms to be agreed upon.

ARTICLE III

The Government of the Republic of Guatemala undertakes that it will not, without the consent of the President of the United States of America, transfer title to, or possession of, any defense article or defense information received under this Agreement, or permit the use thereof by anyone not an officer, employee, or agent of the Government of the Republic of Guatemala.

Similarly, the Government of the United States of America undertakes that it will not, without the consent of the President of the Republic of Guatemala, transfer title to or possession of any defense article or defense information received in accordance with Article II of this Agreement, or permit the use thereof by anyone not an officer, employee, or agent of the Government of the United States of America.

ARTICLE IV

If, as a result of the transfer to the Government of the Republic of Guatemala of any defense article or defense information, it is necessary for that Government to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the Republic of Guatemala will take such action or make such payment, when requested to do so by the President of the United States of America.

Similarly, if, as a result of the transfer to the Government of the United States of America of any defense article or defense information, it is necessary for that Government to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Guatemala who has patent rights in and to any such defense article or information, the Government of the United States of America will when requested to do so by the President of the Republic of Guatemala take such action or make such payment.

ARTICLE V

The terms and conditions upon which each government receives the aid provided under this Agreement by the other shall not burden commerce between the two countries, but shall promote mutually advantageous economic relations between them and the betterment of world wide economic relations. To that end, the two governments will make provision for agreed action by the United States of America and the Republic of Guatemala open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded governments.

Certain terms and conditions upon which each Government receives certain specified items provided under the Agreement by the other are set forth in the attached exchange of notes,²¹ which is an integral part of this Agreement.

ARTICLE VI

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed at Guatemala, in duplicate, in the English and Spanish languages, this sixteenth day of November, 1942.²²

FAY ALLEN DES PORTES

²¹ See *supra*.

²² The file copy of the English text indicates signature by Fay Allen Des Portes; that of the Spanish text, signature by Carlos Salazar.

814.24/372

*Memorandum of Agreement Between the United States and the Republic of Guatemala*²³

Article 1. The Government of Guatemala authorizes the Government of the United States of America to use the lands of the airports of La Aurora, in the City of Guatemala, and of the Ports of San José and Barrios, and to construct thereon landing fields, offices, fuel and munitions deposits, warehouses, quarters and other installations for military purposes.

Article 2. If the acquisition of additional land for the construction of new auxiliary airfields, quarters, and military installations becomes necessary, a special agreement will be made between the two Governments through the intermediary of expressly named representatives, which special agreement shall, unless the two Governments agree to the contrary, be on the basis of the present memorandum of agreement.

Article 3. The boundaries of the lands where the military installations mentioned in Articles 1, 6 and 10 of this memorandum of agreement are made, will be determined by mutual agreement of the two Governments through their technical experts, and will be adjusted to the agreements entered into by the Notes of December 15 and 16, 1941,²⁴ and those of May 19, 22, 25 and 26, 1942,²⁵ relative to the airport and military installations at Puerto Barrios, which shall be considered an integral part of the present memorandum of agreement.

Article 4. The Government of Guatemala will grant to the Government of the United States of America the use of lands situated within the boundaries of the defense areas as described in Article 2 of this memorandum of agreement if they belong to it, and will acquire and make available for use of the Government of the United States of America such private lands as may be required, undertaking the necessary procedure for the determination of the fair value thereof and the compensation of the owners.

Article 5. The Government of the United States of America will reimburse the Government of Guatemala for the amounts spent by the latter for the purpose of putting at the disposition of the former the lands described in Article 4.

Article 6. The Government of Guatemala authorizes the Government of the United States of America, through the intermediary of its armed forces, to construct and install defenses on the north coast of Guatemala, along the Atlantic, and on the south coast, along

²³ Copy transmitted to the Department by the Minister in Guatemala in his despatch No. 3378, November 17; received November 20.

²⁴ *Foreign Relations*, 1941, vol. VII, pp. 314-316.

²⁵ None printed.

the Pacific, at the strategic points which technical experts may designate, it being understood that the cost of such works shall be borne by the Government of the United States of America.

Article 7. The Government of the United States of America and the Government of Guatemala agree that all ports and anchorages for vessels and seaplanes belonging to the Republic of Guatemala may be used for military defense purposes by the naval, land and air forces of the United States of America.

Article 8. During the present emergency, the armed forces of the United States of America are permitted to make installations of radio or other means of communication for exclusively military purposes.

Article 9. The Government of Guatemala authorizes the Government of the United States of America to establish United States military police exclusively within their quarters and military fields during the stay of the personnel of the armed forces of the United States of America on Guatemalan territory. In the event that this police service has to be carried on outside the quarters and military fields, the troops charged with this service must be unarmed.

It is expressly agreed that the forces of the United States of America in the Republic of Guatemala may carry arms only in their quarters, and, outside of them, in the event of military operations or services, by tactical units and under appropriate command.

Article 10. The Government of the United States of America is authorized, at its own expense, to install sanitation works in the places where United States troops are stationed, and in the vicinity thereof.

Article 11. The Government of the United States of America may use all means of communication in transporting troops across or within the Republic of Guatemala, but, at the same time, these armed forces are obligated not to impede the free transit required by the interests of the Republic of Guatemala.

Article 12. The Government of the United States of America may delegate whomever it may consider suitable as its representatives for carrying out the works and installations contemplated in the present memorandum of agreement; and these representatives shall operate in all cases in the name of the Government of the United States of America.

Article 13. The Economic and Financial Coordination Section which operates and functions in the capital of the Republic of Guatemala in conformity with the agreement between the Government of the United States of America and the Government of Guatemala, shall have the additional authority to supply the construction materials obtainable in the local market, which United States construc-

tion agents may urgently require. As soon as these construction materials have been furnished, the Government of the United States of America is obligated to pay the local cost of those materials; and will concede priorities for such materials which Guatemalan agents or businessmen may acquire for exportation to the Republic of Guatemala.

Article 14. The Government of Guatemala will exempt from payment of import duties or other taxes, imports into the Republic of Guatemala of materials and all types of merchandise, equipment, etc., that are for the use of the United States armed forces which may be stationed in military zones for mutual defense.

The benefits granted by this Article and the materials, merchandise and munitions of war, shall be used exclusively within the military zones established for defense and may not be transferred, either in whole or in part, to private persons or businessmen in the Republic of Guatemala.

Article 15. The armed forces of the United States will respect the laws of the Republic of Guatemala and in particular the police and traffic regulations.

Article 16. The representatives of the Government of the United States of America in the Republic of Guatemala will not permit the employment, on construction work necessary for defense, of Guatemalan or foreign individuals who may have acted contrary to the law or police regulations.

Article 17. In the event that the Government of Guatemala should require some cooperation similar to that which it is affording to the armed forces of the United States of America, the Government of the United States of America will agree to grant it, provided it is within the scope of inter-American cooperation.

Article 18. The present agreement shall remain in effect during the present emergency after which, and when the peace treaty is signed, all the forces of the United States of America which may be in the Republic of Guatemala shall retire from its territory.

GUATEMALA, November 16, 1942.

814.24/372

*The American Minister in Guatemala (Des Portes) to the Guatemalan Minister for Foreign Affairs (Salazar)*²⁶

No. 338

GUATEMALA, November 16, 1942.

EXCELLENCY: I have the honor to inform Your Excellency that I have received a communication from the Department of State in

²⁶ Copy transmitted to the Department by the Minister in Guatemala in his despatch No. 3378, November 17; received November 20.

Washington, D.C., informing me that the full powers authorizing me to sign the Lend-Lease Agreement and the accompanying Note and Memorandum of Agreement have been signed by the President of the United States of America and are being transmitted to me by airmail.

Pending the receipt of the full powers, which will of course be delivered promptly to Your Excellency, it is requested that this communication be accepted in lieu thereof for the purpose of the signature on this date of the Lend-Lease Agreement and accompanying documents.

Please accept [etc.]

FAY ALLEN DES PORTES

AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA EXTENDING THE AGREEMENT OF MAY 27, 1941, DETAILING A MILITARY OFFICER OF THE UNITED STATES TO SERVE AS DIRECTOR OF THE POLYTECHNIC SCHOOL OF GUATEMALA

[For text of the agreement effected by exchange of notes, signed at Washington June 9 and 22 and July 21, 1942, see Department of State Executive Agreement Series No. 264, or 56 Stat. (pt. 2) 1573.]

AGREEMENT BETWEEN THE RUBBER RESERVE COMPANY AND GUATEMALA GRANTING THE COMPANY EXCLUSIVE PURCHASING RIGHT TO ALL OF GUATEMALA'S EXPORTABLE RUBBER

811.20 Defense (M)/5790a : Telegram

*The Acting Secretary of State to the Minister in Guatemala
(Des Portes)*

WASHINGTON, March 19, 1942—2 p. m.

104. Rubber Reserve Company²⁷ is prepared to enter into commitment with Guatemalan Government to purchase entire production of rubber in Guatemala except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at price of 35 cents per pound c. & f. United States continental port for usual good quality *Castilloa* rubber as understood in New York, with appropriate differentials for other grades. The term of the agreement would be for 5 years, price being subject to adjustment after 2 years by mutual agreement if conditions change. The Government of Guatemala would agree to restrict export licenses to Rubber Reserve Company or its nominees. The exportation of manufactured rubber, if any, would be restricted to the United States. Guatemala would agree to use

²⁷ An agency of the United States Government.

its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some Guatemalan governmental agency might be designated as the single buying agency under the contract, if this seemed best way of securing results; otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

Foregoing proposal corresponds generally to agreements entered into with Brazilian Government on March 3.²⁸

For your information we understand certain other American republics are negotiating to acquire rubber production in some Latin American countries. Please consult immediately proper Guatemalan authorities and request their prompt consideration of proposal. If Guatemalan authorities agreeable in principle to sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately to acquire it. Upon consummation of purchasing agreement we will be prepared to discuss with Guatemalan authorities any useful joint arrangements to increase rubber production.

WELLES

811.20 Defense (M)/6075

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 2734

GUATEMALA, April 8, 1942.

[Received April 11.]

SIR: I have the honor to refer to the Department's circular telegram of March 28, 9 p. m. 1942,²⁹ regarding the extreme urgency of the rubber situation and to report that during a conversation with President Ubico a few days ago, I read to him portions of that telegram. The President was most interested, and informed me that he would lend every possible aid to the United States Government in the critical situation.

With specific regard to the agreement which the Rubber Reserve Company desires to effect for the purchase of Guatemala's entire rubber production, (Department's telegram No. 104 of March 19, 2 p. m.) the President observed that although it is against the constitution of the Republic for the Guatemalan Government to enter into any monopoly, considering the war emergency he will make this an exception. The President continued by saying that there are no

²⁸ See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

²⁹ *Ante*, p. 172.

large rubber plantations in the Republic but that there are very considerable quantities of wild rubber scattered throughout the country. He stated that for this reason he is afraid the cost of production will prove considerably more than the price now being offered by the United States Government. He explained that in the jungles one would find a rubber tree and then would probably have to go a distance of perhaps one-fourth of a mile before finding another tree large enough to tap. He further stated that on his own *finca*, several months ago, he had his Indians go out into the jungles to gather wild rubber, that they brought back fifty pounds, which cost him for the labor alone three Quetzales (three dollars), but that after the rubber was washed and rolled sufficiently to make it of a first-class grade, the net result was that he had only ten pounds of first-class rolled rubber.

I asked the President if he would be willing to make an immediate survey of the Republic in order to find out about what production may be obtained and the approximate cost of production. The President expressed his willingness to make the survey, but explained that such a survey could not be effected until the rainy season begins around the middle of May. In elucidation he said that the sap in the rubber tree does not flow in good quantities until after the rains have set in. The President promised to give me a report as soon as the survey was completed.

Respectfully yours,

FAY ALLEN DES PORTES

811.20 Defense (M)/6075 : Telegram

The Secretary of State to the Minister in Guatemala (Des Portes)

WASHINGTON, May 26, 1942—1 p. m.

191. Your report 2734 of April 8. Contracts have now been executed with Brazil, Peru and Nicaragua and agreements in principle have been reached with Ecuador, Colombia, Costa Rica and certain other countries. Negotiations are proceeding in all other producing countries with Guatemala practically the only exception. It is feared here that if negotiations with Guatemala are postponed further less than maximum amount of rubber will be obtained this year. If the experiments referred to in your report are not yet completed, would it not be possible to execute an agreement at the price suggested with a provision that if the price so fixed should prove inequitable or fail to provide the producers with an appropriate profit, the price would be subject to revision by agreement between the parties.

Chargeable to Rubber Reserve Company.

HULL

811.20 Defense (M)/7415

The Guatemalan Minister for Foreign Affairs (Salazar) to the American Minister in Guatemala (Des Portes) ³⁰

[Translation]

No. 7719

GUATEMALA, June 18, 1942.

MR. MINISTER: I have the honor to refer to the *aide-mémoire* which Your Excellency was so good as to transmit the 10th of June, relative to the possible development and exportation to the United States of rubber existing in the forests of the republic.

In order to reply to Your Excellency I first addressed the Ministry of Agriculture so that they might furnish the statistical information or approximate calculations on the production of rubber and its cost.

I have today received from the Minister of Agriculture the information which I take pleasure in transcribing to Your Excellency and which textually reads as follows:

[Here follows report from the Minister of Agriculture on rubber production and costs.]

With regard to the contract which the Government of the United States desires to be signed by this Government of Guatemala with the Rubber Reserve Company, I must state to Your Excellency, with especial instructions of the President of the Republic, that this Government is willing to deliver to the Government of the United States or to the person or entity which the Government of the United States designates, all the rubber production which may be gathered in the forests of Guatemala, without limitation except the quantity necessary to satisfy the small industries of the country. The Government is disposed to obligate itself, because it has dictated a law by which the Government is the only one who can buy rubber from persons engaged in its extraction, without other conditions than the willing and cooperative offer of the President of the Republic to deliver the Guatemalan rubber production to the Government of the United States in order that this (Government) take advantage of it as it sees fit.

The cost of production is not the same in the various groves of the Republic, because there are no planned plantings of the trees producing rubber, since they are found in a wild state in the interior of the forests and there is a great difference in the effort, work and cost of the rubber obtained from the accessible forests in the nearby departments and the rubber which is gathered in the heart of the distant and solitary forests in the Department of the Petén. How-

³⁰ Copy transmitted to the Department by the Minister in Guatemala in his despatch No. 2988, June 19; received June 23.

ever, to the cost of Q.30.00 and Q.35.00 per quintal, there would have to be added the modest profit for those who gather the rubber, it being noted that the Guatemalan Government will not receive for itself any merchant's profit, but only the profit of its willing co-operation in the common work of defense of the United Nations.

In view of the foregoing explanations I desire to state to Your Excellency that this Note, written under the instructions of the President of the Republic, should be considered as the contract which requires the Government of Guatemala to deliver the rubber production to the Government of the United States under the sole condition of paying its cost and an equitable profit of 10% for those who gather it in the heart of the forests.

I avail myself [etc.]

CARLOS SALAZAR

811.20 Defense (M)/7778 : Telegram

The Minister in Guatemala (Des Portes) to the Secretary of State

GUATEMALA, July 15, 1942—7 p. m.

[Received July 16—12: 29 a. m.]

249. From Holt,³¹ Guatemala City, for Bicknell,³² Rubber Reserve Company, Washington. Further to my letter of July 10.³³ Guatemala still insists that exchange of diplomatic notes serve in lieu of formal contract, that Government alone may buy and sell, that no tonnage be fixed for domestic use and that 10% of cost of production accrue to Government. Guatemala proposes to use all possible means to increase production, to designate chicle companies and United Fruit Company to make payments to producers, to limit domestic use to maintenance of essential industries and to sell all surplus to Reserve.

I fear many Pacific planters will not tap for the Government and that 10% profit to the Government will make price in Petén too low to compete with chicle. Nevertheless in order to get started I join American Minister in recommending acceptance Guatemalan note 7719 transmitted with despatch no. 2988,³⁴ with proviso that maximum price to be paid by Reserve for scrap will be 33 cents f.o.b. Guatemalan ports for 2 years. It will then be incumbent upon Guatemala to prove that her system will work. We can soon judge to [the] results. Please telegraph instructions. [Holt.]

DES PORTES

³¹ Ernest Golsan Holt, special representative of the Rubber Reserve Company.

³² John W. Bicknell, Vice President of the Rubber Reserve Company.

³³ Not found in Department files.

³⁴ Despatch not printed; for Guatemalan note, see *supra*.

811.20 Defense (M)/7842 : Telegram

The Minister in Guatemala (Des Portes) to the Secretary of State

GUATEMALA, July 20, 1942—3 p. m.

[Received 7:59 p. m.]

251. From Holt for Bicknell, Rubber Reserve. Since my telegram of July 15 have had Reserve's views explained to President personally and have today presented another memorandum through Foreign Office. As outlined in President's formal approval following points already agreed in principle:

(1) Reserve will establish agency whose records will be open to Government.

(2) Reserve will sign agreement with whatever office designated by Government.

(3) Rubber exported to the United States will pay no Guatemalan duties or taxes.

(4) Reserve may buy directly from any producer authorized by Government to exploit rubber.

(5) Reserve will determine with the Government the tonnage indispensable for domestic consumption and deliver it to designated factories at export prices.

(6) Base price will be 33 cents f.o.b. ports for scrap with premium for higher qualities.

(7) Reserve will work with Government to maintain customary wage levels.

(8) Reserve will guarantee base price until end of 1946 unless revised after 2 years by mutual agreement.

An agreement formalizing these points will give Reserve workable basis for operations and practically everything included in your draft except limitation of domestic consumption to fixed tonnage. Actually domestic consumption will be low and other controls may be used if necessary. Recommend acceptance of points outlined and request immediate telegraphic authority to sign the agreement based on them. Must strike while iron is hot. 24.71. [Holt.]

DES PORTES

811.20 Defense (M)/7842 : Telegram

The Secretary of State to the Minister in Guatemala (Des Portes)

WASHINGTON, July 21, 1942—9 p. m.

283. For Holt. Your 251, July 20. Rubber Reserve, Board of Economic Warfare and Department believe that you have been exceptionally successful in obtaining agreement on basis outlined, and you are authorized to sign an agreement on this basis. Please advise when signature completed so that a press release may be issued and also forward as soon as possible copies of signed agreement.

HULL

814.24/339

*Memorandum of Agreement Between Guatemala and the Rubber Reserve Company*³⁵

In the City of Guatemala, on this fourth day of September, one thousand nine hundred and forty-two, the undersigned, Arturo Andrés Bickford, acting in his capacity as Chief of the Section of Economic and Financial Coordination in Guatemala, party of the one part, and Ernest Golsan Holt, as special representative of the Rubber Reserve Company (an Agency of the Government of the United States of America, organized in conformity with the laws of that country, and with offices in the city of Washington, D.C.), party of the other part, duly authorized, enter upon the agreement contained in the following articles:

1. The Rubber Reserve Company, to effectuate the present agreement, will establish in Guatemala an Agency, which hereinafter will be designated simply "the Agency".

2. The Chief of the Section of Economic and Financial Coordination in Guatemala, who hereinafter will be referred to simply as "the Coordinator", especially delegates to the Agency the faculties conferred upon him by the Governmental decree dated the first of April of the current year, which relate to the purchase and sale of crude rubber and rubber products in Guatemala. For these purposes, the Coordinator confers upon the Agency all powers necessary for the best development of its activities; and empowers the Agency, through its own employees or its delegates, to buy, sell, and export all kinds of rubber or rubber products produced in the territory of the Republic of Guatemala.

3. The Coordinator recognizes the present necessity of the United States for rubber and rubber products for war purposes and grants to the Agency the right to export said products from the Republic of Guatemala, with the understanding that the Coordinator will supervise and control all exports effected by the Agency in accordance with the present authorization.

4. During the term of the present agreement, the rubber exported by the Agency will be free of all taxes now existing, or that may hereafter be established.

5. The Coordinator agrees to use his best efforts to obtain a maximum production of rubber and to promote in every way the sale of said product to the Agency as his delegate; he will also take all necessary measures for the best conservation of rubber and its employment in essential war uses. The Coordinator will also employ

³⁵ Copy of the English text of the original signed at Guatemala, September 4, 1942, by Señor Bickford and Mr. Holt; this copy was transmitted to the Department by the Minister in Guatemala in his despatch No. 3195, September 11, 1942 (not printed).

all means at his command to avoid the hoarding of rubber and rubber products.

6. The Rubber Reserve Company agrees that the Agency will buy and the Coordinator agrees to cause to be sold to the Agency all the rubber produced in the territory of the Republic of Guatemala that is not required by this country for its domestic use and consumption. The quantity of rubber (including the rubber contained in rubber products) required by the Republic of Guatemala for its domestic use and consumption is estimated at present at an amount not exceeding sixty-five tons per year; but it is understood that said amount may be increased by mutual agreement between the Agency and the Coordinator, if it is proven that such increase is necessary to meet the essential requirements of the country.

7. The Coordinator and the Rubber Reserve Company agree that the base price for the purchase of rubber under this agreement, which the Agency will pay, will be thirty-three cents United States currency per pound for rubber known in New York as Usual Good Quality Castilloa Scrap (rubber that contains no more than 25% moisture and impurities), f.o.b., maritime ports of the Republic of Guatemala, to be designated by the Agency. For rubbers of other types and qualities corresponding differentials will be fixed, and the base price of thirty-three cents per pound with the said differentials will be denominated "the fixed price". The base price herein established may be modified after two years from the date of the present agreement, in order to adjust it to market conditions at that time, upon mutual agreement between the Rubber Reserve Company and the Coordinator.

8. The price that will be paid for the rubber purchased at points of delivery in the interior of the Republic will be the fixed price less transportation expenses to the port designated and all the other expenses to place the rubber aboard ship. The Coordinator will make known to the producers of rubber the total expenses that will have to be deducted from the fixed price, according to the points of delivery.

9. The price to be paid to the producers or their representatives for rubber shall be in cash at the points of delivery designated by the Coordinator in concurrence with the Agency.

10. The fixed price will prevail in the local market for the purchases, effected by the Coordinator, of rubber destined for domestic use and consumption.

11. The Rubber Reserve Company and the Coordinator agree that, during the term of the present contract, the Agency will invest the sums of money that may be necessary or desirable for the increase and development of the production of wild rubber in the Republic of Guatemala, as well as for the betterment of its quality.

12. The term of this agreement will begin with the present date and end on the thirty-first day of December nineteen hundred and forty-six; but the parties hereto, by mutual accord, may terminate it at any time.

In witness whereof we sign this agreement in six copies of the same tenor, three in the Spanish language and three in the English language.

*Chief of the Section of Economic and Financial
Coordination in Guatemala*

*Special Representative of the
Rubber Reserve Company*

HAITI

CONTRACTS BETWEEN THE RUBBER RESERVE COMPANY AND THE HAITIAN-AMERICAN SOCIETY OF AGRICULTURAL DEVELOPMENT REGARDING THE PRODUCTION OF RUBBER IN HAITI

[Contracts (not printed) between the Rubber Reserve Company and the Haitian-American Society of Agricultural Development, agencies, respectively, of the Governments of the United States and Haiti, were entered into on October 26 and November 5, 1942. The contracts pertained to the planting and extraction of rubber from *Cryptostegia* and *Hevea* plants, by the Haitian agency. The Haitian organization was responsible for leasing the necessary acreage, for seeding and cultivation of plants, and for gathering of the rubber and delivering it to the Rubber Reserve Company at specified places. The Rubber Reserve Company, in turn, was committed to the payment to the Haitian agency of certain specified sums per acre.]

AGREEMENTS BETWEEN THE UNITED STATES AND HAITI RELATING TO THE NON-INVOCATION OF CERTAIN PROVISIONS OF THE TRADE AGREEMENT SIGNED MARCH 28, 1935¹

638.3931/16

The Secretary of State to the Minister in Haiti (White)

No. 353

WASHINGTON, January 12, 1942.

SIR: Reference is made to the memorandum² enclosed with the Department's instruction no. 302 of December 11, 1941,³ with regard to the applicability of the most-favored-nation provisions of the trade agreement with Haiti to tariff reductions to be accorded by the latter to the Dominican Republic by a Treaty of Commerce signed August 26, 1941.⁴

Examination of the treaty and of the probable effects on Haitian-American trade of the tariff preferences which it would grant to the Dominican Republic in the light of the action of the Inter-American Financial and Economic Advisory Committee in recommending a con-

¹ For previous correspondence, see *Foreign Relations*, 1941, vol. VII, pp. 350 ff. For correspondence concerning the negotiation of the trade agreement, see *ibid.*, 1935, vol. IV, pp. 642 ff.; for text, see Department of State Executive Agreement Series No. 78, or 49 Stat. (pt. 2) 3737.

² Memorandum of December 5, 1941, *Foreign Relations*, 1941, vol. VII, p. 362.

³ *Ibid.*, p. 365.

⁴ For text of the treaty, see *British and Foreign State Papers*, vol. CXLIV, p. 754.

tractual formula for tariff preferences to contiguous countries, leads the Department to believe that the economic considerations involved are not such as to warrant refusal by this Government to waive its rights under the most-favored-nation provisions of the first paragraph of Article VII of the trade agreement in so far as the tariff preferences specifically provided for in the treaty are concerned.

You are authorized to transmit the enclosed memorandum and the draft of an exchange of notes ⁵ for the consideration of the appropriate Haitian authorities as an indication of the procedure that would be acceptable to this Government.

You may proceed with the formal exchange of notes at any time following approval of the proposed texts by the Haitian Government. However, in order that appropriate publicity may be arranged for here, you should inform the Department as far in advance as possible of the date on which the exchange will take place and of the name and title of the Haitian official who will sign the Haitian note.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

[Enclosure]

MEMORANDUM

On November 7, 1941, the Foreign Minister of the Republic of Haiti directed to the Chargé d'Affaires ad interim of the United States at Port-au-Prince a note ⁶ transmitting the text of the Treaty of Commerce between Haiti and the Dominican Republic signed on August 26, 1941 and requesting the comments thereon of the Government of the United States.

In a memorandum dated December 5, 1941, which was communicated to the Minister of Haiti in Washington and to the Ministry of Foreign Affairs of Haiti, it was pointed out that the most-favored-nation provisions of the first paragraph of Article VII of the trade agreement of March 28, 1935 between the United States and Haiti require that the tariff reductions which would be accorded to the Dominican Republic under the new treaty be extended to the United States. It was also stated in the memorandum that the Government of the United States, in the light of the action taken on September 18, 1941 by the Inter-American Financial and Economic Advisory Committee, recommending a contractual formula for tariff preferences to contiguous countries, would give further study to the matter with a view to determining to what extent it would be warranted in waiving its rights under the most-favored-nation provisions of the trade agreement.

⁵ Draft notes were the same as notes signed February 16 and 19, 1942; see bracketed note, p. 465.

⁶ *Foreign Relations*, 1941, vol. VII, p. 361.

As a result of further study, this Government is glad to be able to propose a solution of the matter by an exchange of notes with the Government of Haiti, along the lines of the enclosed draft notes, in which the Government of the United States would agree not to invoke the pertinent provisions of the trade agreement for the purpose of claiming the benefits of the tariff preferences to the Dominican Republic provided for specifically in the Treaty of Commerce signed on August 26, 1941. It would of course be understood that if such preferences should be extended by Haiti to any country other than the Dominican Republic they would be extended immediately and unconditionally to the United States.

This Government will continue, of course, to reserve its rights under the most-favored-nation provisions of the trade agreement with regard to tariff preferences to the Dominican Republic not specifically provided for in the Treaty of Commerce.

638.3931/19

The Minister in Haiti (White) to the Secretary of State

No. 795

PORT-AU-PRINCE, February 4, 1942.

[Received February 5.]

SIR: I have the honor to refer to the instruction no. 353 of January 12, 1942, 638.3931, setting forth that the Department is prepared to waive its rights to most-favored-nation treatment in regard to certain commodities mentioned in the Dominican-Haitian Treaty of Commerce signed August 26, 1941, as per the draft memorandum and exchange of notes attached to the instruction.

The instruction authorizes me to transmit the memorandum and draft to the Haitian Government.

In this connection I am informed that the following countries would be entitled to claim most-favored-nation treatment from Haiti, in addition to the United States:—France, Holland, the United Kingdom of Great Britain and Northern Ireland, Canada, Belgium, Luxemburg, Denmark, Iceland, Greenland and Switzerland.

The Banque Nationale is fearful of the effects of the tariff reductions, to be accorded by this Treaty to the Dominican Republic, upon Haitian revenues.

In conversation with President Lescot, the latter indicated that he was not disposed to promote the ratification of the Treaty at this time and that the Dominican authorities are also now considerably less enthusiastic than formerly. He, therefore, expressed a preference that, if possible, I should not bring the Department's waiver of most-favored-nation treatment to the attention of the Haitian Government for the present. The effect of such non-action would be that, if the

question of the Treaty were to be raised by the Dominican Government, the Haitian Government could reply that it had not yet heard from the State Department.

Unless, therefore, the Department expresses its wish that I should notify the Haitian Government formally as to its willingness to effect a waiver of the most-favored-nation clause, I shall assume that the authorization contained in instruction no. 353, above-mentioned, is optional and not mandatory, and shall take no action.

Respectfully yours,

J. C. WHITE

638.3931/23

*The Haitian Minister for Foreign Affairs (Fombrun) to the American Minister in Haiti (White)*⁷

[Translation]

PORT-AU-PRINCE, February 16, 1942.

SIR: I have the honor to acknowledge receipt of Your Excellency's note of date the 13th of February, 1942, No. 351, concerning the Treaty of Commerce between Haiti and the Dominican Republic, signed the 26th of August, 1941, enclosed wherewith I found the memorandum relating thereto of the American Government,⁸ as also the draft of the two notes by exchange of which the Department of State proposes to establish the position of the United States.

I am happy to note that Your Excellency, in the light of the recommendations of the 18th of September, 1941, of the Inter-American Financial and Economic Consulting Committee, is willing not to invoke the disposition of the commercial agreement signed the 28th of March, 1935, between our two countries, which permit it to claim the tariff benefits accorded to the Dominican Republic, with the reserve that, if such benefits should be extended to another country, they should be immediately and unconditionally extended to the United States and also with the reserve of the rights of the American Government as regards any tariff benefits for the Dominican Republic, other than those specified in the Treaty of Commerce.

I take pleasure in sending to Your Excellency the note by which the Haitian Government requests that of the United States to consent, in the light of these considerations, not to invoke the provisions of the first paragraph of Article VII of the Commercial Agreement of March 28, 1935.

I avail myself [etc.]

FOMBRUN

⁷ Copy transmitted to the Department by the Minister in Haiti in his despatch No. 824, February 19; received February 21.

⁸ Memorandum printed on page 461.

638.3931/19

The Secretary of State to the Minister in Haiti (White)

No. 392

WASHINGTON, February 17, 1942.

SIR: Reference is made to the Legation's despatch no. 795 of February 4, 1942, regarding the proposed exchange of notes by which this Government would waive its most-favored-nation rights under the trade agreement with Haiti in respect of tariff preferences accorded by the latter to the Dominican Republic in the Haitian-Dominican Treaty of Commerce signed August 26, 1941.

The Legation reports that, apparently having in mind loss of revenue to Haiti which might result from the treaty, President Lescot has suggested that the Legation withhold official transmittal of the draft exchange of notes to the Haitian Government and thus enable the latter to present to the Dominican authorities as a reason for postponing ratification of the treaty the excuse that the United States has not yet officially replied to Haiti's request for its views on the matter.

The Department is of the opinion such an excuse would place this Government in a false position. The facts are that this Government has raised no objection to the treaty on the basis of the provisions of the Executive Agreement of September 13, 1941,⁹ and that it is prepared to release Haiti from its most-favored-nation obligations under the trade agreement in respect of tariff preferences granted to a contiguous country in accordance with the formula recommended by the Inter-American Financial and Economic Advisory Committee. If the Haitian Government should give the Dominican Government an impression contrary to these facts, our relations with the Dominican Republic might be affected unfavorably. For your own information, imminent trade-agreement negotiations with the Dominican Republic might be prejudiced. In the light of the foregoing, you should explain why this Government is unable to concur in the course suggested and at the same time transmit the draft notes and explanatory memorandum enclosed with the Department's instruction no. 353 of January 12, 1942. The Haitian Government can then decide whether it wishes to proceed with the exchange of notes.

With regard to Haiti's most-favored-nation obligations to other countries, including the United Kingdom and Canada, it is made clear to the Haitian Government in the explanatory memorandum referred to that if the tariff reductions accorded to the Dominican Republic are extended to any other country, this Government would expect that they would be extended immediately and unconditionally to the United States.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

⁹ Executive Agreement Series No. 220; 55 Stat. (pt. 2) 1348; for correspondence regarding this agreement, see *Foreign Relations*, 1941, vol. VII, pp. 322 ff.

[For text of the agreement between the United States and Haiti effected by exchange of notes signed at Port-au-Prince, February 16 and 19, 1942, relating to waiver in respect of tariff preferences accorded the Dominican Republic by Haiti under a treaty of commerce between Haiti and the Dominican Republic, signed August 26, 1941, see Executive Agreement Series No. 238, or 56 Stat. (pt. 2) 1415.

For text of the agreement between the United States and Haiti effected by exchange of notes signed at Port-au-Prince April 25, 1942, construing certain provisions of the trade agreement of March 28, 1935, and modifying the agreement effected by exchange of notes signed February 16 and 19, 1942, see Executive Agreement Series No. 252, or 56 Stat. (pt. 2) 1497.]

FINANCIAL RELATIONS BETWEEN THE UNITED STATES AND HAITI; ¹⁰ AGREEMENTS OF APRIL 6, SEPTEMBER 17 AND 21, AND SEPTEMBER 30, 1942

Port-au-Prince Post Files : Telegram

The Minister in Haiti (White) to the Secretary of State

PORT-AU-PRINCE, March 10, 1942—11 a. m.

[Received 4:54 p. m.]

139. Shipping shortage and United States restrictions on exports have produced during 1942 a threatening situation as regards Haitian economy and in particular government finances, since for past 2 years 68% of government revenues have been derived from import duties.

During February reduction in government revenues as compared with 5 year average fell off 188,000 odd dollars. For first 7 days of March total collected government revenues amounted to 45,000 odd dollars as compared with 116,000 for same period last year and estimated 130,000. With total revenue estimate of 5,460,000 for year a fifty percent reduction in import duties signifies a loss of 1,800,000 which cannot be met from other taxes such as government has already or contemplates imposing. The unobligated surplus of 371,000 at the beginning of year has now fallen to 303,000. At the risk of impairing its credit National Bank might advance temporarily 150,000 to 200,000.

Salary cuts, undesirable as tending to undermine ability of government to maintain order. As nothing much presumably can be effected in near future as regards shipping and export restrictions, it would seem desirable that Williams¹¹ should proceed to Washington to exchange views as to what should be done.

WHITE

¹⁰ Continued from *Foreign Relations*, 1941, vol. VII, pp. 322-350.

¹¹ W. H. Williams, president of the National Bank of the Republic of Haiti.

838.51/4438a

*The Acting Secretary of State to the President of the
Export-Import Bank (Pierson)*

WASHINGTON, March 21, 1942.

MY DEAR MR. PIERSON: Reference is made to conversations between officers of the Department and of the Export-Import Bank with President Lescot of the Republic of Haiti and Mr. Williams, President of the National Bank of the Republic of Haiti, regarding the extension of financial assistance to the Government of that Republic through the medium of the National Bank of the Republic of Haiti, in order to alleviate the financial crisis which has arisen primarily as a result of the shortage of shipping facilities.

The Department has carefully considered the Haitian financial situation and, due to the uncertainties in regard to the shipping facilities which will be available to Haiti in the coming months, feels strongly that the opening by the Export-Import Bank of a line of credit of \$500,000 in favor of the National Bank of the Republic of Haiti, to be utilized only when necessary to maintain the Haitian economy, would be advisable at this time.

The Department has received assurances from the President of the Republic of Haiti that expenditures of the Government of Haiti will be kept at a minimum and that new tax legislation will be shortly enacted.

Sincerely yours,

SUMNER WELLES

838.51/4435

*Memorandum of Conversation, by Mr. Willard F. Barber of the
Division of the American Republics*

[WASHINGTON,] April 1, 1942.

Participants: Mr. Warren Lee Pierson, President of the Export-Import Bank (Meeting held in his Office).

Mr. Arey, of the Bank.

Mr. Lee Baron, of the Bank.

Mr. Whittemore, of the Bank.

Mr. W. H. Williams, of the National Bank of Haiti.

RA—Mr. Barber.

Mr. Pierson and Mr. Williams discussed the general financial and revenue situation with which the Haitian Government is confronted, in view of present shipping shortages and the resulting diminution of export and import duties on which Haitian revenues are so largely based. Mr. Williams stated that new taxes were contemplated in order to increase the Government's revenues, but that he felt it imperative to have a reserve fund on which to rely in case of dire

emergency. This emergency fund would not be tapped unless it were found absolutely necessary, and it was Mr. Williams' hope and desire that no use of the funds would prove to be necessary.

After further discussion, Mr. Pierson agreed that a commitment, in the amount of \$500,000, would be made for two years' time from the Export-Import Bank to the National Bank of the Republic of Haiti. The commitment could be styled a "Dollar Exchange Credit to the Haitian Central Bank". The form of the commitment would be a letter from the Export-Import Bank to the National Bank of the Republic of Haiti.

Mr. Williams stated that he would make it abundantly clear to President Lescot, as had already been done, namely, that there was to be no increase in the Haitian budget, which would result in a call upon the emergency commitment.

*Press Release Issued by the Department of State, April 13, 1942*¹²

Upon the occasion of the visit of His Excellency President Elie Lescot of the Republic of Haiti to Washington, a series of conferences was held with representatives of several agencies of the United States Government. These meetings were held with a view to strengthening and implementing the resolutions adopted at the recent meeting of the foreign ministers of the American republics held at Rio de Janeiro¹³ and to making more effective, under present international conditions, the Declaration of the United Nations signed at Washington on January 2 [1], 1942¹⁴ and the Lend-Lease agreement between the United States of America and the Republic of Haiti signed at Washington September 16, 1941.¹⁵

As a consequence of these meetings, which were also attended by His Excellency M. Maurice Dartigue, the Haitian Minister of Agriculture, and by His Excellency Fernand Dennis, Minister of Haiti at Washington, several agreements were reached. These agreements were covered in an omnibus memorandum initialed at Washington on April 6, 1942 by President Lescot and the Acting Secretary of State, Sumner Welles.

The text of the memorandum follows:

"I. There will be an exchange of notes whereby the two Governments will give their formal approval to a Memorandum of Understanding signed on March 28, 1942 by the Haitian and United States Secretaries of Agriculture, regarding the purchase by the Commodity Credit Corporation of the United States of the surplus cotton production of Haiti. According to the understanding the Commodity

¹² Reprinted from Department of State *Bulletin*, April 18, 1942, p. 353.

¹³ For correspondence regarding this Conference, see vol. v, pp. 6 ff.; for text of the Final Act, see Department of State *Bulletin*, February 7, 1942, p. 117.

¹⁴ Vol. I, p. 25.

¹⁵ *Foreign Relations*, 1941, vol. VII, p. 319.

Credit Corporation will take over, at an agreed price, the carry-over of cotton from last year's crop as well as all of the surplus of the crop of 1942. The United States Government agrees to purchase, subject to an agreed price and within specified limitations of amount, the 1943 cotton crop and all subsequent cotton crops produced in Haiti during the present war. The Haitian Government on its part will take steps to restrict the production of cotton and to bring about an improvement in quality and an increase in the staple length of cotton produced in future years. The United States Department of Agriculture will be pleased to lend its assistance in the carrying out of the cotton improvement program.

"II. The Export-Import Bank of Washington has extended a line of credit to the National Bank of the Republic of Haiti in amounts which may be agreed upon as necessary for the purpose of strengthening the Haitian gourde-United States dollar exchange relationship which is peculiarly affected by the influence of shipping availability on exports and imports into the Republic. The Government of Haiti has agreed, on its part, to take all feasible measures to improve its budgetary position.

"The two Governments will continue to explore the possibilities of extending assistance to the Republic of Haiti in handling the surpluses of its agricultural products.

"III. In view of the pledge of the two Governments to employ their full resources against the common enemy, and the need for an immediate increase in the production of sisal in order to prosecute the common war effort, the two Governments agreed in principle to arrangements providing for the planting of approximately 24,000 additional acres of sisal in Haiti.

"As much land as can be planted within one year's time from the present date, up to a maximum of 12,000 acres will be undertaken through the Societe Haitiano-Americaine de Developpement Agricole; and as much additional acreage as practicable will be planted by private interests within one year's time from today's date, up to a maximum of 12,000 acres. The details of the financial arrangements necessary for the planting of the additional acreage are to be worked out with the appropriate agencies of the two Governments.

"The Haitian Government agrees to grant every facility to the Societe Haitiano-Americaine de Developpement Agricole and to the private interests concerned in order that they may obtain possession of the necessary lands, whether government or privately owned, and to facilitate the employment of such United States technical personnel as may be necessary. In so far as practicable, the areas operated by the Societe Haitiano-Americaine de Developpement Agricole will be developed through a system of small holdings within short transportation distance of the decorticating machinery of the Societe Haitiano-Americaine de Developpement Agricole.

"If the planting of any additional acreage appears to be necessary to the successful prosecution of the joint war effort, the two Governments will consult together as to the method to be followed in any further sisal development.

"IV. In order to assist the Government of Haiti to defend its own territory and to participate in the defense of the Hemisphere, the Government of the United States, through its appropriate military and naval agencies is taking steps:

"a. To grant assistance in the construction of a marine railway at Port-au-Prince.

"b. To station vessels suitable for coast guard and patrol purposes in Haitian waters. Provision will be made to train Haitian cadets on these vessels.

"c. To make available a number of units of artillery for coast defense and other purposes.

"d. To make available a number of military aircraft with mechanics and instructors who will give training to members of the Garde d'Haiti.

"e. To construct a new patrol boat to be used in the defense of Haitian coastal waters.

"f. To undertake the overhaul and repair of additional shipping of Haitian registry to be used for coastal and patrol duties."

Furthermore, communications were exchanged on April 7, 1942 by President Lescot and the Acting Secretary of State,¹⁶ providing for the active collaboration of the two Governments in carrying out a number of health and sanitation projects within the Republic of Haiti, to be undertaken in accordance with resolution XXX regarding health and sanitary conditions adopted at the recent conference at Rio de Janeiro. The United States Government will send a small group of experts to Haiti to cooperate in the development of the specific program which will be decided upon in agreement with the appropriate Haitian officials.

838.51/4449

The President of the Export-Import Bank (Pierson) to the President of the National Bank of Haiti (Williams)

WASHINGTON, April 10, 1942.

DEAR MR. WILLIAMS: Please be advised that the Export-Import Bank has, in response to the recent request of the Haitian Government, established a line of credit of \$500,000 available to Banque Nationale de la Republique d'Haiti until September 30, 1943, advances thereunder to be conditioned, in each case, upon a satisfactory showing of necessity.

Each advance under the credit shall be evidenced by the promissory note of your Bank, payable to the order of Export-Import Bank, and the principal amount thereof shall be payable as follows: 25% on or before one year from date of the note and the balance of 75% on or before two years from date of the note.

The notes shall be in form satisfactory to Export-Import Bank and shall bear interest on the principal balance at the rate of 3.6% per annum, payable quarterly.

¹⁶ For text of the Agreement between the United States and Haiti regarding a health and sanitation program in Haiti, see Department of State Executive Agreement Series No. 425, or 58 Stat. (pt. 2) 1439.

The granting of this line of credit to your Bank is premised upon the assumption that the Government of Haiti will endeavor to reduce its budget in every way possible and it is understood that the unused portion of the line of credit shall be subject to cancellation upon ten days' notice.

Sincerely yours,

WARREN LEE PIERSON

838.51/4489

The President of Haiti (Lescot) to the Under Secretary of State (Welles)

[Translation]

PORT-AU-PRINCE, June 23, 1942.

DEAR MR. UNDER SECRETARY OF STATE: I am taking advantage of the mission to Washington of our Secretary of State for Finance, Mr. Abel Lacroix, to ask him to give you this letter in order to express to you the satisfaction I feel over the execution of the last Agreement¹⁷ which I had the happy pleasure of initialing with you, on my last visit to Washington, and for which I shall never cease to assure you of my deep gratitude.

There is, however, one point in this Agreement which is causing me some uneasiness as respects its execution and about which I would not have spoken to you, because of your constant and most important concerns, if the very rhythm of our national life was not threatened with suffering a stoppage which would be prejudicial from every point of view in these grave times.

It concerns the help with [which] the Republic of Haiti hopes to obtain from the United States in meeting its budget, 79 per cent of which is guaranteed by receipts coming from the collection of fiscal taxes on both imports and exports, since it is faced with the impossibility of carrying on its export and import trade.

You will remember that it was agreed that, in the clauses of the Agreement, there was to appear a suitable phrase to express this possible support which we might expect from the American Government. To this end, consideration was given to a possible decrease in the value of our gourde with respect to the American dollar, on account of the unparalleled difficulties experienced by Haiti, because of the war, in connection with its imports and exports, and to the duty of the Haitian Government of using every possible means to assure the carrying out of its budget, either through the creation of new taxes or by making certain economies.

Fortunately aided by the National Bank of the Republic of Haiti, my Administration has made every possible effort for the moment in

¹⁷ Agreements covered in an omnibus memorandum initialed at Washington on April 6, 1942; see Press Release issued by the Department of State, April 13, p. 467.

both these directions. In addition, it proposes to apply other measures to these same ends for the new budgetary fiscal year which begins October 1 next.

Furthermore, it was agreed that the amount of the aid to be granted us by the Government of the United States through the Export-Import Bank of Washington would not be specified. A sum of five hundred thousand dollars (\$500,000) was suggested by the Director of the Export-Import Bank, but we could not have agreed that such a sum be specified in advance, since we could not know the degree in which the war was going to affect our receipts. As a matter of fact, the amount was not specified in the agreement.

To my great astonishment, very shortly after my return from the United States, the National Bank of the Republic of Haiti forwarded to me a communication received from the Export-Import Bank in which it was stated that the sum of \$500,000, previously suggested, had been placed at the disposal of the National Bank of the Republic of Haiti with a view to obviating a possible decrease in the fiscal receipts of the Haitian Government—and this on quite unexpected conditions, among which appeared the reduction of our beggarly budget, a budget of less than six million dollars.

Knowing the good faith and the responsibility of my Administration, conscious of our rectitude and assured by the word of the Government of the United States, I have not wanted to consider the proposal made to the National Bank of the Republic of Haiti, particularly since: (1) such an agreement was not made—no definite sum having been contemplated since we could not in advance estimate the decrease in our receipts, a decrease proportional to the entry and departure of ships; (2) the reduction of our beggarly budget is a measure with which we have had too much experience in the past and which, at the present moment, would be the surest way of lessening my Administration's prestige with the Haitian people and, thereby, undermining the efforts of this Administration to guarantee the country's total collaboration in relations with the United States which ought to be firmer and more unshakeable than ever; (3) the financial situation of the National Bank of the Republic of Haiti is excellent and it is not this institution which requests financial assistance. Since it is the Haitian Government which is faced with the problem of the daily increasing reduction in means of transportation, either for imports or for exports, it is not the National Bank of the Republic of Haiti which should be accorded the credit, but rather the Haitian Government.

Furthermore, in spite of the sharp difficulties we have with respect to our financial possibilities, we have religiously taken care of the execution of our budget since last October. Only a period of three months remains to be covered to complete the execution of the budget

for the fiscal year which is ending but, because of the impossibility of importing and exporting, we are in doubt as to the receipts for the coming three months.

The situation which confronts us may be summed up thus: we would never have needed the financial aid requested if the war had not severely affected our means of transportation. The number of boats coming into our ports has been reduced in a way which is more than alarming. The warehouses are filled with our export goods and exporters have exhausted their reserve funds in the purchase of these unexported goods. And, in addition, the National Bank of the Republic of Haiti has reached the ceiling of advances which it has been possible for it to make to these same exporters.

If Haitian ports were only visited by fifty per cent more of the small number of ships which touch at them now, we could, by our own means, meet our obligations. Also, if it is not possible for us to have a few more ships to bring us goods and carry away our commodities which, from day to day, are piling up, we shall have to have financial assistance to guarantee the normal working of our Administration. It would be well, however, to remember that it is solely the impossibility of importing and exporting in a reasonable way which puts us into the present depression.

Such then, in broad outline, is the situation in Haiti.

Dear Mr. Welles, it is on you that I again count in aiding us with the competent services, in order that a better fate be arranged for Haiti in the effort which it is making to find a solution for its financial difficulties. We do not lack commodities to export. Our citizens' purchasing powers are growing and will continue to increase, thanks to the work which the United States is helping us to undertake and imported goods could easily be disposed of; but it is the Haitian Government itself which is at its wits' end to exist, since it is impossible for it to contrive receipts.

I have asked Mr. Lacroix to tell you about all these things, among others about the possible financing of the exporters who, on account of difficulties in exporting and storing, will soon no longer be able to purchase the commodities offered.

We are in the vacation period. Would it not be possible for you, with Mrs. Welles, to visit Haiti, if only for a few days? Mrs. Lescot and I renew to you and Mrs. Welles the invitation which I had the pleasure of giving you on my last visit to Washington.

I renew my respectful compliments to Mrs. Welles. Mrs. Lescot asks to be remembered to you.

To you, my dear Under Secretary of State and very dear friend, the assurance of my unchangeable and sincere feelings of gratitude.

E. LESCOT

838.51/4490

*The President of Haiti (Lescot) to the Under Secretary of State
(Welles)*

[Translation]

PORT-AU-PRINCE, July 1, 1942.

DEAR MR. UNDER SECRETARY OF STATE: With reference to my letter of June 23, which I sent you through our Secretary of State for Finance, Mr. Abel Lacroix, in which I requested of your kindness—which has never failed me—assistance in the solution of the embarrassments in which we are at the present hour because of the impossibility of importing merchandise and exporting our products and of assuring the carrying out of our budget, I take the liberty of troubling you once more in the midst of your high and important occupations of the present time to solicit your help with the “Maritime Commission or with the War Shipping Board.” It occurs to me, in calculating the tonnage which Haiti needs both of imports and exports, that a solution to the grave question of vessels which are lacking to us may, perhaps, be arranged as follows:

Instead of endeavoring to obtain for ourselves one or two ships per month—vessels of more than average tonnage and traveling at their own risks and perils,—it would be to our advantage if we could receive at Port-au-Prince a regular visit every two months only of a vessel of about 10,000 tons which the Navy of the United States would be good enough to convoy both coming and going. This vessel, which would unload at Port-au-Prince all the goods intended for the other Ports of the country, could receive each time a full load, for the Haitian Government would make arrangements to have all export products brought to the Capital and to distribute to the other Haitian ports goods destined for them.

Our request is not an exaggerated one for we would only dispose of an annual tonnage of 60,000 tons and it seems to me that in view of the critical aspects of the situation in which we are struggling this solution might be adopted.

I cherish the hope that under the circumstances you will, just as you always do, grant me the fullest help and I express my thanks to you therefor in advance.

Receive, my dear Under Secretary of State, the renewed assurances of my invariable sentiments of friendship and gratitude.

E. LESCOT

838.51/4492

*Memorandum of Conversation, by Mr. Willard F. Barber of the
Division of the American Republics*

[WASHINGTON,] July 10, 1942.

Participants: Mr. Warren Lee Pierson, of the Export-Import Bank, (the meeting was held in his office), Mr. Arey, Finance Minister Lacroix, Minister Dennis, Mr. Garcia, of the Haitian Legation, Mr. Collado,¹⁸ Mr. Hooker¹⁹ and Mr. Barber.

Minister Lacroix reviewed the fiscal and budgetary situation as it had been portrayed in President Lescot's letter to the Under Secretary and his own memorandum to Mr. Bonsal.²⁰ In reply to Mr. Pierson's specific inquiry, Minister Lacroix said that he had no specific request to make except that assistance was needed, for the Haitian budget in view of shipping shortages upon which the budget was so dependent for revenues derived from import and export duties.

After a brief discussion regarding the terms of the credit Minister Lacroix said that he would telegraph the President regarding an arrangement along the following lines: (1) A credit of \$500,000 to be made available when needed. (2) Sympathetic consideration for an increase in the amount, if and when it proved to be necessary. (3) The Export-Import Bank to receive as collateral the note of the National Bank of the Republic of Haiti guaranteed by the Haitian Government. (4) Interest to be at the rate of 3.6 per cent. (5) Repayment to be over a period of five years; 10 per cent of the amount to be repaid semi annually and with the right to make prepayment.

It was agreed that another meeting would be held at Mr. Pierson's office at 10:00 o'clock on July 14, when Minister Lacroix would have received an answer from his Government.

838.51/4492

*Memorandum of Conversation, by Mr. Willard F. Barber of the
Division of the American Republics*

[WASHINGTON,] July 14, 1942.

Participants: Mr. Warren Lee Pierson, of the Export-Import Bank, (the meeting was held in his office), Mr. Arey, Finance Minister Lacroix, Minister Dennis, Mr. Garcia of the Haitian Legation, Mr. Hooker and Mr. Barber.

The meeting held today in Mr. Pierson's office was very brief.

¹⁸ Emilio G. Collado, Special Assistant to the Under Secretary of State; also Executive Secretary of the Board of Economic Operations of the Department of State.

¹⁹ John S. Hooker, Assistant Executive Secretary of the Board of Economic Operations of the Department of State.

²⁰ Philip W. Bonsal, Chief of the Division of the American Republics; memorandum not printed.

Minister Lacroix said that he had received a message from President Lescot and that the agreement which had been tentatively offered on July 10 was acceptable to President Lescot. Minister Lacroix also said that it was satisfactory to him.

Mr. Pierson stated that either a letter or a short simple contract would be prepared setting forth the arrangement. It was hoped that this document would be ready to hand Mr. Lacroix before he left Washington. Mr. Pierson inquired as to when it was thought that any funds under this credit would be needed. Mr. Lacroix replied that he thought that it might be soon, although he hoped not and he could not tell in what amounts.

Mr. Arey said that he would supply the Department with a copy of whatever document was submitted to Minister Lacroix.

838.51/4492

*The Under Secretary of State (Welles) to the President of Haiti
(Lescot)*

WASHINGTON, July 14, 1942.

MY DEAR MR. PRESIDENT: I refer to your letters of June 23 and July 1, the first of which I had the pleasure of receiving from the hands of your distinguished Secretary of State for Finance, Mr. Abel Lacroix, through whose kindness I am sending you this reply. It has been a privilege to discuss with Mr. Lacroix the different problems brought up in your letters. The detailed report which he will bring you will, I am confident, demonstrate to you again the complete accord which prevails between our two Governments regarding the measures which they can jointly take to meet the critical situation with which they are confronted.

The revised proposal of the Export-Import Bank for financial cooperation with the Government of Haiti and with the National Bank is the result of a careful study of all the information available regarding Haitian revenues and expenditures both past and future. It is obviously impossible, under present circumstances to forecast the exact future course of the imports upon which Haitian revenues so largely depend. The situation is one calling for close and frequent consultation between the officials directly concerned.

These consultations together with the demonstrated correctness and sense of responsibility of your Government in budgetary matters justify the conviction that such problems as may arise in the future will be satisfactorily and promptly solved.

It is not possible at this time to give you any positive statement regarding the shipping situation. It is most serious; we have all suffered grievous losses. Yet our shipbuilding program is progressing by giant steps and our available means of defense and offense

against the submarine menace are being strengthened and multiplied daily. Further hardships and losses await us. Our certain victory depends upon our manner of meeting and enduring them.

The suggestions regarding convoys which you made in your letter of July 1 are being given careful consideration by the appropriate authorities. This Government is doing its utmost, consistent with the overall requirements of general strategy, to relieve the shipping situation in the Caribbean area. Mr. Lacroix has discussed this problem with the appropriate officials.

I am happy to take advantage of this opportunity to tell you how greatly we appreciate the energetic solicitude with which you have personally directed the assistance given to survivors of vessels lost near the Haitian coasts. I can only say that these acts are characteristic of your generosity and of your unflinching interest in the welfare of my compatriots and of all those who are dailing [*daily*] risking their lives to win the battle of supply.

I was distressed to learn of the loss at sea of your personal effects, as a result of enemy action, following your recent trip to Washington.

The invitation to visit you in Haiti, which you and Madame Lescot have so kindly renewed, is appreciated very much by Mrs. Welles and myself. Although it does not appear possible for us to be absent from Washington for any period of time in the foreseeable future, we are very grateful for the invitation, and Mrs. Welles joins me in sending to you and to Madame Lescot our cordial greetings.

Believe me,

Faithfully yours,

SUMNER WELLES

838.51/4488

The President of the Export-Import Bank (Pierson) to the Haitian Secretary of State for Finance (Lacroix)

WASHINGTON, July 17, 1942.

MY DEAR MR. SECRETARY: Confirming our recent conversations, we wish to inform you that this Bank is prepared to establish a line of credit of \$500,000 available to the Republic of Haiti through the facilities of the Banque Nationale de la Republique d'Haiti to assist the Republic of Haiti in the stabilization of its finances and in the maintenance of a supply of dollar exchange essential to its economy. The granting of this credit is premised on the understanding that the present budget of your Government will not be increased while this credit remains available and that advances will be made in each instance upon the request of your Government supported by information indicating a situation requiring utilization of the credit.

Each advance under the credit will be evidenced by the promissory note of the Banque Nationale de la Republique d'Haiti bearing the

unconditional guarantee of the Republic of Haiti. Each note will bear interest at the rate of 3.6% per annum and will be payable within five years from the date thereof in ten approximately equal semiannual installments.

The credit will be available until September 30, 1943 but it is understood that the unused portion thereof will be subject to cancellation by this Bank at any time upon ten days' notice.

A brief contract covering the above points, together with certain provisions consistent therewith and customarily included in our agreements, will be transmitted to your Government within a few days.

Will you kindly convey to your President my highest personal regards and best wishes.

Sincerely,

WARREN LEE PIERSON

[For text of the agreement between the United States and Haiti arranging for extension of credit to Haiti effected by exchange of notes signed at Washington, September 17 and 21, 1942, see Executive Agreement Series No. 290, or 56 Stat. (pt. 2) 1830.

For text of the supplementary agreement between the United States and Haiti extending the moratorium on the payment of amortization charges on the Haitian debt, signed at Port-au-Prince, September 30, 1942, see Executive Agreement Series No. 299, or 56 Stat. (pt. 2) 1862.]

AGREEMENT BETWEEN THE UNITED STATES AND HAITI REGARDING EXCHANGE OF LANDS IN HAITI, SIGNED AT PORT-AU-PRINCE, OCTOBER 19, 1942

[For text of the agreement, see Department of State Executive Agreement Series No. 283, or 56 Stat. (pt. 2) 1784.]

AGREEMENT BETWEEN THE UNITED STATES AND HAITI REGARDING A HEALTH AND SANITATION PROGRAM IN HAITI

[For text of the agreement effected by exchange of notes signed at Washington, April 7, 1942, see Department of State Executive Agreement Series No. 425, or 58 Stat. (pt. 2) 1439.]

HONDURAS

AGREEMENT BETWEEN THE RUBBER RESERVE COMPANY AND HONDURAS GRANTING THE COMPANY EXCLUSIVE PURCHASING RIGHT TO ALL OF HONDURAS' EXPORTABLE RUBBER

811.20 Defense (M)/58491: Telegram

The Acting Secretary of State to the Minister in Honduras (Erwin)

WASHINGTON, March 19, 1942—2 p. m.

74. Rubber Reserve Company is prepared to enter into commitment with Honduran Government to purchase entire production of rubber in Honduras except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at price of 35 cents per pound c. & f. United States Continental port for usual good quality Castilloa rubber as understood in New York, with appropriate differentials for other grades. The term of the agreement would be for 5 years, price being subject to adjustment after 2 years by mutual agreement if conditions change. The Government of Honduras would agree to restrict export licenses to Rubber Reserve Company or its nominees. The exportation of manufactured rubber, if any, would be restricted to the United States. Honduras would agree to use its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some Honduran governmental agency might be designated as the single buying agency under the contract, if this seemed best way of securing results; otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

Foregoing proposal corresponds generally to agreements entered into with Brazilian Government on March 3.¹

For your information we understand certain other American republics are negotiating to acquire rubber production in some Latin American countries. Please consult immediately proper Honduran authorities and request their prompt consideration of proposal.² If Honduran authorities agreeable in principle to sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately

¹ See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

² In his despatch No. 1975, April 17, 1942, the Minister in Honduras reported that the Honduran Government had notified the Legation by note on April 14 that an Office charged with the buying and exportation of wild rubber had been established (811.20 Defense M/6231).

to acquire it. Upon consummation of purchasing agreement we will be prepared to discuss with Honduran authorities any useful joint arrangements to increase rubber production.

WELLES

811.20 Defense (M) /8168

The Minister in Honduras (Erwin) to the Secretary of State

No. 2241

TEGUCIGALPA, August 4, 1942.

[Received August 7.]

SIR: I have the honor to refer to the Legation's despatch no. 2238 of August 3, 1942,³ transmitting the original contract, in Spanish and in English, which was executed on July 31, 1942⁴ by the Honduran Government, represented by Juan José Umaña, Chief Clerk of the Ministry of Development, Agriculture and Labor, and the Rubber Reserve Company, represented by Mr. Ernest G. Holt.

As mentioned in the despatch under reference, additional copies of the contract as signed in English, as well as copies of Note No. 202 of August 1, 1942 from the Foreign Office⁵ giving the text of Acuerdo No. 200 in Spanish containing the contract, are enclosed herewith for the Department's files.

Respectfully yours,

JOHN D. ERWIN

**LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND
HONDURAS, SIGNED FEBRUARY 28, 1942**

815.24/2-2842

Agreement Between the United States and Honduras Regarding Principles Applying to Mutual Aid in the Prosecution of the War, Signed at Washington February 28, 1942

WHEREAS the United States of America and the Republic of Honduras declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Conference of American States on December 24, 1938,⁵ they, together with all the other American republics, are united in the defense of the Americas, determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

³ Not printed.

⁴ Not printed; this contract was similar to the one with Costa Rica, printed on p. 233.

⁵ For correspondence on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941,⁷ and the President of the Republic of Honduras have determined that the defense of each of the American republics is vital to the defense of all of them; and

WHEREAS the United States of America and the Republic of Honduras are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the Republic of Honduras have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the Republic of Honduras under the terms of this Agreement armaments and munitions of war to a total value of about \$1,300,000.

In conformity, however, with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the Republic of Honduras similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the Republic of Honduras, the defense needs of the Republic of Honduras or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

The Government of the United States of America agrees to accord to the Government of the Republic of Honduras a reduction of 90.77% in the scheduled cost of the materials delivered in compliance with the stipulations of the present Agreement; and the Government of the Republic of Honduras promises to pay in dollars into the Treasury of the United States of America 9.23% of the scheduled cost

⁷ 55 Stat. 31.

of the materials delivered. The Republic of Honduras shall not be required to pay

more than a total of \$20,000 before January 1, 1943,
more than a total of \$40,000 before January 1, 1944,
more than a total of \$60,000 before January 1, 1945,
more than a total of \$80,000 before January 1, 1946,
more than a total of \$100,000 before January 1, 1947, or
more than a total of \$120,000 before January 1, 1948.

ARTICLE III

The United States of America and the Republic of Honduras, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the Republic of Honduras hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,⁸ to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the Republic of Honduras is in a position to supply, the Republic of Honduras will make such defense articles and defense information available to the United States of America, to the extent possible without harm to its economy and under terms to be agreed upon.

ARTICLE V

The Republic of Honduras undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Republic of Honduras.

⁸ For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the Republic of Honduras, transfer title to or possession of any defense article or defense information received in accordance with Article IV of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

ARTICLE VI

If, as a result of the transfer to the Republic of Honduras of any defense article or defense information, it is necessary for the Republic of Honduras to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Republic of Honduras will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the Republic of Honduras who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the Republic of Honduras.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed in the English and Spanish languages, in duplicate, at Washington this twenty-eighth day of February, 1942.

For the United States of America:

SUMNER WELLES

*Acting Secretary of State of the
United States of America*

For the Republic of Honduras:

JULIÁN R. CÁCERES

*Envoy Extraordinary and Minister
Plenipotentiary of the Republic
of Honduras at Washington*

AGREEMENT BETWEEN THE UNITED STATES AND HONDURAS REGARDING THE CONSTRUCTION OF THE INTER-AMERICAN HIGHWAY

[For text of the agreement effected by exchange of notes signed at Washington, September 9 and October 26, 1942, see Department of State Executive Agreement Series No. 296, or 56 Stat. (pt. 2) 1848.]

MEXICO

CREATION OF JOINT MEXICAN-UNITED STATES DEFENSE COMMISSION

[The Governments of Mexico and the United States announced on January 12, 1942, the organization of a joint defense commission. The United States Section of the Joint Mexican-United States Defense Commission was established by Executive Order 9080 of February 27, 1942; for text, see 7 *Federal Register* 1607.]

AGREEMENT BETWEEN THE RUBBER RESERVE COMPANY AND MEXICO GRANTING THE COMPANY EXCLUSIVE PURCHASING RIGHT TO ALL OF MEXICO'S EXPORTABLE RUBBER

811.20 Defense (M) Mexico/238a : Telegram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

WASHINGTON, March 19, 1942—midnight.

392. Rubber Reserve Company¹ is prepared to enter into commitment with Mexican Government to purchase entire production of rubber in Mexico except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at price of 35 cents per pound c. & f. United States continental port for usual good quality castilloa rubber as understood in New York, with appropriate differentials for upper grades. The term of the agreement would be for 5 years, price being subject to adjustment after 2 years by mutual agreement if conditions change. The Government of Mexico would agree to restrict export licenses to Rubber Reserve Company or its nominees. The exportation of manufactured rubber, if any, would be restricted to the United States. Mexico would agree to use its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some Mexican governmental agency might be designated as the single buying agency under the contract, if this seemed best way of securing results; otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

¹ An agency of the United States Government.

Foregoing proposal corresponds generally to agreements entered into with Brazilian Government on March 3.²

For your information we understand certain American republics are negotiating to acquire rubber production in some Latin American countries. Please consult immediately proper Mexican authorities and request their prompt consideration of proposal. If Mexican authorities agreeable in principle to sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately to acquire it. Upon consummation of purchasing agreement we will be prepared to discuss with Mexican authorities any useful joint arrangements to increase rubber production.

WELLES

811.20 Defense (M) Mexico/345a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, May 14, 1942—11 p. m.

661. The Department with other interested agencies has been discussing with Undersecretary Beteta the possibility of a contract between the two governments whereby Rubber Reserve Company would acquire, over a 5-year period, all crude rubber, including guayule, produced in Mexico and not required for essential uses in Mexico. It has been estimated here that Mexico's potential annual production of guayule is not less than 10,000 tons, and of castilloa not less than 2,000 tons, and that Mexico's annual normal consumption is only approximately 5,000 tons of crude rubber.

It has been suggested to Beteta that in any such contract Mexico agree to limit its consumption to a specified amount required for essential needs and his Government should consider the institution of a conservation program similar to ours, in view of the fact that in any event Mexico's stockpile will not last indefinitely. Agreements of this type have been negotiated with Brazil and Peru. Beteta advises that his Government feels this is politically impossible. He left yesterday for Mexico City to consult with his Government on this problem.

It has seemed to the Department desirable to have in Mexico City during Beteta's visit someone who is familiar with the latest developments here in the program for the acquisition of rubber in Latin America. Paul Hayes, Chief of the rubber branch of the Board of Economic Warfare, is accordingly leaving tonight by plane for Mexico City to be available for discussion with Beteta and the other Mexican officials. He is fully informed on the rubber program. He will work through and under the supervision of the Embassy. You

² See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

should do everything possible to facilitate his efforts and work out with him all possible means of forwarding these negotiations. No specific plans have been made, but you and he can decide what is the best method of procedure. He has been authorized by Rubber Reserve to negotiate with respect to the terms of the contract if that seems appropriate during his stay, subject to its approval before any commitment is made with the Mexican Government.

HULL

811.20 Defense (M) Mexico/566a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, September 1, 1942—midnight.

1205. Following is proposed press release on signing of rubber agreement.³ It follows the general policy adopted here of not giving extensive publicity to these agreements because of fear of exaggerating in the public mind the amounts of rubber which may be expected from the various American producing countries. It is recognized that you may wish to give additional publicity in Mexico to the various terms of the agreement, and if so we have no objection. Please advise when announcement may be released.

“Signing of a rubber agreement with Mexico was announced today by the Department of State, the Rubber Reserve Company and the Board of Economic Warfare. Under the terms of the agreement Rubber Reserve Company will purchase, until December 31, 1946, any exportable surplus of tree rubber produced in Mexico and also all guayule and other plant rubber produced in Mexico during that period. The agreement also contains provisions with respect to the limitation of use of rubber products in Mexico. Under the terms of the agreement a substantial development fund is to be established by Rubber Reserve Company for the purpose of obtaining the maximum production of wild rubber in Mexico.”

HULL

**LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND
MEXICO, SIGNED MARCH 27, 1942**

812.24/3-2742

Agreement Between the United States and Mexico Regarding Principles Applying to Mutual Aid in the Prosecution of the War, Signed at Washington March 27, 1942

WHEREAS the United States of America and the United Mexican States declare that in conformity with the principles set forth in the Declaration of Lima, approved at the Eighth International Confer-

³ The agreement was signed September 4, 1942. The press release was issued on September 11.

ence of American States on December 24, 1938,⁴ they, together with all the other American republics, are united in the defense of the Americas, determined to secure for themselves and for each other the enjoyment of their own fortunes and their own talents; and

WHEREAS the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941,^{4a} and the President of the United Mexican States have determined, that the defense of each of the American republics is vital to the defense of all of them; and

WHEREAS the United States of America and the United Mexican States are mutually desirous of concluding an Agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an Agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an Agreement in conformity with the laws either of the United States of America or of the United Mexican States have been performed, fulfilled or executed as required;

The undersigned, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The United States of America proposes to transfer to the United Mexican States under the terms of this Agreement armaments and munitions of war to a total value of about \$10,000,000.

In conformity, however, with the Act of the Congress of the United States of America of March 11, 1941, the United States of America reserves the right at any time to suspend, defer, or stop deliveries whenever, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or the Western Hemisphere; and the United Mexican States similarly reserves the right to suspend, defer, or stop acceptance of deliveries under the present Agreement, when, in the opinion of the President of the United Mexican States, the defense needs of the United Mexican States or the Western Hemisphere are not served by continuance of the deliveries.

ARTICLE II

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

⁴ For correspondence on this Conference, see *Foreign Relations, 1938*, vol. v, pp. 1 ff.; for text of the Declaration of Lima, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

^{4a} 55 Stat. 31.

The Government of the United States of America agrees to accord to the Government of the United Mexican States a reduction of 52 percent in the scheduled cost of the materials delivered in compliance with the stipulations of the present Agreement; and the Government of the United Mexican States promises to pay in dollars into the Treasury of the United States of America 48 percent of the scheduled cost of the materials delivered. The United Mexican States shall not be required to pay

more than a total of \$ 800,000 before July 1, 1943,
 more than a total of \$1,600,000 before July 1, 1944,
 more than a total of \$2,400,000 before July 1, 1945,
 more than a total of \$3,200,000 before July 1, 1946,
 more than a total of \$4,000,000 before July 1, 1947, or
 more than a total of \$4,800,000 before July 1, 1948.

ARTICLE III

The United States of America and the United Mexican States, recognizing that the measures herein provided for their common defense and united resistance to aggression are taken for the further purpose of laying the bases for a just and enduring peace, agree, since such measures cannot be effective or such a peace flourish under the burden of an excessive debt, that upon the payments above provided all fiscal obligations of the United Mexican States hereunder shall be discharged; and for the same purpose they further agree, in conformity with the principles and program set forth in Resolution XXV on Economic and Financial Cooperation of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940,⁵ to cooperate with each other and with other nations to negotiate fair and equitable commodity agreements with respect to the products of either of them and of other nations in which marketing problems exist, and to cooperate with each other and with other nations to relieve the distress and want caused by the war wherever, and as soon as, such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE IV

Should circumstances arise in which the United States of America in its own defense or in the defense of the Americas shall require defense articles or defense information which the United Mexican States is in a position to supply, the United Mexican States will make such defense articles and defense information available to the United States of America, to the extent possible without harm to its economy and under terms to be agreed upon.

⁵ For correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.; for Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

ARTICLE V

The United Mexican States undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the United Mexican States.

Similarly, the United States of America undertakes that it will not, without the consent of the President of the United Mexican States, transfer title to or possession of any defense article or defense information received in accordance with Article IV of this Agreement, or permit its use by anyone not an officer, employee, or agent of the United States of America.

ARTICLE VI

If, as a result of the transfer to the United Mexican States of any defense article or defense information, it is necessary for the United Mexican States to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the United Mexican States will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the United States of America of any defense article or defense information, it is necessary for the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the United Mexican States who has patent rights in and to any such defense article or information, the United States of America will do so, when so requested by the President of the United Mexican States.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed in the English and Spanish languages, in duplicate, at Washington, this twenty-seventh day of March, 1942.

For the United States of America:

SUMNER WELLES

*Acting Secretary of State of the
United States of America*

For the United Mexican States:

F. CASTILLO NÁJERA

*Ambassador Extraordinary and
Plenipotentiary of the United
Mexican States at Washington*

NEGOTIATIONS LEADING TO THE SIGNING OF A RECIPROCAL TRADE
AGREEMENT BETWEEN THE UNITED STATES AND MEXICO, DECEM-
BER 23, 1942⁶

611.1231/297

*Memorandum of Conversation, by Mr. Harry R. Turkel of the
Division of Commercial Policy and Agreements*

[WASHINGTON,] December 26, 1941.

Participants: Mexican Embassy:

Señor Dr. Don Luis Quintanilla, Minister Pleni-
potentiary

Señor Don Armando C. Amador, Counselor

Señor Don Justo Sierra, Second Secretary

Department of State:

Harry C. Hawkins, Chief, TA⁷

Herbert Bursley, RA⁸

Harry R. Turkel, TA

At the request of Mr. Hawkins, the above-mentioned officers of the Mexican Embassy called at the Division of Commercial Policy and Agreements at 3 p. m. on December 24, 1941 for the purpose of receiving a list of products for consideration in preparing the list to be published at the time of formal announcement of intention to negotiate a trade agreement with Mexico. The proposal to hand the Mexicans such a list had been approved by Mr. Duggan⁹ the previous week and confirmed on the morning of the twenty-fourth.

Mr. Hawkins first explained that the procedure in negotiating a trade agreement required the formulation of a list of products on which the United States will consider granting concessions, such list to be published in connection with our formal notice. Articles not on the list could not be considered for concessions.

The Mexicans stated that they had no analogous procedure with respect to articles upon which Mexico might grant concessions.

Mr. Hawkins stated that the list must be regarded as confidential until formal announcement had been made to the public. The Mexicans stated that they would be glad to arrange for simultaneous press releases at the time of announcement.

In response to Mr. Hawkins' inquiry as to where the Mexicans would prefer that the negotiations would be held, the Mexicans stated that Licenciado Primo Villa Michel, formerly Minister of Industry

⁶ In connection with the agreements reached between the United States and Mexico on November 19, 1941, for a general settlement of outstanding questions between the two countries, it was decided in principle to negotiate a reciprocal trade agreement; see *Foreign Relations*, 1941, vol. VII, pp. 371 ff.

⁷ Division of Commercial Policy and Agreements.

⁸ Division of the American Republics.

⁹ Laurence Duggan, Adviser on Political Relations.

and Minister to London and Japan, would arrive in Washington for the purpose of carrying on these negotiations.

After the Mexicans had examined the list, Mr. Hawkins stated that in all probability a proclamation would shortly be issued allocating the petroleum quota on the same basis as last year, but with the provision that such allocations were to continue through the calendar year 1942 unless modified by a subsequent proclamation. This leaves the way open for any action which may be decided upon in the course of the negotiations with Mexico.

The Mexican officials noted that copper was not on the list and, accordingly, Mr. Hawkins explained the general rule that concessions were made to the other country on articles of which it is the primary or a leading supplier. He indicated that Mexico would get the benefit of any reduction in duty which might be made in future trade agreements with Chile and Peru, which are more important suppliers of this commodity.

Mr. Hawkins handed the Mexicans two copies of the latest standard general provisions,¹⁰ with the indication that they would probably have to be modified in the light of special conditions prevailing in Mexico.

611.1231/319

Memorandum of Telephone Conversation, by Mr. H. Gerald Smith of the Division of Commercial Policy and Agreements

[WASHINGTON,] March 27, 1942.

I telephoned Señor Sierra to inform him that we hoped to be able to place in his hands by March 31 or April 1, the list of the items which we were prepared to publish with our public announcement of intention to negotiate with Mexico. If no further problems arose regarding the items comprising the list, we believed it would be possible to issue the public announcement on April 3, or at least prior to the departure from Washington of Foreign Minister Padilla. I also told Señor Sierra that we now had ready for him a tentative list of the Schedule I items¹¹ on which this Government proposed to request concessions of Mexico, and indicated that this list was, of course, subject to later modification in the light of information received from interested persons in this country.

I inquired of Señor Sierra whether his Government intended to publish a list of possible Schedule I items in the same way that Schedule II items were published in this country. He said that he was not sure, but as he would be telephoning Mexico City in the next

¹⁰ Not printed. For text of original standard general provisions, see *Foreign Relations*, 1935, vol. I, p. 541; minor changes in these standard provisions were made from time to time.

¹¹ Not printed.

few minutes, he would make it a point to inquire. Señor Sierra inquired whether this Government would have any objection to the publication by the Mexican Government of a list in Mexico. I told him that this was a matter for the Mexican Government to decide, that we would neither express any objection if the Mexican Government desired to publish such a list nor would we request or encourage the Mexican Government to do so.

Senor Sierra promised to call later in the day to receive the tentative Schedule I list and said that he would transmit this to his Government tonight.

In accordance with the above, Señor Sierra called and was given the Schedule I tentative list. He said that as a result of his telephone call to Mexico City he was of the opinion that his Government would not publish a Schedule I list.

611.1231/332

*Memorandum of Conversation, by Mr. H. Gerald Smith of
the Division of Commercial Policy and Agreements*

[WASHINGTON,] April 3, 1942.

Señor Sierra called by request to receive the list of additional products which we were prepared to include in the list accompanying the public notice of intention to negotiate with Mexico. I handed Señor Sierra a copy of the list of additional items, explaining at the same time that while the original had not yet been initialed in the Department, I wished to get a copy of the list into his hands on an informal basis as quickly as possible in order that the Mexican Ambassador²² might determine whether the list of additional items, plus the original list handed to the Mexican Embassy in December 1941, was satisfactory to the Mexican Government for publication. I told Señor Sierra that I would send the original of the list to him as soon as it had been initialed.

I went over the list with Señor Sierra pointing out that it had not been possible in all cases to accede to the request of the Mexican Government for inclusion of certain items in the list, but we had gone as far as possible in this direction. At the same time we had included a number of items, not specifically requested by Mexico, in which we had found that imports from Mexico were of growing importance, and if the Mexican Government were interested in these items we would be willing to include them in the published list. I indicated to Señor Sierra, at the same time, that in the case of a number of these products included upon our initiative, in view of the fact that Mexico had become the major or an important supplier

²² Francisco Castillo Nájera.

only because normal sources were cut off by the war, it might be necessary, if it were found that concessions could be granted on such items, to include them in the agreement on a basis whereby the United States would have the right, six months or some such period after the war, to withdraw the concessions from the agreement. I mentioned that this had been done in the case of the recent trade agreement with Argentina.¹³

Señor Sierra was informed, regarding the original list of products handed to the Mexican Embassy in December 1941, that we had found it desirable to withdraw two of the items included therein, Paragraph 1719 covering unspecified crude minerals and Paragraphs 1785 and 1786, covering tin. In both these cases we had felt that the present or potential position of Mexico as a supplier did not warrant inclusion of the items. I also indicated to Señor Sierra that we had made certain changes in language in a number of the other items in the original list, but these changes did not lessen the scope of the items.

Señor Sierra seemed personally satisfied with our proposals and said that he would get them into the hands of the Ambassador as soon as possible and would try to get confirmation to me this afternoon in order that we could proceed with the steps leading up to the issuance of the public notice here and announcement to the press simultaneously in Mexico City. It was tentatively agreed that we would try to have the announcements issued tomorrow morning around 11 or 12 o'clock, approximately the time of the departure for New York of the Mexican Foreign Minister.

Señor Sierra telephoned at 4 p. m. and stated that the supplementary list of products was satisfactory and said that it was their desire that the announcement be issued at 12 o'clock noon, April 4.

[For the public announcement on April 4, 1942, of trade-agreement negotiations with Mexico, together with a list of products on which the United States would consider granting concessions to Mexico, see Department of State *Bulletin*, April 4, 1942, pages 278-286.]

611.1231/400a

The Department of State to the Mexican Embassy

MEMORANDUM

With reference to the proposed reciprocal trade agreement between the United States of America and the United Mexican States, there

¹³ See *Foreign Relations*, 1941, vol. VI, section under Argentina entitled "Reciprocal trade agreement between the United States and Argentina, signed October 14, 1941."

is attached a draft of general provisions for the proposed agreement.

Should it be found necessary by the Government of the United States to grant certain concessions to the Mexican Government on a basis whereby the United States would have the right to withdraw such concessions after the close of the present war, there would probably be included in the agreement a special list of such items, which might, as in the case of the trade agreement concluded in October 1941 between the United States of America and the Argentine Republic, be denominated Schedule III.

The Government of the United States expects, during the forthcoming negotiations, to request certain assurances regarding Mexican export duties and taxes on articles on which concessions may be offered by the United States.

WASHINGTON, MAY 26, 1942.

[Enclosure]

*Draft of General Provisions*¹⁴

[Preamble same as in final text, printed as Department of State Executive Agreement Series No. 311, or 57 Stat. 833.]

Article I

[Same as in final text except change of phrase "affecting the sale, taxation or use of imported articles" to "affecting the taxation, sale, distribution or use of imported articles".]

Article II

[Same as in final text with slight verbal change.]

Article III

1. No prohibition or restriction of any kind shall be imposed by the Government of the United States of America or the Government of the United Mexican States on the importation, sale, distribution or use of any article the growth, produce or manufacture of the other country, or upon the exportation of any article destined for the territory of the other country, unless the importation, sale, distribution or use of the like article the growth, produce or manufacture of all third countries, or the exportation of the like article to all third countries, respectively, is similarly prohibited or restricted.

2. If the Government of the United States of America or the Government of the United Mexican States imposes any restriction on the importation or exportation of any article, or on the sale, dis-

¹⁴ Only those articles are here printed in which changes were made in the course of negotiations.

tribution or use of any imported article, it shall as a general rule give public notice of the total quantity or value of such article permitted to be imported, exported, sold, distributed or used during a specified period, and of any change in such quantity or value. Furthermore, if the Government of the United States of America or the Government of the United Mexican States allots a share of such total quantity or value to any third country, it shall as a general rule allot to the other country, with respect to any article in which the latter has an important interest, a share based upon the proportion of the total quantity or value supplied by, or in the case of exports a share based upon the proportion exported to, such other country during a previous representative period.

3. The provisions of this Article relating to imported articles shall also apply in respect of the quantity or value of any article permitted to be imported at a specified rate of duty.

Article IV

[Same as in final text.]

Article V

1. If the Government of the United States of America or the Government of the United Mexican States establishes or maintains a monopoly for the importation, sale, distribution or production of any article or grants exclusive privileges to any agency to import, sell, distribute or produce any article, the commerce of the other country shall be accorded fair and equitable treatment in respect of the foreign purchases of such monopoly or agency. To this end such monopoly or agency shall, in making its foreign purchases of any article, be influenced solely by considerations, such as price, quality, marketability and terms of sale, which would ordinarily be taken into account by a private commercial enterprise interested solely in purchasing such article on the most favorable terms.

2. The Government of the United States of America and the Government of the United Mexican States, in the awarding of contracts for public works and generally in the purchase of supplies, shall accord fair and equitable treatment to the commerce of the other country as compared with the treatment accorded to the commerce of any third country.

Article VI

[Same as in final text except that in paragraph 5 the final text has the added words "as soon as practicable," which do not appear in the draft, with respect to the submission of recommendations by the committee of technical experts.]

Article VII

[Same as in final text.]

Article VIII

[Same as in final text except that draft was amended to cover Schedule III as well as Schedule II.]

Article IX

[Same as in final text.]

Article X

1. Subject to the provisions of the second paragraph of this Article and to the provisions of Article XI, no prohibition, restriction or any other form of quantitative regulation, whether or not operated in connection with any agency of centralized control, shall be imposed by the United Mexican States on the importation or sale of any article the growth, produce or manufacture of the United States of America enumerated and described in Schedule I, or by the United States of America on the importation or sale of any article the growth, produce or manufacture of the United Mexican States enumerated and described in Schedule II.

[Paragraphs 2 and 3 the same as in final text.]

Article XI

[Same as in final text except that draft was amended to cover Schedule III as well as Schedule II.]

Article XII

If the Government of the United States of America or the Government of the United Mexican States should consider that any measure adopted by the other Government, even though it does not conflict with the terms of this agreement, has the effect of nullifying or impairing any object of the agreement, such other Government shall give sympathetic consideration to such written representations or proposals as may be made with a view to effecting a mutually satisfactory adjustment of the matter. If agreement is not reached with respect to the matter within thirty days after such representations or proposals are received, the Government which made them shall be free, within fifteen days after the expiration of the aforesaid period of thirty days, to terminate this agreement in whole or in part on thirty days' written notice.

Article XIII

[Same as Article XV in final text.]

Article XIV

[Same as Article XVI in final text.]

Article XV

[Paragraph I same as Article XVII in final text.]

2. The provisions of this Agreement relating to the sale, taxation or use of imported articles within the United States of America are understood to be subject to the constitutional limitations on the authority of the Federal Government.

Article XVI

1. This Agreement shall be proclaimed by the President of the United States of America and shall be ratified by the Government of the United Mexican States in conformity with the laws of the respective countries. It shall enter into full force on the thirtieth day after the exchange of the proclamation and the instrument of ratification which shall take place at the City of Mexico as soon as possible, and, subject to the provisions of Article X, Article XI, and Article XII, shall remain in force for a period of three years thereafter.

2. Unless six months before the expiration of the aforesaid period of three years the Government of the United States of America or the Government of the United Mexican States shall have given to the other Government notice of intention to terminate this Agreement upon the expiration of the aforesaid period, the Agreement shall remain in force thereafter, subject to the provisions of Article X, Article XI, and Article XII, until six months from the date on which notice of intention to terminate it shall have been given by either Government.

In witness whereof [etc.]

611.1231/417

*Memorandum of Telephone Conversation, by Mr. H. Gerald Smith
of the Division of Commercial Policy and Agreements*

[WASHINGTON,] June 16, 1942.

I telephoned Señor Sierra to inquire regarding the Mexican negotiators of the trade agreement who I understood had now all arrived in Washington. Señor Sierra confirmed this and gave me their names, as follows:

Ing. Carlos Arroyo, Treasury Department
Señor Aurelio Bueno, Treasury Department
Señor José Saenz, Chief, Statistical Office
Señor Octavio Barreda, Department of National Economy
Ing. José Hernández Limón, Department of Agriculture
Ing. Ricardo Villareal, Department of Agriculture.

Señor Sierra said that Dr. Ramón Beteta would act as head of the delegation. Señor Sierra said that the negotiators had been working very actively since their arrival, that a formal reply had been

received from Mexico regarding the general provisions and the negotiators were now preparing this for transmittal to us, and he would get in touch with me as soon as the negotiators were ready to begin conversations.

611.1231/415

The Mexican Ambassador (Castillo Nájera) to the Secretary of State

[Translation]

8258

EXCELLENCY: On instructions from my Government, I have the honor to refer both to the memorandum presented by the Department under Your Excellency's worthy charge on May 21 [20?], 1942,¹⁵ and to the draft of bases for a trade agreement, prepared by the said Department and dated May 26, 1942 which, through my intermediary, Your Excellency's Government submitted for the consideration of the Government of Mexico.

In the memorandum which I have the pleasure of sending to Your Excellency with this note, there are set forth the general points of view which the Government of Mexico feels should inspire the negotiations for a trade agreement between our two countries. In addition, amendments, additions or substitutions are proposed for articles in the draft drawn up by the Department of State, the reasons being given which, in the opinion of the Mexican Government, justify the advisability of the changes suggested. Lastly, the memorandum contains certain new articles which my Government considers it indispensable to include in the definitive text of the agreement.

I have the pleasure of informing Your Excellency that my Government is animated by the greatest willingness to make, in the course of the negotiations, all such concessions as are compatible with its possibilities, without further limitations than those inescapably imposed by its economy; nevertheless, my Government wishes to invite Your Excellency's attention to the principal concession which my own Government is disposed to offer and which consists in undertaking not to raise its tariffs with respect to a great many products, a circumstance which, of itself, means a great advantage for the United States.

Lastly, I am pleased to inform Your Excellency that the technical delegation appointed by the Mexican Government is now in the city of Washington; accordingly, this Embassy feels that it is an easy matter to hasten the negotiations, beginning the final conversations at the earliest date convenient for Your Excellency's Government.

¹⁵ Not printed.

Mr. Ramón Beteta, Envoy Extraordinary and Minister Plenipotentiary, heads the said delegation.

I wish [etc.]

F. CASTILLO NÁJERA

WASHINGTON, July 6, 1942.

[Enclosure—Translation]

MEMORANDUM

I

With respect to the fundamental points of view concerning commercial and tariff policy which the trade agreement between Mexico and the United States should determine for the two countries, the Government of Mexico has special interest in having the Government of the United States give attention to the general considerations which are herein briefly set forth and which, in the course of the negotiations, may be enlarged upon to the necessary degree.

The Government of Mexico feels that, in order for the agreement which is to be negotiated to be founded on a basis of real, just and equitable reciprocity, account will have to be taken of the necessity of substantial tariff concessions being granted by the United States, in general, even though, in some cases, Mexico may find it impossible to modify its tariff rates now in force, or else can only decrease them on a very slight scale.

Any concession which Mexico may make in this respect, however little it may appear, certainly means a sacrifice greater than a similar reduction in its tariff rates can mean for the United States of America. In fact, Mexico is in a disadvantageous position with respect to the United States as regards the tariff situation. A number of reasons may be invoked to justify the above assertion; and, among others, the following comments may be made herewith:

a) The so-called "Underwood Tariff", approved in 1913,¹⁶ set import duties which were far too high—even though it could be called liberal by comparison with the excessive protectionism of the 1897 tariff,¹⁷ which established bonded quotas which were relatively as high as in the tariff of 1864,¹⁸ famous for its high tariff level. After the last World War, the said level was raised on various occasions and, in 1922, a new tariff¹⁹ was established in the United States which had even more protectionist tendencies. Finally, in 1930, the Hawley-Smoot tariff,²⁰ in effect at present, set the highest import duties in all American history.

¹⁶ 38 Stat. 114.

¹⁷ 30 Stat. 151.

¹⁸ 13 Stat. 202.

¹⁹ 42 Stat. 858.

²⁰ 46 Stat. 590.

Accordingly, the American tariff which will serve as a point of departure in the negotiations for the agreement is a tariff, without precedent, as respects its height, in the history of the United States and, possibly, without equal in the rest of the world, while the tariff in force in Mexico can be termed one of the lowest in existence.

b) Almost all Mexican duties on imports are *specific* duties and, accordingly, are constant and independent of the prices of the products; while those in the United States are, in the great majority, *ad-valorem*, the result of which is that they fluctuate along with the price of the products.

As a consequence, as the value of Mexican currency has been decreasing in relation to the dollar, that is, in proportion as prices, in pesos, of American articles imported by Mexico have gone up—which has happened to a marked degree since 1932—*Mexican tariffs have amounted to an actual, increasingly smaller charge* against American products imported by Mexico, and the disparity between them and the corresponding duties in the United States has been becoming continually sharper.

Furthermore, the low level of the Mexican peso (which is due to reasons which it is not necessary to explain here) is far from having decreased Mexico's capacity to import American goods. On the contrary, such imports have considerably increased, as is shown by statistics for the years 1932 to 1941 (Appendix 1).²¹

c) Mexico does not seek autarchy nor does it try, on any grounds, to do without articles from the United States. However, being a country whose industrial development is barely starting, the majority of its incipient industries unavoidably require protection against the competition of foreign industries which are already full grown, and which operate on a large scale, with low costs of production. The Mexican Government has decided to limit this protection to those industrial activities which, in accordance with the means and resources of the country, may be useful in assuring the stability of its economic future, and is not trying artificially to stimulate, with tariff measures, the establishment of exotic industries, lacking a basis of real economic support.

d) The Governments of Mexico and the United States obtain approximately equal amounts, in absolute figures, from duties on the commercial movement between the two countries, as may be seen by the statistical table attached (Appendix 2);²¹ however, the amount of such sums is equivalent, in Mexico, to *more than one-fourth of the total collections* (27.1% in 1940), while, in the United States, it represents only 0.5 per cent of the Federal receipts in the same year, 1940.

e) Furthermore, within the limit of its possibilities, the Government of Mexico is assisting in continental defense, a circumstance which will necessarily have the effect of increasing its expenditures for military purposes and projects of a strategic character. This is one additional reason why Mexico cannot dispense to a substantial degree with the receipts coming from its tariffs.

²¹ Not printed.

f) The recent agreements concluded between Mexico and the United States on the oil and claims questions²⁴ impose on Mexico the obligation of paying the Government of the United States very large amounts, the payment of which will be made in installments which will mean a positive sacrifice for the Mexican treasury. In addition, the balance of payments will be still more unfavorable for Mexico at the time when it has to pay the principal and interest on the new American investments. Mexico will only be able to export the necessary amount of foreign exchange if it sells an equal amount of goods or services to the United States. Accordingly, it is considered necessary for the Government of the United States to take Mexico's situation as a debtor country into consideration so as to grant it special tariff concessions, which will surely be greater than those which it has granted to other countries with which it has concluded trade agreements in recent years.

The Government of Mexico considers that the facts and arguments set forth in the above paragraphs satisfactorily prove that, in order for there to be true reciprocity in the trade agreement between Mexico and the United States, it is necessary for the greater part of the tariff reductions established to be granted by the United States.

II

The Mexican Government has studied with great care the concrete proposals submitted to it by the Government of the United States in the documents to which reference was made at the beginning of this memorandum. With respect to them, it is necessary to point out forthwith that Mexico holds that the forthcoming trade agreement should permanently strengthen the economic relations between the two countries; therefore, the Mexican Government would like to have the agreement be in effect for the longest possible time and not have as its limit, not even in the case of certain concessions, the termination of the present conflict. To this it must be added that, in any event, Articles X and XI of the proposed agreement presented by the Government of the United States empower either of the two countries to withdraw the concessions established, in whole or in part, in case they involve an injury to the interests of either of the contracting parties.

III

With respect to the guarantees touching on export duties, mentioned in the Department of State's memorandum of May 21 [20?], 1942,²⁵ it may be remarked that, as soon as the concessions which the

²⁴ For correspondence concerning the oil and claims questions, see *Foreign Relations*, 1941, vol. VII, pp. 371 ff.; for citations to agreements, see bracketed note, *ibid.*, p. 396.

²⁵ Not printed.

Government of the United States is disposed to make to the Government of Mexico are known, the latter will study the proposals submitted to it with the greatest good will, with the understanding that it is confident that a formula will be found which will satisfy the interests of both countries.

IV

The Government of Mexico considers it pertinent to make certain proposals concerning some of the articles which constitute the draft trade agreement submitted to its Embassy in Washington by the Department of State. At the same time, it begs to propose the acceptance of certain additional articles which the Government of Mexico considers it necessary to include in the aforesaid agreement. The Government of Mexico does not doubt that they will meet with the approval of the Government of the United States since it feels that the stipulations thereof are in harmony with the general spirit which animates the proposals of the American Government and in view of the fact that some of the said articles have been adopted in similar agreements signed by the United States with other countries.

A. Concerning the draft agreement proposed by the Government of the United States, the Government of Mexico considers that the preamble and articles I, II, IV, V, VIII, IX, XIV and XVI can be accepted without change, in the form in which they were drawn up by the Department of State.

With regard to Article II [III] of the above-mentioned draft, the Mexican Government has no objection to accepting the first paragraph thereof. But with regard to paragraph 2, it believes that the wording should be changed to read as follows:

“If the Government of the United States of America or the Government of the United Mexican States imposes any restriction or quota allotment on the importation or exportation of any article, or on the sale, distribution or use of any article imported, public knowledge shall be given of the total amount or the total value of the said article which it shall be permitted to import, export, sell, distribute or use during the period specified, as well as of any change in the said amount or value. Furthermore, if the Government of the United States of America or the Government of the United Mexican States allots a proportion of that amount or value to any third country, it shall allot to the other country, with respect to any article in which it has an important interest, a share based on the proportion of the total value or amount supplied by the said country or, in the case of exports, a share based on the proportion exported to the said other country during a previous period which can be considered as typical. In the case of quotas on imports or exports already established on the date of the Treaty, they must be modified in conformity with the principle established in the foregoing sentence. In no case shall one year be selected as a typical period and an endeavor shall be made to take, as the basis for quota allotments, a share equiv-

alent to the proportion of the trade in each specific article which the respective countries have had during a typical previous five-year period, or in any other previous typical period on which the governments of the two countries may agree."

Paragraph 3 is acceptable in the form in which it was presented.

With regard to Article V, the Mexican Government proposes that the wording of the first paragraph be changed to read as follows:

"If the Government of the United States of America or the Government of the United Mexican States establishes or maintains in force an institution with exclusive rights over the importation, sale, distribution or production of any article, or if exclusive privileges are granted to any agency to import, sell, distribute or produce any article, fair and equitable treatment shall be granted to the commerce of the other country as concerns the foreign purchases of the said institution or agency. To this end, the said institution or agency shall be governed, in making its purchases of any article abroad, solely by considerations such as price, quality, market, transportation and terms of sale, which would ordinarily be taken into consideration by a private commercial company interested solely in buying the said article on the most favorable conditions."

Paragraph 2 of this article can be accepted in its present form.

The Mexican Government considers that paragraphs 1, 2, 3, and 4 of Article VI of the United States draft are acceptable in the form in which they were presented, but that the wording of paragraph 5 should be changed to read as indicated below:

"If the Government of the United States of America or the Government of the United Mexican States makes representations to the other government with respect to the application of any law or sanitary regulation for the protection of human, animal or vegetable life or health, and if there is disagreement in regard thereto, there shall be established, at the request of either of the governments, a committee of technical experts on which each government shall be represented in equal numbers, to consider the case and make a decision with regard thereto. If the said committee should not reach an agreement, an arbiter shall be appointed, after consultation with both governments, and he shall be a person of unquestioned integrity and technical ability."

The Government of Mexico believes that Article XII should be eliminated from the forthcoming agreement, since it considers it inadvisable that causes foreign thereto may be taken as a reason for giving notice to terminate it.

With respect to Article XIII, the Government of Mexico accepts the first paragraph but it thinks that the second paragraph should be modified by eliminating the part which reads "but they shall not be applicable to the Panama Canal Zone."

B. The Government of Mexico also feels that certain articles should be added to the draft agreement which was presented to this Embassy

by the Government of the United States of America and begs to suggest that the latter be these articles:

“Article — The Government of the United States of America and the Government of the United Mexican States shall give all facilities in their power to achieve the free transit across their respective territories of articles the produce, manufacture or growth of the other country which are consigned to third countries.

“Article — As respects articles the growth, produce or manufacture of the United States of America or of the United Mexican States, included and described on Schedules I and II respectively, on which, upon their importation into one country from the other, ad valorem import duties or duties based on value or in any way governed thereby, are imposed or might be imposed, it is understood and agreed that the bases and methods for determining the value at which the duty and the conversion of currencies are applied shall not be less favorable to the importers than the bases and methods established by the laws and regulations of the United States of America and of the United Mexican States respectively, in force on the day of the signing of this Treaty.”

V

After studying the schedule of Mexican articles proposed by the Department of State, the Government of Mexico believes that those specified in Appendix 3²⁶ of this Memorandum should be excluded, since it must reserve the liberty of changing the tariffs thereon, with a view to the needs of the national industry.

VI

The Government of Mexico wishes to point out that, in examining the schedule of American articles which was submitted to it by the Department of State, it has interpreted the numbers of the items included thereon as being those which must be taken into consideration for the negotiations and that, in cases where the wording of the item on the schedule does not concur with wording of the official tariff, it is to be understood that the negotiations will embrace the whole item and not only part thereof.

Furthermore, the Government of Mexico would like to have accepted an elastic interpretation of some items, which list certain articles in a limited way, in order that it might be able to include within them other similar articles which are not expressly mentioned in the said items.

VII

Mexico desires an increase in the quota at present in force for the importation into the United States of certain products which have a preponderant place in Mexico's economy and which will be discussed in detail in the course of the negotiations. Among such products

²⁶ Not printed.

is, first of all, oil,—of which at present the United States imports from Mexico, on a low quota, only the amount of 3,592,103 barrels. The said amount is included in the very low allotment of 3.8 percent of the 5 percent of American consumption which is the quota allotted to “miscellaneous countries.”

The Government of Mexico considers that both the huge increase in consumption of fuels resulting from the war and the prime necessity therefor which the United States now has, for the application of its policy of defense of the Continent and the Democracies, as well as the radical changes which have recently occurred in the distribution of the oil-producing territories of the world justify and demand, indeed to the advantage of the United States itself, a considerable increase in the quota at present in force. Mexico would, accordingly, like the said quota to be enlarged so as to admit the amount of 31,000,000 barrels, which is the amount which it can annually furnish the United States of America.

WASHINGTON, July 6, 1942.

611.1231/415

*The Acting Secretary of State to the Mexican Ambassador
(Castillo Nájera)*

WASHINGTON, July 14, 1942.

EXCELLENCY: I have the honor to refer to Your Excellency's note of July 6, 1942 setting forth counterproposals of the Mexican Government to the proposals of this Government, handed to the Mexican Embassy on May 26, regarding a trade agreement between the United States and Mexico.

As Your Excellency's note informs me that the Mexican delegation, headed by Licenciado Ramón Beteta, is prepared to begin negotiations of the proposed agreement, I have asked the Chief of the Division of Commercial Policy and Agreements to make arrangements immediately with Licenciado Beteta to begin discussions of the points which have been the subject of the communications under reference. It is anticipated that definitive proposals by this Government on other aspects of the proposed agreement will be submitted in the immediate future.

Accept [etc.]

SUMNER WELLES

611.1231/470

*Memorandum of Conversation, by Mr. H. Gerald Smith of the Division
of Commercial Policy and Agreements*

[WASHINGTON,] July 20, 1942.

Participants: Señor José Saenz, Chief, Statistical Office
Señor Aurelio Bueno, Treasury Department
Ing. Ricardo Villareal, Department of Agriculture
Mr. Fowler, TA
Mr. Smith, TA

Following the formal opening session of the negotiations for the trade agreement with Mexico on July 17, the above-named members of the Mexican Delegation called to begin discussions of the general provisions. The Mexican Embassy, under date of July 6, had transmitted its first counterproposals on the general provisions and these served as the basis for the discussions.

As pointed out in the Mexican note, the Mexican Government accepted without change the preamble and Articles I and II of the draft general provisions submitted by the United States Government.

On Article III, on quotas in general, the Mexican Government had submitted a redraft of that part of the Article referring to the period which should be selected as that upon which quotas should be based. The Mexican draft made the specific points that the period should not be one year; it should be a previous representative five-year period or some other previous representative period on which the two countries might agree; and that quotas in effect on the day of signature of the agreement should be modified to conform with the principle advanced by the Mexican Government regarding a representative period. It was pointed out by the Mexican negotiators that Mexico had come late into the trade-agreements picture and for that reason Mexico should not be adversely affected by the share of quotas allotted to that country which resulted from negotiations with third countries. It was agreed that any final decision which might be reached on the matter of quotas would be affected to a considerable extent by the concessions which the United States Government would offer on such products as petroleum and cattle and therefore it would be better to leave this Article open for further discussion after the Mexican negotiators had seen our definitive Schedule II offers. It could then be determined whether or not the Mexican Government wished to continue to seek the adoption of the proposals set forth in the note of July 6. With regard to the final phrase of the third paragraph of Article III, the Mexican negotiators inquired whether it would not be possible to find somewhat more precise language to cover customs quotas. They were informed that we would look into the possibility of drafting new and more specific language.

Article IV of the draft general provisions as presented by the United States on exchange control was acceptable to the Mexican Government without change.

With regard to Article V on monopolies and government purchases, the Mexican Government wished to have the word "transportation" included among the considerations such as price, quality, marketability and terms of sale which would be taken into account by government purchasing agencies. The Mexican negotiators were assured that this proposal would receive our sympathetic consideration.

In regard to Article VI on customs administrative matters, advances in duties, customs penalties, consultation on technical matters and Committee of Sanitary Experts, the Mexican Government was in accord with the first four points, but on the fifth desired a change which would result in the sanitary experts (an equal number representing each government) reaching a decision and not merely a recommendation, as set forth in the United States draft. Further, the Mexican negotiators desired that an arbitrator be appointed in case of disagreement by the technical experts representing each government in order that a final decision might be reached, binding on both governments. The Mexican negotiators were given an explanation of the restrictions encountered by the laws and regulations of the United States Government affecting sanitary matters. Reference was made to the case which arose several years ago in connection with the operation of the trade agreement with the Netherlands, under which progress was made in working out a solution of a difficult sanitary question concerning the importation of tulip bulbs from the Netherlands. The Mexican negotiators agreed that there was some value in the procedure provided for by our proposal but they desired to strengthen it so that a mere recommendation by representatives of the two governments on sanitary matters would not merely be pigeon-holed and no action result. The Mexican negotiators were informed that we probably could not agree to their request due to the legal restrictions in this country, but we would of course submit their proposal for further consideration.

Articles VII and VIII, on duty concessions by the two countries, and Article IX, on compensating taxes, were accepted by the Mexican Government.

The Mexican negotiators raised no question concerning the provisions of Article X, quotas on scheduled products, except that at the end of the third paragraph they requested that some such phrase as "to which both countries are signatory" should be added.

Article XI, covering withdrawal or modification of concessions, was also acceptable to the Mexican Government without change, and they promised in the near future to submit a draft of those provisions,

omitted from the text as submitted by the United States, which would provide for the application of the Article to imports into Mexico.

The Mexican negotiators expressed the desire to eliminate Article XII, the general provision to safeguard concessions. The second sentence of the Article, providing for termination of the agreement, was particularly difficult for the Mexicans to accept. They pointed out that the inclusion of the Article as drafted would be interpreted in Mexico as a swinging of the big stick by the United States and an ability to interfere in Mexican affairs not related to the trade agreement. The negotiators agreed to consult with their Government as to the possibility of leaving in the first sentence of the Article but eliminating the second providing for termination.

On Article XIII, the matter of territorial application of the provisions of the agreement, the Mexican negotiators expressed the desire that this be discussed directly with Lic. Beteta. They did not know the reason why the Mexican Government was opposed to the inclusion in this Article of any reference to the Panama Canal Zone and stated that it was their confidential understanding that the Mexican Government, while it did not agree to inclusion of reference to the Panama Canal Zone in the agreement proper, would consent to such a reference in a separate (and presumably unpublished) exchange of notes. The negotiators said that there were matters of high policy involved here which they as technical experts were not qualified to discuss.

Article XIV, on exceptions to most-favored-nation treatment, was acceptable to the Mexican Government without change.

On Article XV on general reservations, the Mexican Government desired that the provisions of the final paragraph relating to Constitutional limitations on the authority of the Federal Government be made reciprocal.

The final Article, XVI, providing for proclamation, ratification, definitive entry into force, duration and termination of the agreement, was satisfactory to the Mexican Government as proposed by the United States.

The question then arose of two articles which the Mexican Government desired to add to those proposed by the United States: (1) on sanitary requirements, providing that each government would do everything in its power to facilitate shipments in transit in either country destined for third countries; and (2) relating to the application of ad valorem rates of duty and methods of converting currencies.

On the first point the Mexican negotiators referred to cases, involving oranges particularly, where on shipments from Mexico to Canada, after fumigation at the United States-Mexican border and sealing of the freight car under customs supervision, transit through certain individual states in this country was refused. The Mexican negotiators were informed that this was the first time that any such

case had been brought to our attention and that we would look into the matter. In the meantime the Mexican negotiators were requested to supply a memorandum providing details on the specific cases to which reference had been made.

On the second point the Mexican negotiators were given a brief outline of the difficulties in this country growing out of the application of laws which did not take into account such factors as multiple rates of exchange in foreign currencies. The Mexican negotiators were told that while we probably could not agree to the proposal which they had made, which was to use the language of the trade agreement with Costa Rica²⁷ on this subject, possibly we would be in a position to submit to them language in more general terms.

It was agreed that the next meeting would be held as soon as the negotiators on either side had prepared further material for consideration of the representatives of the other government.

[Meetings of the American and Mexican technical negotiators were begun on July 20, 1942. Records of these discussions are not printed.]

611.1231/427

Memorandum of Conversation, by the Chief of the Division of Commercial Policy and Agreements (Hawkins)

[WASHINGTON,] July 30, 1942.

Dr. Beteta called on his own initiative in connection with the trade-agreement negotiations. He said he is now authorized to accept our reservation regarding the Canal Zone.

He also referred to the sanitary clause and stated the reasons for proposing that disputes on sanitary matters be made in effect a matter for arbitration, the reasons for this proposal being the belief that sanitary restrictions may sometimes be imposed for other motives. I outlined at some length the objections to the proposal, and he said that he would take up with his Government the question of accepting our draft as submitted.

He next referred to the transit clause which the Mexican Government had proposed and mentioned the sanitary aspects of this matter. I told him that any sanitary measure, whether or not in connection with transit, would presumably be covered by the provision referred to above; and that we would look into the feasibility of including the clause from the purely transit standpoint.

With reference to Schedule I, Dr. Beteta said that Mexico could not make concessions on agricultural products. I explained to him

²⁷ For text of agreement signed November 28, 1936, see Department of State Executive Agreement Series No. 102, or 50 Stat. (pt. 2) 1582.

why such concessions are essential from our standpoint, and he seemed to understand the reasons stated. In this connection, he referred to our request for a concession on apples and asked whether we could not consider putting the concession on a seasonal basis as such a limitation would help him defend the concession in Mexico.

With reference to Schedule II, Dr. Beteta asked that Mexico be given the full 50 percent reduction in duty on tomatoes and that the season during which the concession applies be extended to two months. I explained to him how a further reduction of duty would result in a further reduction to Cuba and the reasons why this is objectionable, which reasons he seemed fully to understand.

In regard to the extension of the season, I said that I did not know the situation but that our people were presumably looking into the matter if the question had been raised with them, which he said it had.

With reference to petroleum, Dr. Beteta asked how soon we could get a decision, what concession we were seeking to get Interior to agree to, and whether we were trying to get the quota removed entirely. I said it is a little difficult to give a precise answer to this question, but I could assure him that we would get the best concession possible. With reference to the time, I said that I could not tell him definitely but that I hoped we would be in a position to tell him within a few days.

Dr. Beteta said it is difficult to talk about concessions which they will grant, or to urge his Government to accept our proposals, without knowing what we were prepared to offer on so important an item as petroleum. I suggested that if it is impossible to go ahead with important matters of substance, that our two delegations might clear away technical details, such as translations and so forth, pending a continuation of the discussions on important questions of substance. He agreed that this is desirable.

611.1231/442

Memorandum of Conversation, by Mr. John M. Leddy of the Division of Commercial Policy and Agreements

[WASHINGTON,] July 30, 1942.

Participants: Sres. Saenz, Bueno and Arroyo; Messrs. Fowler, Sams (Commerce), Pierce (Tariff Commission), and Leddy

The Mexican negotiators were handed two memoranda, dated July 30,²⁸ proposing or confirming certain changes in Articles I, V, VI, VIII, X, XI, XII, XV and XVI of the general provisions.

²⁸ Not printed.

The Mexicans raised no objection to the inclusion in Article I, relating to most-favored-nation treatment, of language extending such treatment to laws and regulations affecting the distribution as well as the taxation, sale and use of imported articles. Likewise, they suggested no change in the language of paragraph 1, Article V, incorporating their proposal that the provisions of this paragraph refer to "exclusive agencies" rather than monopolies. They thought there would be no objection to extending the provisions of this paragraph to exclusive agencies for export as well as import and were told that language would be drawn up accordingly.

The Mexicans had no objection to offer to the proposed second paragraph of Article VIII reserving to the United States the right to withdraw or modify Schedule III concessions at any time after the termination of the unlimited national emergency proclaimed by the President of the United States on May 27, 1941.²⁹ Señor Saenz inquired, however, whether this paragraph would not be a suitable place for including provisions which would bind on a permanent basis existing rates on Schedule III products. He was told that this proposal, which had been advanced by the Mexicans in discussions relating to the schedules of concessions, had not yet been fully considered by the trade-agreements organization but that if accepted suitable language could of course be found.

With regard to paragraph 1 of Article X, relating to quotas on scheduled products, it was explained that the words "subject to the provisions of the second paragraph of this Article and to the provisions of Article XI," had been omitted from this paragraph because they seemed to imply that the provisions of the paragraph were not subject to other provisions of the agreement, e.g. the exception in Article XV in regard to sanitary regulations, and because the intent of this paragraph and of the second paragraph of the Article (outlining the circumstances under which quotas may be imposed) were clear without them.

In proposing language which would make reciprocal the second paragraph of Article XV (reservation in regard to constitutional limitations on federal authority) to which the Mexicans raised no objection, it was suggested to the Mexican negotiators that it might be desirable, since it was implicit that each government would be limited by its constitution, to drop this paragraph entirely; in lieu thereof an explanatory memorandum would be handed the Mexican negotiators which would outline the restrictions on federal power, in respect of internal taxes on liquor imposed by the states, implied in the twenty-first amendment to the Constitution.

²⁹ For text of the proclamation, see Department of State *Bulletin*, May 31, 1941, p. 654.

With regard to paragraph 1 of Article XVI, bringing the agreement into force, the Mexicans stated that there would be no legal difficulty on their side in complying with the provisions of this paragraph, that following approval of the agreement by the Mexican Senate the President would proclaim the agreement by means of a decree which would have a similar status to the President's proclamation in this country. It was suggested to them that they might wish to refer to the Mexican document as a decree rather than a proclamation. However, they felt that the word "proclamation" would be an adequate description.

The Mexicans were handed draft language to be added to Article XI of the agreement setting forth in a general way the procedure which would be followed in Mexico in withdrawing or modifying concessions in Schedule I of the agreement under the circumstances specified in the Article. They said they saw no objection to this language but would study it further.

No objection was raised by the Mexicans to the following drafting changes, made necessary to meet proposals previously advanced by them: 1) the addition of the words "as soon as practicable" to the fifth paragraph of Article VI; 2) the deletion of the termination provisions of Article XII; and 3) the deletion from Article XVI of reference to Article XII, made necessary by the removal from the latter of the termination provisions referred to above.

In connection with the statements made by the Mexican negotiators in the meeting on July 27 that no discriminatory internal taxes were imposed in Mexico, either by the State or Federal Governments, the Mexicans were handed copies of Mexican federal decrees setting forth the terms of such discriminatory taxes in respect of tobacco products, pharmaceutical products, packaged foods and beverages. They appeared to be unfamiliar with these taxes but readily admitted that the differential taxes on tobacco products appeared to be discriminatory. They advanced the theory that the higher taxes on imported cigarettes might be an advantage to legitimate traders by discouraging the illegal manufacture of American brand cigarettes in Mexico. They sought to question the discriminatory nature of the taxes on the other products mentioned on the grounds that such charges were in reality fees proportionate to the cost of registering and certifying national and foreign products. Señor Bueno mentioned, for instance, the fact that government inspectors supervised the production of domestic pharmaceutical and food products whereas it was necessary in the case of foreign products to have special laboratory analyses, thus involving higher costs. Señor Bueno also took the inconsistent position that the higher charges on imported tobacco, pharmaceutical and food products were "in connection with importation" implying that they were in the same class as customs duties. Señor Saenz

recorded the numbers and dates of the decrees mentioned and it was agreed that the Mexicans would get in touch with their government with a view to seeing what could be done. He pointed out that since the trade agreement would have the status of a treaty in Mexico it would override any inconsistent laws; however, he thought it would be preferable to take care of any such inconsistencies in advance.

Occasion was taken at this meeting to explain to the Mexicans the internal tax situation regarding beer, on which a concession is proposed in Schedule II. It was explained that under existing laws the internal tax of \$6.00 per barrel applies only to domestic beer, that this tax, which would be increased to \$7.00 per barrel or 23¢ per gallon if pending legislation were enacted, has not yet been extended to the imported product and that the provisions of the agreement relating to compensating taxes would permit such extension. They were made aware of the enhanced importance of the proposed concession on beer as an offset to the possible extension of the increased tax, which would result in a total charge of 73¢ per gallon on imports from Mexico if no duty concession were granted as against 48¢ per gallon if the duty were reduced by the maximum amount. At their request it was agreed that a memorandum explaining the tax situation in respect of beer would be prepared and handed to them at an early date.

611.1231/4433

*Memorandum of Conversation, by the Assistant Chief of the
Division of Commercial Policy and Agreements (Fowler)*

[WASHINGTON,] September 1, 1942.

Dr. Beteta came in at his request to inquire whether there had been any developments in regard to the petroleum concession. I told him that Mr. Davies³⁰ had this morning informed me that he expected Mr. Ickes³¹ to return tomorrow and would make it his first order of business to discuss this matter with him. Dr. Beteta seemed pleased at this evidence of activity but took the occasion to elaborate on the difficult position he has been placed in as a result of the long delay.

Dr. Beteta also mentioned the difficulty he would have even though he receives shortly our full proposals in regard to concessions to Mexico in obtaining the approval of his Government of greater concessions on the Mexican side than those already offered. He mentioned in this connection the misunderstanding on the part of the Mexican Embassy here and of various officials in Mexico to the effect that the United States would be content with bindings rather than

³⁰ Ralph K. Davies, Deputy Petroleum Administrator.

³¹ Harold L. Ickes, Secretary of the Interior and Petroleum Administrator.

reductions of Mexican rates of duty. He mentioned particularly the difficulty they would have in giving us any reductions on agricultural products. He indicated, however, that once he receives our offers, he would endeavor to get sympathetic consideration of our requests for concessions from Mexico, intimating that it might be necessary in that connection for him and the remaining members of his delegation to return to Mexico for that purpose.

Before leaving, Dr. Beteta said that he had intended to seek an appointment with Mr. Welles within the next few days to advise him that in view of the pressing need for the services of the remaining members of his trade-agreement delegation in Mexico and the long-continued delay in receiving our proposals in regard to petroleum, he was planning to leave with them for Mexico City in the near future. However, in view of what he had learned, he said that he would not seek an appointment for that purpose. I told him that we would keep him advised of developments and expressed agreement with his view that once our full proposals are made and his Government has had an opportunity to reconsider their offers in the light of them, it should be possible to complete the negotiations in very short time.

W[ILLIAM] F[OWLER]

611.1231/450

*Memorandum of Conversation, by the Assistant Chief of the
Division of Commercial Policy and Agreements (Fowler)*

[WASHINGTON,] September 4, 1942.

Participants: Dr. Beteta
Mr. Hawkins
Mr. Fowler

Dr. Beteta came in at 3 o'clock at his request to tell us that he had definitely made up his mind that it would be necessary for him to leave for Mexico City with the remaining members of the trade agreement delegation as soon as transportation could be arranged. He said that this did not in any sense mean the breaking off of negotiations nor even discouragement on his part or on the part of his government concerning the progress of the negotiations. He explained that he had been telling his government almost daily for the past three or four weeks that our offer of a petroleum concession was expected momentarily. In view of the continued delay in getting our proposal on petroleum and various other products he did not feel that he could continue to give such assurances to his government notwithstanding the possibility that we might be able to present a firm offer in regard to petroleum some time next week

following our discussion of the matter with Petroleum Coordinator this morning.

He said that he thought it might be helpful to the negotiations rather than otherwise for him to go to Mexico City at this time where he would be able to explain the situation far better than he had been able to do by telegrams and telephone calls. He also thought that his presence in Mexico City would be helpful after the receipt of our full proposals in connection with the concessions we are asking of Mexico. He emphasized again as he has on previous occasions the great difficulty of granting many of our requests on agricultural products and industrial products which are manufactured to some extent in Mexico. He thought it possible, although he could not, of course, guarantee anything, that given satisfactory offers of concessions to Mexico on petroleum and other important items he might be able to persuade his government to come closer to meeting our original requests.

From the way he talked Dr. Beteta appears to be uncertain whether he will continue as head of the Mexican trade agreement delegation. However, he said that if his government decides to leave the negotiations in his hands he would be ready to come back to Washington just as soon as possible after a full proposal from us had been gone over with high officials in Mexico City for the purpose of obtaining new instructions designed to enable agreement to be reached in the shortest possible time.

Mr. Hawkins told Dr. Beteta that we, of course, have appreciated the difficulty of his position during the past three or four weeks and likewise understand his desire to return to Mexico City for a short time. He said further that although the matter was, of course, one for his government to decide he hoped that Dr. Beteta would come back, after discussions in Mexico City on the basis of proposals we hoped to be able to make within a week or ten days, as head of the Mexican delegation. Mr. Hawkins also explained the procedural steps involved in getting the full proposal before the Mexican negotiators; expressed the importance we attach to our Schedule I requests generally, which have been gone over very carefully with a view to making them reasonable in the light of what we hoped to be able to offer to Mexico in return; and pointed out that the present may be the most favorable opportunity we will have to negotiate a comprehensive trade agreement between the two countries of great value to both of them in the postwar period.

On leaving, Dr. Beteta said that he would appreciate it very much if before his departure he could be informed of any further progress in regard to the petroleum concession. He said he understood we could tell him nothing definite as to the concession which might be offered but that even an informal expression of our hopes in that

regard would be deeply appreciated and would be very helpful to him when he gets back to Mexico City.

W[ILLIAM] F[OWLER]

611.1231/455a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, September 5, 1942—5 p. m.

1215. For your information the following developments are reported with regard to the progress of trade-agreement negotiations with Mexico:

Owing to delay in obtaining views of Petroleum Coordinator this Government has not yet presented a firm offer on petroleum. Although this matter should be cleared up shortly, and this expectation has been intimated to Dr. Beteta, latter intends to return to Mexico immediately with remaining members of delegation. Dr. Beteta explained that his departure did not mean breaking off of negotiations or discouragement on part of himself or his government concerning the progress thereof, that his presence in Mexico would be helpful in explaining the situation to his government both with regard to petroleum and with regard to concessions we are asking of Mexico, and that if continuation of negotiations is left in his hands he would be ready to return to Washington once our full proposals had been received and discussed with high officials in Mexico City.

Accordingly, once full proposals of this Government have been formulated, which Department hopes will be within next 10 days, it is intended to transmit them to Mexican Embassy here, with informational copies to you.

HULL

611.1231/445½

Memorandum of Conversation, by Mr. John M. Leddy of the Division of Commercial Policy and Agreements

[WASHINGTON,] October 8, 1942.

Participants: Sr. Dr. Héctor Calzado, attaché, Mexican Embassy
Messrs. Fowler and Leddy, TA

Dr. Calzado came in by request to receive a memorandum and enclosures dated October 8, 1942, setting forth the counterproposals of this Government with regard to the general provisions and Schedules I, II and III of the proposed trade agreement with Mexico. Mention was made to him of the desirability of early conclusion of the agreement, to which it was hoped the Mexican Government could now see its way clear.

[Annex ³³]

MEMORANDUM

Reference is made to the negotiations between the Governments of the United States of America and the United Mexican States looking toward conclusion of a mutually beneficial trade agreement.

It will be recalled that public notice of intention to negotiate a trade agreement was issued on April 4, 1942. Subsequently, the representatives of the Mexican Government were handed a preliminary draft text of the general provisions proposed for inclusion in the agreement (memorandum dated May 26), a definitive list of the concessions requested of Mexico by the United States (memorandum dated July 20 ³⁴), and a partial list of the concessions offered to Mexico by the United States (memorandum dated July 27 ³⁴ and supplementary list transmitted on July 29 ³⁴). In a memorandum dated July 6 the Mexican Government set forth its views regarding the general provisions suggested by the United States, and regarding the general scope of the concessions which it anticipated each country would grant on products of the other. On the basis of these documents conversations between representatives of the two Governments took place in Washington in July and August, during the course of which tentative agreement was reached on all points of substance with the exception of certain of the concessions in both schedules. It was agreed that discussions regarding the definitive text would be begun as soon as the Government of the United States might be in a position to present a complete list of the concessions it is prepared to offer, including a concession on petroleum.

The Government of the United States is now in a position to present such a list. Accordingly, there are enclosed 1) a draft text ³⁴ of the general provisions of the proposed agreement incorporating all changes in the text of May 26 which were agreed upon *ad referendum* during the conversations under reference, together with certain other minor changes indicated below; 2) a complete list ³⁵ of the concessions which the United States is prepared to offer to Mexico, indicating present and proposed tariff and tax treatment; and 3) a complete list ³⁵ of the concessions which the United States seeks in return for the concessions it is willing to grant.

General Provisions

No comment is believed necessary in regard to the preamble and Articles I, IV, V, VI, VII, IX, X, XI, XII, XIV, XV, XVI, and XVIII of the general provisions.

³³ Filed separately under 611.1231/484c.

³⁴ Not printed.

³⁵ Not attached to file copy.

With respect to Article II, providing for national treatment on internal taxes, the representatives of the United States have pointed out that, apart from the question raised by the twenty-first amendment to the Constitution referred to below, pertinent federal and State laws in the United States provide such treatment at the present time except in respect of the federal internal revenue tax on alcohol for industrial use, from which the domestic product alone is exempt under Section 3070 of the Internal Revenue Code.³⁶ It was explained that efforts are now being made to secure legislation which would remove this tax discrimination, and it was tentatively agreed that, under the circumstances, it would seem desirable to avoid inclusion in the agreement of provisions specifically exempting industrial alcohol from the applicable provisions of Article II and that an explanatory memorandum to the Mexican Government would serve in lieu thereof. Such a memorandum is enclosed.

With regard to internal charges imposed in Mexico, which are understood to be higher on imported than on domestic articles in the case of federal internal taxes or fees on tobacco products, pharmaceutical products, packaged foods and beverages, and possibly also certain other products, the representatives of the Mexican Government have pointed out that since the trade agreement would have the status of a treaty in Mexico, the provisions of Article II would override prior laws inconsistent therewith. It was agreed, however, that since it would seem desirable to remove such federal internal tax differentials as exist between imported and domestic articles before the agreement comes into force, the Mexican representatives would explore this possibility with the appropriate officials of their Government. With respect to internal taxes imposed by the States of the Mexican Union, it is understood that the States are prohibited by the Constitution from enacting discriminatory tax legislation.

Article III of the general provisions, relating to quotas in general, incorporates the clarifying language in respect of tariff quotas which was drawn up at the request of the Mexican representatives (paragraph 3). In addition, a sentence has been added to paragraph 2 providing for prior consultation between the two Governments with regard to the share which the Government of either country may allot to the other country in allocating quotas on any product in which that country has an important interest. It is believed that this sentence meets the views of the Mexican Government on the subject of quota allocation as set forth in its memorandum dated July 6.

Article VIII is the same as the text agreed upon during the conversations under reference, except that a sentence has been added to the second paragraph to meet the request of the Mexican repre-

³⁶ 53 Stat. 355.

sentatives that, although the concession on any product included in Schedule III of the agreement may be withdrawn or modified pursuant to the provisions of paragraph 2 of Article VIII, the rate of duty on such product would not in any event, so long as the agreement remains in force, exceed the rate of duty imposed thereon on the day of the signature of the agreement.

Article XIII, relating to freedom of transit, is a new Article proposed for inclusion in the agreement at the suggestion of the representatives of the Mexican Government. In this connection, the Government of the United States desires to make clear that the provisions of this Article would of course in no way affect transit regulations imposed by the Government of either country for sanitary purposes but, like other provisions of the agreement, would be subject to the provisions of Article XVII exempting such regulations, together with certain other measures, from the scope of the agreement.

Article XVII, relating to measures customarily exempted from the scope of commercial treaties and agreements, is the same as the text of May 26 except that paragraph 2, subjecting certain provisions of the agreement to the constitutional limitations on the authority of the Federal Government of the United States, has been omitted as unnecessary. It was agreed during the conversations under reference that all of the provisions of the agreement would naturally be understood as being subject to constitutional limitations on the authority of both Governments, and that, accordingly, it would be sufficient if the Mexican Government were provided with an explanatory memorandum outlining the special situation in the United States regarding potentially discriminatory State taxes on distilled spirits which the deleted paragraph was originally intended to cover. Such a memorandum is enclosed.

Concessions offered by the United States (Schedules II and III)

The concessions now offered by the Government of the United States in draft Schedules II and III are of course closely related to, and contingent upon, the concessions now requested of the Mexican Government in draft Schedule I and agreement on the general provisions.

Specific comment regarding the concessions in Schedules II and III now offered by the United States would appear to be required only in the case of petroleum, cattle, beer, and the items with respect to which the representatives of the Mexican Government have requested concessions greater than those set forth in the lists dated July 27 and July 29 (turpentine, garlic, pineapples in bulk, tomatoes and peppers).

With reference to petroleum, Mexico is offered in its own right the maximum reduction in the rate of import tax under Section 3422 of the Internal Revenue Code, from $\frac{1}{2}$ cent per gallon to $\frac{1}{4}$ cent per gallon, without limitation as to the quantity which may enter at the reduced rate of tax from Mexico or any other source. Such petroleum would also be bound free of customs duty under paragraph 1710 of Schedule II of the proposed agreement.

With regard to cattle, the concession offered provides for a rate of duty of $1\frac{1}{2}$ cents per pound on light, medium-weight and heavy cattle, without limitation as to the quantity permitted to enter at that rate, for the duration of the war. Thereafter, upon a finding by the President of the United States that the abnormal situation in respect of cattle and meats has terminated, the amounts permitted to be entered at the rate of $1\frac{1}{2}$ cents per pound in any calendar year would be limited to 100,000 head of light cattle, 400,000 head of medium-weight cattle and 225,000 head of heavy cattle, imports in excess of these amounts to be dutiable at $2\frac{1}{2}$ cents per pound. In the event that the Government of Canada should, pursuant to the provisions of its trade agreement with the United States, request the allocation among sources of supply of the tariff quotas contemplated in respect of light and heavy cattle, the Government of the United States would consult with the Government of Mexico, pursuant to the provisions of Article III referred to above and included in the enclosed draft text, with regard to the shares of such quotas to be allotted to Mexico.

In connection with the proposed concession on beer (paragraph 805), there is enclosed a memorandum prepared at the request of the Mexican representatives which outlines the situation in the United States with regard to the federal internal tax on this product.

The further concessions requested by the Mexican representatives on turpentine (paragraph 90), garlic (paragraph 770) and pineapples in bulk (first item, paragraph 747) are now offered.

With regard to tomatoes in their natural state (paragraph 772), the original offer of the United States provided for a reduction in duty from 3 cents per pound to $2\frac{1}{4}$ cents per pound during the months of December, January and February and to $2\frac{1}{2}$ cents per pound during the remaining months of the year. The present offer is a reduction in duty to $1\frac{1}{2}$ cents per pound throughout the year for the duration of the war, following which, and upon determination by the President of the United States that the abnormal situation in respect of tomatoes has terminated, the rate of duty would be $2\frac{1}{4}$ cents per pound, also on a yearly basis.

It has not been considered feasible to accede to the request of the Mexican representatives that the rate of duty on peppers in their natural state (paragraph 774) be reduced from $2\frac{1}{2}$ cents per pound

to 1¼ cents per pound, rather than to 1½ cents per pound as originally offered by the United States.

Concessions requested by the United States (Schedule I)

The enclosed list³⁷ of the concessions in Schedule I now requested of Mexico by the United States, which has been formulated in the light of the discussions in Washington between the representatives of the two Governments and in the light of the concessions now offered contingently in Schedules II and III, is believed to be self-explanatory.

WASHINGTON, October 8, 1942.

[Sub-Annex 1³⁸]

MEMORANDUM

Reference is made to the request of the representatives of the Government of the United Mexican States, in connection with the tariff concession on ale, porter, stout and beer which the Government of the United States of America has offered to grant in Schedule II of the proposed trade agreement between the two countries, for an explanation of the existing internal tax situation in the United States in respect of these articles.

Section 3150 of the United States Internal Revenue Code provides for an internal revenue tax of \$6.00 per barrel of 31 gallons "on all beer, lager beer, ale, porter, and other similar fermented liquor, containing one-half of one per centum, or more, of alcohol, brewed or manufactured and sold, or removed for consumption or sale, within the United States." The Congress of the United States is now considering legislation which would increase this tax.

While it will be noted from the quoted portions of the law given above that the internal-revenue tax on ale, porter, stout and beer at present applies only to such articles produced within the United States, and is not imposed on such articles when imported from Mexico or other foreign countries, the provisions of Article IX of the proposed trade agreement, relating to compensating taxes, would permit the extension of this tax, or any increased tax which might be enacted, to the like imported articles.

WASHINGTON, October 8, 1942.

[Sub-Annex 2³⁹]

MEMORANDUM

During the course of the negotiations of the proposed trade agreement with Mexico, it was pointed out to the representatives of the

³⁷ Not attached to file copy.

³⁸ Filed separately under 611.1231/484a.

³⁹ Filed separately under 611.1231/484b.

Government of the United Mexican States that under the twenty-first amendment to the Constitution of the United States broad powers have been granted to the several States of the Union for the regulation of trade in alcoholic beverages.

While the Department of State is unaware of any actual cases in which a State of the Union has enacted legislation discriminating against alcoholic beverages imported from Mexico or any other foreign country as such, certain States have enacted legislation imposing differential taxes or other special requirements applicable to distilled spirits the product of areas, including other States of the Union, beyond the borders of the States concerned. It is possible that such legislation would be upheld by the courts as valid under the twenty-first amendment to the Constitution.

It was pointed out to the Mexican representatives that, with regard to this matter as in the case of any other, the provisions of the trade agreement would of course be subject to the constitutional limitations on the authority of the Governments of the respective countries.

WASHINGTON, October 8, 1942.

[Sub-Annex 3⁴⁰]

MEMORANDUM

Reference is made to the conversations between representatives of the Governments of the United States of America and the United Mexican States, in connection with the proposed trade agreement between the two countries, to the internal tax treatment of imported alcohol for industrial use under existing laws of the United States.

During the course of these conversations, it was pointed out that existing laws of the United States impose an internal-revenue tax of \$4.00 per proof gallon on alcohol, whether produced in the United States or imported from any foreign country, and that consideration is being given by the Congress, in connection with the pending tax bill, to an increase in this tax; also, that while existing laws authorize the withdrawal from bond without the payment of internal-revenue tax of domestic alcohol for industrial use which has been denatured under government supervision and meeting the requirements prescribed by the Treasury Department, there is no similar provision for the exemption from the tax of imported alcohol for denaturation and use for industrial purposes.

Article II of the proposed trade agreement provides that products of either country imported into the other country shall be exempt from any internal tax or charge other or higher than that applicable to like domestic products. The intent of these provisions is to

⁴⁰ Filed separately under 611.1231/484d.

assure for American exports to Mexico, and reciprocally for imports from Mexico into the United States, that whatever tariff or tax differential there may be between imported products and like domestic products will be measured by the customs duty on the imported product.

As a result of considerations advanced by representatives of the Treasury Department and the Department of State, the Senate Committee on Finance has decided to recommend that the pending tax bill include provisions which would place imported alcohol for denaturation and use for industrial purposes on the same basis, with respect to internal-revenue taxes and exemptions, as domestic alcohol. In the event that such provisions should, for unforeseen reasons, fail to become law, the Department of State would renew its efforts at an appropriate time.

WASHINGTON, October 8, 1942.

611.1231/488a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, November 16, 1942—11 p. m.

1525. Reference Department's instruction no. 1807 October 12, 1942,⁴¹ transmitting informational copies of trade-agreement proposals handed Mexican Embassy October 8.

In the belief that further postponement may prejudice entire negotiations, Department is desirous of concluding trade agreement within next few weeks. You are requested, therefore to approach appropriate Mexican officials with a view to expediting reply to our proposals of October 8, explaining that this Government recognizes and regrets its responsibility for delays hitherto encountered and expressing the hope that the Mexican Government may see its way clear to an early reply in order that the present favorable opportunity for signature, from the standpoint of this Government, may be availed of.

Meanwhile Department will approach Mexican Embassy here.

HULL

611.1231/489 : Airgram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, November 20, 1942—11 a. m.

[Received November 23—3 p. m.]

A-774. I have to refer to the Department's telegram 1525 of November 16, 11 a. m. [*p. m.*] referring to instruction 1807 of Octo-

⁴¹ Not printed.

ber 21 [12]⁴² to this Embassy transmitting information with respect to the Trade Agreement proposals handed to the Mexican Embassy in Washington on October 8.

I discussed the substance of the Department's telegram under reference with Undersecretary Torres Bodet today who informs me that the Mexican Government is quite understanding of our reasons for desiring to expedite the signature of the Trade Agreement. It is equally desirous of concluding the agreement as soon as possible. He said the Mexican answer had been held up because of the difficulties in getting together the Economic Council of Ministers which has to pass on this matter. He called attention to the fact that the Foreign Minister of Guatemala⁴³ and President of Ecuador⁴⁴ are now making official visits to Mexico City and that in view of the obligations which the Ministers have to attend various ceremonies in this connection and at the same time carry on pressing duties he doubts whether they can have a meeting of the Council before the beginning of next week. He assured me however that the Council would meet early next week and that we would have the answer shortly thereafter.

I gathered the impression from the Undersecretary very definitely that the Mexican Government desires to collaborate with us in an early conclusion of the agreement.

I shall take up the matter with him again in the early days of next week if I do not get any answer from him.

MESSERSMITH

611.1231/494 : Airgram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, December 5, 1942—11 a. m.

[Received December 8—5 p. m.]

A-895. I have to refer to the Department's telegram 1525 of November 16, 11 a. m. [*p. m.*], referring to instruction 1807 of October 12 to this Embassy, transmitting information with respect to the trade agreement proposals handed to the Mexican Embassy in Washington on October 8 and to my airgram A-774, 11 a. m. of November 20.

I discussed again with the Foreign Office today the desirability of concluding the trade agreement as soon as possible and found that the Mexican Government is not only anxious of expediting the signature of the trade agreement, as stated in my airgram A-774, 11 a. m.

⁴² Instruction No. 1807 not printed.

⁴³ Carlos Salazar.

⁴⁴ Carlos Arroyo del Río.

of November 20, but the Economic Council of Ministers was in session discussing the trade treaty while I was at the Foreign Office this morning. The Economic Council of Ministers held its first meeting for discussion of the trade treaty on Wednesday, December 2, and it was indicated to me today that the meeting of the Economic Council of Ministers now in progress would probably bring the matter to a conclusion. Mr. Tello said that he would talk to Foreign Minister Padilla as soon as possible after the termination of the meeting and pass on to me any available information about the matter. The Department will be promptly advised.

Since writing the above, Mr. Tello of the Foreign Office telephoned me, at 2:30 p. m. today, to tell me that he had discussed the question of the trade treaty with Foreign Minister Padilla since the adjournment of the meeting of the Economic Council of Ministers, which was held this morning. He said that Minister Padilla had asked him to confirm to me what he had said to me this morning, to the effect that it was the purpose of the Ministers in their meeting of today to favorably approve the trade treaty. He further stated that Lic. Padilla asked that I be advised to the effect that at the adjournment of the Economic Council of Ministers today (4th) the approval of the trade treaty was left in a very advanced state and that there remained only a few details which the Committee decided should be discussed with the Department in Washington. He did not indicate to me just what the details were, but stated that they should be very easy to adjust and that it was anticipated that they would in no wise hinder the final approval of the trade treaty. Accordingly, the Economic Council of Ministers decided to send to Washington Ingeniero Carlos Arroyo, Chief of the Tariff Division of the Treasury, who was scheduled to leave today by airplane for Washington. Mr. Tello did not know whether he was able to make today's plane, but said that if he did not, he would leave tomorrow. Mr. Tello said that the discussion of details in question would be taken up with the Department through the Mexican Embassy on Monday or Tuesday of next week.

MESSERSMITH

611.1231/498b : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, December 19, 1942—4 p. m.

1692. It is anticipated that the trade agreement with Mexico will be signed Monday afternoon.⁴⁵ Arroyo will then return by plane with signature copy. The objective is to secure approval by Mexican Congress prior to its adjournment on December 31.

⁴⁵ December 21.

Text of agreement and analysis thereof will be issued here at time of signature.

HULL

[For text of reciprocal trade agreement between the United States and Mexico signed December 23, 1942, see Department of State Executive Agreement Series No. 311, or 57 Stat. 833; for an analysis of the agreement, see Department of State *Bulletin*, December 26, 1942, pages 1033 ff.]

JOINT REPORT OF MEXICAN AND UNITED STATES EXPERTS REGARDING THE AMOUNT MEXICO SHOULD PAY FOR EXPROPRIATED PETROLEUM PROPERTIES

[For text of the joint report of agreement submitted on April 17, 1942, to President Roosevelt and President Avila Camacho and telegrams dated April 18, 1942, exchanged between the two, see Department of State *Bulletin*, April 18, 1942, pages 351-353, or documents printed with the agreement regarding expropriation of petroleum properties effected by exchange of notes September 25 and 29, 1943, Department of State Executive Agreement Series No. 419, or 58 Stat. (pt. 2) 1408. For previous correspondence regarding the expropriation of petroleum properties in Mexico, see *Foreign Relations*, 1941, volume VII, pages 371 ff. *passim*.]

EFFORTS OF THE UNITED STATES TOWARD THE IMPROVEMENT OF THE OIL INDUSTRY IN MEXICO

812.6363/7678

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 688

WASHINGTON, May 22, 1942.

SIR: As you are, of course aware, one of the principal subjects discussed with Dr. Padilla during his recent visit to Washington⁴⁶ was the desire of the Mexican Government to provide for the construction of a high octane gasoline plant in Mexico, and as a result of discussions with him it was agreed that such a plant should be constructed as soon as the necessary equipment can be spared from this country. For your strictly confidential information, it may be stated that it now appears that because of the great demand for such equipment and materials for essential expansion in this country to meet our war needs, it will be at least one year, probably two years and possibly even

⁴⁶ Ezequiel Padilla, Mexican Minister for Foreign Relations, arrived in Washington March 30, 1942.

longer before construction of a high octane gasoline plant can be undertaken in Mexico.

You will recall that in Dr. Padilla's memorandum, transmitted with your despatch no. 406 of March 19, 1942,⁴⁷ mention was made of a project for the construction of a high octane gasoline plant said to have been presented to the Mexican Treasury by a Mr. Pawley.⁴⁸ Subsequent to Dr. Padilla's visit it was ascertained that the project referred to in his memorandum was that of a Mr. E. W. Pauley.

Mr. Pauley has discussed this project with officers of the Department and there is enclosed⁴⁹ for your confidential information a copy of a draft agreement which he stated has been tentatively approved by the Mexican Government and of which he sought to secure the Department's approval. There are also enclosed copies of a memorandum of conversation with Mr. Pauley, and of a memorandum prepared by an officer of the Department, commenting on the project. It is believed that you will find these memoranda to be self-explanatory.

Very truly yours,

For the Secretary of State:

SUMNER WELLES

812.6363/7699a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, July 25, 1942—9 p. m.

1061. Consideration of the Mexican oil situation by various departments and agencies of this Government has proceeded to a point at which it appears desirable that you have a general discussion of the subject with President Avila Camacho both to acquaint him with the present situation here and to secure from him such views as he may wish to express in a preliminary way for the guidance of those here who are engaged in this work. A memorandum setting forth certain views of this Government⁵⁰ will be air mailed to you within a few days as a basis for such discussion.

Meanwhile to expedite action by this Government on certain of the more urgent problems particularly those having to do with Mexico's need for oil industry material and equipment this Government believes it would be very desirable to have a small group of technical experts representing this Government, jointly with representatives of Petroleos Mexicanos, make a rapid field survey in Mexico. The purpose of this survey would be to determine in a manner convincing to the various agencies of this Government which have responsibility

⁴⁷ Not printed.

⁴⁸ Apparently Edwin W. Pauley, President of Fortuna Petroleum Corporation, and Special Representative of President Roosevelt on various petroleum problems during the war.

⁴⁹ Enclosures not printed.

⁵⁰ See instruction No. 1336, August 6, to the Ambassador in Mexico, p. 528.

for material allocation, the degree of urgency appertaining to various types of material requested and the practicability of substituting material and equipment slightly different from that specifically requested but more readily available here. In addition to facilitating prompt action on the problems of most pressing urgency the rapid survey proposed would play a highly important part in determining the subsequent action to be taken by this Government in connection with various Mexican oil industry projects referred to it by the Mexican Government and now under consideration here.

Both the immediate situation and the longer range program have been discussed with Dr. Beteta,⁵¹ with particular reference to the desirability of making the rapid field survey mentioned and he has expressed his agreement in the strongest terms.

It is the view of the Department that the formal initiative in this matter should be taken by the Mexican Government but you may assure the President that an invitation from his Government for this Government to send a group of experts for the purpose described will receive prompt and favorable attention. To have the invitation come from the Mexican Government will, in the Department's opinion, put the oil mission in a relationship with *Petroleos Mexicanos* and perhaps with others more favorable than would result if such a plan were urged from here.

A group consisting of about four experts in producing, refining, transportation and engineering, could be sent from here within a few days.

Because of the urgency of these problems it is requested that you discuss the proposed oil mission with the President as soon as possible and inform the Department as to the action that can be expected.

Meanwhile every effort is being made to expedite clearance of the most urgently needed repair and maintenance material.

HULL

812.6363/7700 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, July 28, 1942—4 p. m.

[Received 8:41 p. m.]

855. Department's 1061, July 25, 9 p. m. Immediately upon receipt of this telegram I had an audience with the President and conveyed to him the substance thereof. I found him informed of the conversations in progress in Washington between the Department and other agencies and Beteta on petroleum.

⁵¹ Ramón Beteta, appointed special Minister to the United States by the Mexican Government to take care of economic matters and other matters requiring urgent decisions.

With respect to the oil mission composed of about four experts respectively in production, refining, transportation and engineering the President stated that he would be very pleased if such a mission would be sent to Mexico without delay to make a survey of the more urgent problems of Mexico's need for oil industry, machinery and equipment, this survey to be made jointly with representatives of *Petroleos Mexicanos*.

With respect to the memorandum which the Department states it is forwarding me the President said he would be glad to discuss it with me at any time after I had received it.

The way is therefore open for this technical mission to proceed immediately to Mexico.

MESSERSMITH

812.6363/7709a

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 1336

WASHINGTON, August 6, 1942.

SIR: Consideration of the Mexican oil situation by various departments and agencies of this Government has proceeded to a point at which it appears desirable that you have a general discussion of the subject with President Camacho both to acquaint him with the present situation here and to secure from him such views as he may wish to express in a preliminary way for the guidance of those here who are engaged in this work.⁵²

A certain amount of information on this subject may have been communicated to the President through Dr. Beteta who, with representatives of *Petroleos Mexicanos*, has been invited to participate closely in the work of committees and individuals involved in this problem here. To be certain, however, that the President has a clear understanding of the views of this Government at this stage in its considerations it is thought advisable that you informally acquaint him with the ideas and activities described herein.

In as much as certain aspects of the general problem require prompt attention it is hoped that you will report to the Department upon the outcome of your discussions with the President as soon as possible.

As background for the present views of this Government the following may be said:

First. While this Government is aware of Mexico's urgent need for materials and equipment in order to establish and maintain an adequate supply of petroleum products for military and civilian activities, it is imperatively necessary in our joint interest that the limited supply of critical material in this hemisphere be used only

⁵² As a result of this instruction, the Ambassador drafted an informal memorandum which he handed to the Minister for Foreign Relations for presentation to the President. A copy of the memorandum was transmitted to the Department by the Ambassador in his despatch No. 3498, August 24 (not printed).

in services which bear important and current relation to the war effort or to essentials of Mexican national economy. This fact requires that in appraising Mexico's needs for such material account be taken not only of its importance in relation to Mexico's general program for the development of its oil industry, but also the importance of time in connection with each unit in that program. It is emphasized that the considerations just mentioned have to do principally with priority of importance in relation to time, and are not aimed at appraising the soundness of Mexico's long range program for the development of its petroleum industry.

Second. From the long range point of view this Government recognizes that the interests of this nation in petroleum supply are closely and inherently linked with those of Mexico. This community of interest applies of course among all the nations of the Western Hemisphere. The various problems of reserves for future hemispheric defense and economic development, or of supplies of finished products for war emergencies or essential civilian occupations, or of transportation, or of export trade, cannot be solved unless regarded as matters of mutual international concern. From this viewpoint this Government has the deepest interest in Mexico's problems and plans in respect of oil. While the war has intensified the appreciation of this mutual interest, and given special urgency to certain of its aspects, this Government regards the long range oil policy of Mexico as chiefly important because it is a basic element in Mexico's national development and, consequently, in the development of this hemisphere.

Third. Various agencies of this Government have before them for action, and have had for some time several particular matters in connection with the Mexican oil industry on which final action has not yet been taken. Delay in dealing with these affairs has been due at least in part to a lack of information here as to the relative importance of various parts of the projects involved, the possibility of substituting different material or equipment to accomplish an equivalent result, and, in general, lack of information as to the overall program of oil industry development toward which the Mexican Government is working.

Fourth. The conclusion of the oil property appraisal entrusted by the two governments to the Cooke-Zevada mission⁵³ in conjunction with the recent Trade Agreement⁵⁴ and other current evidences of mutual understanding between the two nations, marks this as a singularly propitious moment in the history of the Mexican oil industry. It is the view of this Government, having in mind the part which it has played in bringing about the present opportunity for reorganization, that nothing, except the exigencies of war, should be permitted to interfere with the sound and orderly reestablishment of the oil industry in Mexico. Particularly it would regard it as unfortunate if, under the pressure which is inevitable in such critical times, the immediate policies and plans of the Mexican Government for the rehabilitation of its oil industry contained the seeds of trouble

⁵³ Oil commission created to conduct evaluation proceedings with reference to properties expropriated by the Mexican Government; Morris L. Cooke was the American representative and Manuel J. Zevada, the Mexican representative.

⁵⁴ For correspondence concerning the negotiations leading to the trade agreement, signed December 23, 1942, see pp. 489 ff.

which ultimately might leave both Mexico and the hemisphere of which it is so significant a part without the advantages for which such great pains have been suffered. This Government has shown its readiness to assist in every appropriate way toward safeguarding against such an occurrence.

First. With the ideas indicated in the foregoing paragraphs in mind this Government has recently taken steps to bring to a focus the attention of the interested agencies of this Government upon the several Mexican oil matters which had hitherto been regarded more or less as detached problems. These matters include the following:

- (a) Applications for export license and priority ratings for materials required for maintenance of present oil operations.
- (b) Applications for export license and priority ratings for material and equipment for new plants and for expansion of present operations.
- (c) Military considerations which have direct bearing upon the quantity, location and, particularly, the quality of petroleum products that might be required for war purposes.
- (d) Efficient utilization of Mexican oil tankers.
- (e) Various proposals by independent American promoters to participate in the development of the Mexican oil industry.
- (f) Various problems related to the interests, former and present, of the major oil companies which operated in Mexico.
- (g) Financial participation by this Government.

Second. In connection with these problems this Department has assigned certain duties, particularly the duty of coordinating the relevant activities of various government agencies and preparing recommendations for definitive action, upon the Foreign Petroleum Policy Committee. That Committee includes representatives of the following Government departments: Department of State, War Department, Navy Department, Office of Petroleum Coordinator for War, Board of Economic Warfare, War Production Board and Lend-Lease Administration. It is with representatives of this Committee, as well as with members of this Department, that Dr. Beteta and his colleagues have been invited to collaborate, as referred to earlier in this memorandum.

As an outcome of the work done to date by that Committee, and based upon such information as it has been able to secure, it has made a preliminary report with certain preliminary recommendations which can be summarized as follows:

(a) Maintenance materials are urgently needed for producing operations and refineries. Certain of these materials cannot be delayed without greatly aggravating present deterioration and inviting complete failure or disastrous accidents.

Steps have been taken, with the assistance of Petroleos Mexicanos representatives who are now here, to select the materials most urgently needed and to facilitate the issuance of priorities and export licenses covering those particular items.

(b) The petroleum transportation and distribution services within Mexico appear to be inadequately organized and suffer from lack of proper equipment. Particularly in case of war emergency, failure of these services might be serious. It is proposed that Colonel Hill, now engaged in making a general survey of railroads in Mexico, assist the petroleum mission on this problem, in so far as rail transportation is concerned. The technical mission will examine, with appropriate Mexican officials, other phases of the problem.

(c) Present refining processes and equipment are incapable of producing the quality of product which would be required by mechanized military forces.

These refineries should be examined critically to determine the best methods of supplementing, replacing or modifying equipment, and adjusting processes and operating procedure to secure optimum results. Particular emphasis should be given to the utilization of already fabricated equipment now available in the United States. (For example there are several small modern refineries here which have been operated very little or not at all, units of which might be transferred very quickly to Mexico.)

(d) There is a great wastage of rich gas at Poza Rica, which not only wastes the valuable products contained therein but, even more importantly, will lead to premature exhaustion of the Poza Rica field itself.

Determination should be made of a proper installation for recovering natural gasoline from this gas, and of the best utilization of this product. Prompt and competent consideration should be given also to returning part of the gas to the structure for re-pressuring the field.

(e) Attention should be given to the condition of the Tehuantepec railroad and to the terminal facilities at Salina Cruz and east coast ports. In an emergency these facilities might be needed for the transportation and storage of war essential oil supplies. (Colonel Hill would assist on this.)

(f) Means should be determined for increasing the supply and use of tetraethyl lead.

(g) Appraisal of other problems and plans, such as the proposals of certain American interests to carry out particular projects in Mexico, requires a fuller knowledge than the Committee now possesses concerning the accomplishment of essential work not covered by such proposals (and raises certain other questions which will be mentioned later). Approval by this Government, in so far as its approval is required or requested, should be deferred until certain questions can be answered.

Growing out of the foregoing considerations by the Committee there is the further recommendation that, if the proposal be agreeable to Mexican authorities, a small group of experts drawn from agencies of this Government be invited by Mexico to make a rapid field survey, jointly with Petroleos Mexicanos, of the installations and circumstances involved in the problems now under consideration. It is not suggested that certain urgently necessary action be deferred until such a survey has been completed. It is pointed out, however, that many questions which now stand in the way of prompt action would

be cleared very quickly by following the course recommended. The Department concurs in this belief and suggests that you place appropriate emphasis on this proposal in your discussion with the President.

Third. In addition to the technical aspects of these problems which have been the subject of the Committee's study thus far, there are other aspects concerning which the Department itself would like to know informally the view of President Camacho. Based upon technical considerations alone it is possible to formulate a sound and comprehensive program according to which orderly development of the Mexican oil industry might proceed, beginning with presently necessary repair work and, progressively, modifying and supplementing facilities to meet the domestic requirements, the war requirements and finally the full export possibilities of the industry. With at least the first steps in such a program this Government is prepared to assist as has been indicated. It is likewise willing to assist in all appropriate ways in the formulation of the comprehensive program itself. In the execution of such a plan, however, a point is soon reached at which it becomes desirable to know the policies and intentions of the Mexican Government concerning such matters as the conditions under which and the manner in which foreign interests will be requested or permitted to participate. Thus, for example, is it the intention of the Mexican Government to:

(a) Conduct all aspects of its oil industry, including exploration, development, manufacturing and marketing, both domestic and export, by means of a completely integrated oil company under direct control of the government;

(b) Permit individual private foreign interests to conduct certain activities on a profit-sharing basis, for example under some form of operating or management contract;

(c) Permit individual private foreign interests to conduct certain activities on a basis of fixed obligations to the Mexican Government; allowing opportunity for profits, in excess of fixed obligations, to accrue to the private company as inducement to undertake the risks inherent in certain activities of this industry, or

(d) Permit participation by a consortium of foreign interests operating as a single corporation in contractual relationship with the Mexican Government or with *Petroleos Mexicanos*.

In the event that the Mexican Government has in mind to permit the participation of private foreign interests, this Government would be interested to know the attitude of the Mexican Government towards such participation by American oil companies.

In your discussion with the President you should make it clear that inquiries such as the foregoing concerning Mexican oil policy do not reflect any desire on the part of this Government to interfere in any way with the freedom of the Mexican Government to determine its

own oil policy. It is clear, however, that when this Government is called upon to consider questions involving financial or other substantial assistance, or involving hemispheric security both military and economic, or involving nationally important activities of its own citizens abroad, it must be in position to judge the long range consequences of its own actions. All these are questions which, in the present case, this Government neither desires nor expects to avoid.

The purpose in asking you to discuss this entire situation frankly and informally with the President is to prepare the way for prompt and effective cooperation between appropriate agencies and individuals of both Governments who are directly concerned in the petroleum aspects of the general accord which exists between these two nations. It was with this in mind that this Government formulated the proposal, discussed earlier, to view the several detached problems now under consideration as parts of a comprehensive program, the basic characteristics of which will be determined by certain policies of the Mexican Government.

Very truly yours,

For the Secretary of State :
SUMNER WELLES

812.6363/7700 : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, August 20, 1942—10 p. m.

1161. In response to the invitation from the President of Mexico, contained in your 855 of July 28, that this government send a mission composed of oil experts to make a survey of Mexico's oil industry jointly with representatives of Petroleos Mexicanos, you are requested to inform the President and other appropriate officials that arrangements have been made for such a mission to leave here within the next few days.

The objectives of the mission will be as indicated in Department's telegram 1061 of July 25 and more fully in Department's instruction no. 1336 of August 6. It should be understood that the technical work of the mission may follow whatever detailed course is jointly agreed upon between the oil mission and the representatives of Petroleos Mexicanos within the general scope indicated.

The oil mission will work under your general responsibility and authority and will have no direct relations with either the Government of Mexico nor Petroleos Mexicanos except through arrangements made by you. Similarly all relations with the local press will be through the Embassy.

Mr. Everett DeGolyer has been appointed Chief of the oil mission. He is a retired consulting geologist of high attainments and

excellent personal and professional reputation. He has no connections of present significance with any particular oil company. He has been instructed to report to you upon arrival which should be Sunday, August 23 by Pan-American Airways from Brownsville, Texas.

Other members of the mission will include:

- A. C. Chapman, production and general engineering
- Earle Gard, refining technologist
- Frank Mack, refinery construction and maintenance
- G. W. Wattles, representative of Materials Division of War Production Board
- J. Murrell, technical assistant to chief of oil mission.

All members of the mission are expected to be in Mexico City by August 23.

It is the intention of this government to defray all expenses of the mission including salaries, transportation to and from Mexico City and sustenance while in Mexico. This government is willing to pay such other direct expenses of the mission as are incurred in the performance of its official functions, such as local transportation, local office expense, et cetera, but is inclined to believe that since the work there will be joint with Petroleos Mexicanos it may be more satisfactory if such local expenses are met by the Mexican Government. Your own views on this are requested.

It is estimated that the work now contemplated can be completed in approximately three weeks. It is quite possible that certain of the experts will complete their particular assignments ahead of the others, or that certain ones will be required to remain somewhat longer. It is possible that during the progress of the work now in mind the desirability will be seen of calling for other experts to continue some special line of investigation even after the mission has completed its present assignment. It is the view of this government that such a development would be desirable as a means of giving continuity to the joint effort now getting under way.

It should be made clear to the Mexican authorities that this mission is sent by and represents this government and not any particular department or division thereof. All members of this mission are employees of this government.

If as a result of your recent conversations with the President and other officials you believe that any of the foregoing instructions should be modified the Department will be glad to have your views.

HULL

812.6363/7794

Memorandum by the Chairman of the Foreign Petroleum Policy Committee (Thornburg) to the Secretary of State

[WASHINGTON,] December 3, 1942.

MR. SECRETARY: The Foreign Petroleum Policy Committee has reviewed the report of the Mission of Oil Experts to Mexico, which can be summarized as follows:

Producing operations currently require only maintenance and operating materials, but an expanded program of exploration drilling must be undertaken soon to strengthen the fast deteriorating reserve position. This is a very large undertaking and one that will require careful study.

The refineries, however, urgently require both maintenance and expansion materials in order to continue current operations and to fulfill requirements which may arise out of the war emergency.

The most important steps in the refinery expansion program have been recommended as follows:

- (1) Additions to the Mexico City Refinery to raise the crude distillation capacity from 18,000 barrels per day to 28,000 barrels per day.
- (2) Installation of heavy oil cracking units of 15,000 barrels per day capacity at the Mexico City Refinery.

The Mexico City Refinery operates on crude transported by pipeline, and the enlarged plant will satisfy the full requirements of the central plateau area, which is at present partially served by products laboriously and inefficiently carried by rail tank car.

The expanded operations of the Mexico City Refinery will yield certain products and gases which constitute the raw feed for the manufacture of high octane aviation gasoline. It is, therefore, considered desirable to install additional equipment for processing these raw materials into aviation gasoline in the amount of 1000 barrels per day.

The primary distillation and cracking equipment should be obtained from shutdown refineries in the United States, whereas the high octane manufacturing facilities will have to be ordered from manufacturers with the delivery schedule integrated into the overall program of the worldwide high octane gasoline plant constructions.

Petroleos Mexicanos should arrange for the construction of these new units by established firms of United States engineers and contractors. These firms should also be charged with the operations of the expanded units until Mexican personnel can be properly trained to take over.

The Foreign Petroleum Policy Committee approves of the procedure outlined above and recommends that the Mexico City Refinery expansion be approved.

MAX THORNBURG

812.6363/7795a : Telegram

*The Secretary of State to the Ambassador in Mexico
(Messersmith)*

WASHINGTON, December 14, 1942—11 a. m.

1650. The recommendations of the Mission of Oil Experts which relate to materials and equipment required for the repair and extension of Mexican oil refineries and for the construction of certain new plants and facilities have been approved and endorsed by this Department and steps will be taken to facilitate the priority allocations which will be necessary to secure the material. It is assumed that the Mexican Government will consult us with regard to securing the services of competent American manufacturers who are well established in this specialized field of work for the design and erection of this equipment and for training of operators if necessary, thus insuring the most efficient use of the material which is to be spared for the purpose. This Department is prepared to be of the utmost assistance in making such arrangements.

A summary of the portion of the mission's report which relates to such plants is being forwarded to you. You are requested to transmit it to the appropriate officials with the suggestion that it be reviewed by them and that in due course they send appropriate representatives to discuss with the Department the arrangements they propose for prosecuting the work in so far as American manufacturers or contractors are concerned. This Department will arrange for securing the assistance of other agencies of this Government whenever this will be helpful.

With regard to the project for the construction of the 100 octane gasoline plant, it is our desire that negotiations for the erection and management of this plant be carried on between representatives of our two Governments. With this in view the Government agencies concerned here are now consulting with each other and should be in a position shortly to discuss the matter with the Mexican authorities.

Action to be taken on other recommendations of the Mission of Oil Experts will be determined later, at which time a copy of the complete report with essential supporting data will be furnished.

HULL

AGREEMENT BETWEEN THE UNITED STATES AND MEXICO REGARDING THE TEMPORARY MIGRATION OF AGRICULTURAL WORKERS INTO THE UNITED STATES, SIGNED AUGUST 4, 1942

811.504/737a Suppl.

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 804

WASHINGTON, June 8, 1942.

SIR: Reference is made to the Department's instruction no. 557 of May 7, 1942⁵⁵ regarding proposals under consideration by the appropriate agencies of this Government for the importation of workers from Mexico to supply the increasing demand for labor, especially in agriculture, during the existing emergency.

In further conferences with representatives of other agencies of the Government the Department's representatives have continued to make it clear that the Department has no facilities for determining the extent to which it may become necessary to seek labor from other countries; that such determination must therefore be made by other agencies; that any importation of labor from Mexico must be approved by the Mexican Government; and that in seeking the approval of that Government it would be highly desirable to present a well formulated program providing adequate guarantees against a repetition of difficulties which have resulted from the immigration of Mexican workers in the past. It has also been made clear that in the event of the importation of Mexican workers the Department of State would have no authority in such matters as transportation of workers to and from this country, and wages and treatment while in this country, its sole function being the presentation for the consideration of the Mexican Government of such proposals as might be formulated by the appropriate agencies of this Government having jurisdiction over matters of this nature.

It has now been determined by the appropriate agencies of this Government that there is a shortage of 6,000 workers in the beet sugar areas of California, Idaho and Montana, and a program has been prepared by those agencies in collaboration with the sugar beet growers' associations, for the importation of workers from Mexico. In this connection there are enclosed⁵⁶ copies of a letter dated June 1, 1942 from the Attorney General⁵⁷ regarding the waiver of the contract labor provisions of the immigration laws to permit the California Field Crops, Incorporated to bring into the United States 3,000 workers from Mexico, and of a letter dated May 22, 1942 from the Chairman of the War Manpower Commission,⁵⁸ together with the enclosure thereto,—“Statement of Labor Standards for the

⁵⁵ Not printed.

⁵⁶ Enclosures not printed.

⁵⁷ Francis Biddle.

⁵⁸ Paul V. McNutt.

Recruitment and Employment of Mexican Workers in the Production, Cultivation or Harvesting of Sugar Beets on Farms in the United States". The Department understands that it is likely that waiver of the contract labor provisions will be made in the near future to permit the importation of an additional 3,000 workers for the sugar beet areas of Idaho and Montana, and that requests are under consideration for the importation of workers needed in the production of other crops, notably long staple cotton.

It therefore becomes necessary to approach the Mexican Government with respect to the question of permitting the temporary emigration to this country of workers to meet our emergency needs, and you are requested to discuss this question with the Minister for Foreign Affairs⁵⁹ at your earliest opportunity. In your discussion you should mention that this Government is reluctant to make such a request and state that it does so only because of the absolute need as a war measure not only of maintaining but increasing our agricultural production despite the fact that large numbers of agricultural workers have been called into the armed forces and into war industries.

You should also indicate clearly to the Foreign Minister that this Government is aware of the unfortunate conditions which many Mexican workers have encountered in the past and is disposed to make every possible effort to prevent a repetition of those conditions if additional workers are permitted to come to this country for temporary employment to meet the existing emergency. In this connection you should outline the conditions of employment and treatment proposed in the communications from the Attorney General and Chairman of the War Manpower Commission.

It is felt that in your preliminary conversation you should not seek the immediate approval of the plans which have been formulated for the importation of workers, although outlining them sufficiently to indicate the desire of this Government to provide adequate safeguards, but should seek an immediate expression of the Mexican Government's attitude toward the temporary emigration of workers to this country. In this connection a member of the Mexican Embassy has informally stated that in his opinion the Mexican Government would be opposed in principle to the importation of Mexican workers into this country, but that as an emergency measure it might agree if adequate safeguards are provided for the workers and a joint international commission is established to supervise and control the movement.

It is the Department's belief that if you ascertain that the Mexican Government would be disposed as an emergency measure to permit

⁵⁹ Ezequiel Padilla.

the temporary emigration of workers to this country, it would be desirable for representatives of the appropriate agencies of this Government (Departments of Agriculture, Labor and Justice and the War Manpower Commission), and possibly a representative of the sugar beet growers concerned, to proceed immediately to Mexico to assist in making detailed arrangements with the appropriate Mexican officials. This belief is based largely upon the fact that because of the urgency of the need for additional workers, whatever action may be taken in this matter should be taken as soon as possible. While the broader phases of the program formulated by the other agencies of this Government, as set forth in the enclosures, are reasonably clear and doubtless will meet with the approval of the Mexican Government, a number of points will undoubtedly require clarification and it is likely that the Mexican Government will insist upon other conditions not included in the present program. Accordingly, it would seem essential that representatives of the appropriate agencies take an active part in the detailed discussions with the Mexican officials in order that the questions which will undoubtedly arise may be settled promptly and authoritatively.

For your confidential information it may be stated that the Department believes it highly desirable that representatives of the other agencies mentioned take an active part in the negotiations in order that they may be fully impressed with the necessity of adopting adequate measures to insure the compliance with all commitments made to the Mexican Government with respect to conditions under which Mexican workers would be brought into this country.

For your information, it may be stated that if the Mexican Government should propose the establishment of a joint commission for the control of the proposed labor movement, it is probable that arrangements for such a commission could be made. However, it is extremely unlikely that a commission could be established and begin to function soon enough to make arrangements for the importation of the sugar beet workers referred to herein.

You are requested to report by telegram the results of your conversation with the Foreign Minister and, if the Mexican Government indicates a willingness to permit the proposed movement provided adequate safeguards are established and to discuss arrangements therefor with representatives of this Government, whether you concur with the Department's belief that it would be desirable for representatives of the agencies concerned to proceed to Mexico City for that purpose.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

811.504/767

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 2309

MEXICO, June 23, 1942.

[Received June 26.]

SIR: I have the honor to acknowledge the receipt of the Department's strictly confidential air mail instruction No. 804 of June 8, 1942, referring to its instruction No. 557 of May 7, 1942,⁶⁰ regarding proposals under consideration by the appropriate agencies of our Government for the importation of workers from Mexico to supply the increasing demand for labor, especially in agriculture, during the existing emergency. I also have to acknowledge the receipt of the Department's strictly confidential instruction No. 848 of June 12, 1942,⁶¹ referring to its instruction of June 8, 1942 above mentioned. In this connection, parenthetically, I wish to note that the instructions of June 8 and June 12 under reference both reached this Embassy on June 15, 1942. This is characteristic of the delays to which the air mail from the Department to this Embassy is subjected somewhere along the route. There is no reason to believe that this delay is caused in Mexico, but that it occurs somewhere along the route in the United States after the Department has mailed the envelopes.

Immediately on the receipt of the instructions under reference the Embassy took up this matter informally with the Ministry of Foreign Relations. The proposal and its importance to us was presented to the Ministry and the desire was expressed that we be given an indication at the earliest possible moment whether the Mexican Government would be prepared in principle to enter into conversations on this subject. It was emphasized that we were not taking up the matter with respect to any arrangement of detail at this moment, but that if the Mexican Government was prepared to consider the matter my Government was prepared to send appropriate officials immediately to discuss the matter. We did not leave any written communication with the Ministry, but did leave a copy of the proposed contract provisions⁶¹ which was an enclosure to instruction No. 804 of June 8, 1942.

The Ministry agreed to give the matter its immediate consideration and to give a reply as promptly as possible, but called attention to the fact that it was a matter on which various agencies of the Mexican Government would have to be consulted. Our attention was also directed to the fact that the matter involved, in itself, considerations which it would be difficult to solve in spite of the best will of both Governments.

⁶⁰ Latter not printed.

⁶¹ Not printed.

I took occasion this morning to discuss this matter with the Under Secretary, Mr. Torres Bodet, during the temporary absence of the Minister. I found him fully informed. He said that immediately on our bringing this matter to the attention of the Ministry it had given it consideration and it was being given consideration in other Ministries and agencies of the Mexican Government which had to be consulted, principally the Ministries of Labor and Gobernación. He said their study of the matter was being facilitated as much as possible; that it had not been completed and would not be completed for several weeks. This delay was not due to any lack of diligence but due to the necessity of going into the matter very carefully.

The Under Secretary went on to say that naturally there were important aspects of the problem for both governments to consider. He said Mexican labor had gone to the United States before and the results had not been too good. There were these discriminations which had taken place against Mexican labor and the Mexican Government understood that no action by our Government could remove these discriminations in a short period of time; that they were the result of local action rather than of government. It would be undesirable when our relationships were on such a good basis that any element should be injected into these relationships which would bring about a renewal of any former situations. He said there were internal factors which the Mexican Government had to consider and that some of these were serious. In the first place, the news that labor could be recruited for the United States would immediately bring about a considerable number of requests to go in the belief that they were going to an Eldorado. The Mexican Government had to consider that the wages of the laborers in the United States would be considerably greater than in Mexico. They had to consider that these laborers would go for a temporary period. On their return these laborers would be dissatisfied with the conditions which would be theirs. As a rule the laborers return having spent all of their money and their position in some ways was worse after they returned than before they went. Problems in this respect had been created for the Mexican Government under similar circumstances. He said that various agencies of the Mexican Government were carefully studying the matter to determine what action would, in their opinion, have to be taken by our Government and by the Mexican Government in order to insure that such a temporary movement of laborers would not prove to be a distressing or disturbing factor for either our country or for Mexico.

Among other things he said the Mexican Government was studying the possibility of setting up an organization which would receive a certain part of the wages of the laborers in trust for them until they returned to Mexico. In other words, they were considering that a

certain percentage of the wages of the laborers should be paid in the United States and a certain part should be retained by this Government organization which would return the money to the laborers on their return to Mexico. They were also considering the possibility that they receive a certain amount of their wages in the form of farm implements which they could use in tilling small tracts of land on their return to Mexico. This would help to alleviate the problems arising through dissatisfaction of the laborers on their return to their country.

The Under Secretary showed by the foregoing and other remarks which he made that the matter was receiving the earnest consideration of the Mexican Government but that it was concerned with the problems involved. He did not say so, but it was clear from his discussion that it was the desire of the Mexican Government to avoid creating any new problems in our relationships when we were endeavoring to solve old problems and were engaged in an active program of collaboration.

The Under Secretary said that the Mexican Government was giving this matter its serious consideration because we were allies in the war and it desired to help in any way that it could. He said there was unemployed labor in Mexico and there was need of these agricultural workers in the United States. The Mexican Government, therefore, was earnestly seeking a basis on which such a movement of laborers could take place without such a movement becoming a disturbing influence in our relationships. He said that it would be unwise for the Mexican Government to proceed on such a program without being absolutely sure of its ground, as otherwise it would only create a ground for criticism of the United States on the part of those who were always prepared to criticize but who had to be taken into account.

I expressed to the Under Secretary our appreciation of the attention which he was giving this matter and of what was obviously the sympathetic consideration which the various agencies of the Mexican Government had already accorded it. I told him I appreciated the need for the time under the best circumstances for them to formulate their thoughts, but remarked that these laborers were needed for agricultural work, some of which was already starting. I said it would be helpful if I could tell my Government that the attitude of the Mexican Government was sympathetic to the idea. He said that I could inform my Government that the Mexican Government was earnestly seeking to find a basis for such a movement of laborers, but that it was not yet prepared to discuss details. I said I would like to revert to our original discussion of this matter when we stated that if the Mexican Government was sympathetic to the idea we would

like to send several competent persons to discuss the matter with the appropriate officials here.

The Under Secretary said that he did not think the time had yet arrived for anyone to come from the United States to discuss this matter; that the Mexican officials had not yet come to the point where they were actually prepared to discuss the matter with anyone else. He thought that by the tenth of July they would be prepared to do so. I said that this was going to delay considerably any solution and that there were pressing reasons for proceeding as rapidly as possible. The Under Secretary said that he appreciated all these factors but that he thought arriving at a proper solution and arrangement was even more important than any precipitate action. He emphasized again that the nature of the matter was such that it would have to be given the most careful consideration by the various agencies of the Mexican Government and that this was in progress.

While the Under Secretary did not mention them, he undoubtedly had in mind the newspaper reports coming from Washington on this labor matter. Various articles have appeared in the press here from the news agencies in Washington calling attention to the statements of Senator Wheeler⁶³ in this connection. These have served no useful purpose here. The Under Secretary undoubtedly fears any publicity on this matter at this time and he is entirely correct, in my opinion, in this. The matter has to be carefully handled and there should be no publicity of any kind until the final arrangements between the two governments are reached. I think I should say frankly that the publicity so far given to this matter in the press at home has not helped the matter here.

The Under Secretary agreed that I could inform the Department that the Mexican Government was sympathetic to the idea solely on the ground of a cooperative measure with our Government in view of the war. The Mexican Government was not prepared to say yet that an agreement could be made. It was prepared to say that it was viewing and examining the matter in an entirely sympathetic manner in the hope that a satisfactory arrangement can be reached. The Under Secretary said that I could inform my Government that if several competent persons came here between July 10 and 15 he felt confident that the Mexican officials would be prepared to discuss the matter with them and expressed the hope and the belief that a satisfactory arrangement could be worked out. He indicated, however, that if several such persons did come here around July 10 for this purpose, there should be no public announcement at home or here with regard to the matter and no publicity with respect to the negotiations or the visit. He also expressed the opinion that it would be helpful if the competent persons who came here were able to speak

⁶³ Burton K. Wheeler, Senator from Montana.

Spanish, as the Ministers and officials of the Mexican Government with whom they would have to talk would speak only that language and that it would greatly facilitate matters and complete understanding if the Americans were able to speak Spanish.

I am in thorough agreement with the observations of the Under Secretary with regard to publicity which I consider most important. There is no certainty that an agreement can be reached, although I have the personal belief that, in view of the sympathetic view which the Mexican Government is taking, an agreement can be worked out. It is clear, however, that the Mexican Government is not going to permit itself to be hurried into any decision, as it believes that the present status of Mexican-American relations is more important than the possibility of injecting a discordant note through this labor exchange. It wishes to take all the proper precautions to assure that such a labor exchange will not create a problem either here or in the United States or between the two countries. In this connection I think we should bear in mind that there was undoubtedly objection raised at home in various quarters against the bringing in of Mexican labor; that various agencies of our Government had to get themselves into accord before they could approach the Department on the matter. It was not until these discussions had taken place that the approach could be made by the Department through this Embassy to the Mexican Government. It will be appreciated, therefore, by the agencies at home concerned that the Mexican Government has its similar problems to consider which from its point of view are as important as those we had to consider. It has to be borne in mind that there is considerable opinion in Mexico against labor being permitted to move. I am sure, therefore, that the Department will appreciate, as I do, that the action of the Mexican Government in examining this matter so carefully is not through any lack of desire to cooperate.

I think the Department may therefore inform the appropriate agencies of the Government in confidence of as much of the foregoing as it may deem desirable, and in the meantime an effort may be made to find two, and I believe a maximum of three, persons who can come to discuss this matter between July 10 and 15 and who use Spanish. This will greatly facilitate the conversations because in a matter of this kind the conversations will have to take place directly between them and the officials of the Mexican Government directly concerned. While the Embassy is prepared, of course, to supply officers as interpreters, it is obvious from the nature of the problem such direct conversations in Spanish will greatly facilitate understanding and agreement.

I wish to emphasize the great importance of there being no publicity whatever. There should be no publicity whatever to the fact

that the Mexican Government is considering this matter in a sympathetic light; that we may be eventually sending these men here to talk about the matter, and that negotiations are in progress. It will hamper the Mexican Government in arriving at a satisfactory arrangement if there should be such publicity. I realize that it may be difficult to avoid such publicity at home, but it may be noted that the publicity there has been in this matter has come from home. It will be in the interest of the agencies which are concerned with this matter to see that the appropriate reserve is maintained. I consider this essential to the successful negotiation and carrying through of any arrangement. It is only until after an agreement has been reached and appropriate understandings have been reached as to the publicity to be given that there can be any discussion in the press.

Respectfully yours,

G. S. MESSERSMITH

811.504/806: Airgram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO, July 24, 1942—9:15 a. m.

[Received July 27—3:37 p. m.]

A-49. Reference Embassy's despatch No. 2840, July 21, 1942,⁶⁴ transmitting copies of an informal memorandum which formed the basis of the discussions between representatives of the Mexican Government and Messrs. Walker and Meeker of the Department of Agriculture and the Counselor of the Embassy.⁶⁵

At the meeting of the above representatives this morning it was agreed that the text as transmitted in the above mentioned despatch would be acceptable to both parties with slight minor changes. Copies of the English and Spanish texts as agreed upon are transmitted herewith.⁶⁴

Mr. David Meeker of the Department of Agriculture is leaving for Washington tomorrow morning and will carry with him copies of the text as enclosed. If the text meets with the approval of the Secretary of Agriculture and the Department of State, it is requested that authorization be granted me by telegraph or telephone to proceed with a simple exchange of notes between the Embassy and the Mexican Foreign Office to place the arrangement in effect.

It is also suggested that this memorandum be referred to as "an arrangement for the temporary migration of Mexican agricultural workers into the United States" in the proposed exchange of notes.

Should the Department desire to send a draft of the text of our note to the Foreign Office it is suggested that it be also sent by telegraph or telephone.

MESSERSMITH

⁶⁴ Not printed.

⁶⁵ Joseph F. McGurk.

811.504/806 : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, July 31, 1942--1 p. m.

1082. Reference your airgram 49, July 24, and reference telephone conversation morning July 30⁶⁷ between McGurk and MacLean⁶⁸ and between Major Walker⁶⁹ and representatives Department of Agriculture.

You are authorized to exchange notes with Foreign Office bringing into effect an arrangement substantially identical with that enclosed with your airgram 49 and embodying in so far as practicable the suggestions made by the representatives of Agriculture and MacLean in the telephone conversation without further consultation with Department provided the revised text is acceptable to Walker, the Spanish and English versions are reconciled, and provided these changes meet with your approval.

Please promptly furnish Department full revised Spanish and English texts as embodied in exchange of notes. Kindly inform Department as far in advance as practicable of day and hour Mexican Government will make public announcement in order that simultaneous press release or releases may be issued in Washington.

HULL

[For text of the agreement, effected by exchange of notes signed at Mexico City, August 4, 1942, see Department of State Executive Agreement Series No. 278, or 56 Stat. (pt. 2) 1759.]

AGREEMENT BETWEEN THE UNITED STATES AND MEXICO REGARDING THE REHABILITATION OF CERTAIN MEXICAN RAILWAYS

[For text of the agreement, effected by exchange of notes signed at Mexico City, November 18, 1942, see Department of State Executive Agreement Series No. 289, or 56 Stat. (pt. 2) 1824.]

⁶⁷ Memorandum of telephone conversation not printed.

⁶⁸ William G. MacLean of the Division of the American Republics.

⁶⁹ Maj. John O. Walker, Assistant Administrator of the Farm Security Administration, Department of Agriculture.

DISCUSSIONS BETWEEN THE UNITED STATES AND MEXICO REGARDING A PROPOSED TREATY ON DIVISION OF INTERNATIONAL WATERS ⁷⁰

711.1216M/1199

The Department of State to the Mexican Embassy

WASHINGTON, February 11, 1942.

MEMORANDUM REGARDING THE PROPOSED INTERNATIONAL WATER TREATY, UNITED STATES AND MEXICO

COLORADO RIVER

On July 2, 1941 the Department of State gave to the Mexican Ambassador ⁷¹ a memorandum ⁷² setting forth a tentative outline of a plan for adjustment of various matters relating to the proposed Treaty on International Waters.

Subsequently, the Ambassador of Mexico presented a memorandum dated July 22, 1941 enclosing a memorandum and a draft of Water Treaty.⁷²

Shortly thereafter the Department of State authorized the American Commissioner,⁷³ International Boundary Commission, United States and Mexico, to join with the Mexican Commissioner ⁷⁴ in appropriate studies and investigations of flood control on the Lower Colorado River below Imperial Dam, which it is understood are now in progress.

The Department of State has given further consideration to these matters and offers the following observations.

In suggesting the assurance in perpetuity of 900,000 acre feet of stored water of the Colorado River to Mexico, delivered according to a monthly schedule most convenient to the requirements of Mexico consistent with releases and uses on the American side, the Department of State felt that it had more than met the requirements of Mexico based upon that country's past claims since the quantity suggested of controlled water would be so much more valuable than a much greater quantity of uncontrolled water. It was noted with satisfaction that Mexico recognized this to a certain extent by its counter proposal that approximately 2,000,000 acre feet of water would be acceptable.

⁷⁰ For previous correspondence regarding the use of the waters of the Colorado and Rio Grande Rivers, see *Foreign Relations*, 1941, vol. VII, pp. 378-380 and 384.

⁷¹ Francisco Castillo Nájera.

⁷² Not printed.

⁷³ L. M. Lawson.

⁷⁴ Rafael Fernández MacGregor.

While it will be difficult to make arrangements therefor, the Department of State, being desirous of obtaining the most satisfactory arrangements practicable from the point of view of the two countries, suggests for the consideration of the Mexican Government that, because of the great value of controlled water and the very heavy expenditures made by the United States in the erection of Boulder Dam and other storage facilities, provision for the assured delivery to Mexico in perpetuity according to a fixed monthly schedule of 1,150,000 acre feet of regulated and controlled water from the Colorado River Basin would afford satisfactory adjustment of this aspect of the problem. It would be understood that this quantity would represent the total assured deliveries to Mexico from any source whatsoever of the Colorado River Basin and its tributaries in the United States. It would also be understood that any surplus waters that might reach Mexico over and above the guaranteed amount would not establish any additional rights on the part of Mexico.

The Department has been gratified to learn, from recent oral statements of the Ambassador of Mexico, that the Government of Mexico does not insist upon the establishment of a new commission to administer the contemplated water treaty, being prepared to entrust this function to the International Boundary Commission, United States and Mexico.

711.1216M/2036

The Mexican Ambassador (Castillo Nájera) to the Department of State

[Translation]

MEMORANDUM

My Government has carefully considered the memorandum relative to negotiations to conclude a Treaty on International Waters which was handed to me by Mr. Duggan⁷⁵ on February 11, 1942.

The Government of Mexico is happy to recognize the good disposition of the Government of the United States which has been shown by its accepting, in general terms, the proposal which my aforesaid Government submitted to the Department of State for consideration.

As I have on previous occasions taken the liberty of explaining, the problem of the international waters and, in particular, that referring to the Colorado River, has been the subject of prolonged studies on the part of Mexican experts and on the basis thereof, my Government instructs me to make certain comments on the memorandum of

⁷⁵ Laurence Duggan, Adviser on Political Relations.

February 11 and, at the same time, to insist on the points of view on which Mexico's requests are based.

1. *Amount of Water Needed by Mexico.* The request for a volume of 2,000,000 acre-feet annually is the minimum to satisfy the foreseeable needs to a very near future. The latest studies of the Mexican Section of the International Boundary Commission between Mexico and the United States show that the furnishing of the indicated amount of 2,000,000 acre-feet, which are indispensable for Mexican needs, would not cause difficulties in the execution of present and future irrigation programs in American territory.

The aforesaid volume of 2,000,000 acre-feet annually is the absolutely necessary volume for the irrigation of 200,000 net hectares, which may be cultivable, of the 300,000 good-class, gross hectares, subject to gravity control in the Mexican section of the delta of the Colorado River. The volume of 1,150,000 acre-feet offered in the memorandum of February 11 would be insufficient for the irrigation of a great area of cultivable lands in the Colorado delta, lands which constitute the only important agricultural zone in Lower California. It is well to add that, in addition to the 200,000 net hectares to which I have just referred, there is an area of approximately equal size, formed of good quality lands, which could be watered by pumping if sufficient water from the Colorado were available. There are also salt lands which could be washed or improved if sufficient water were available. Despite these considerations, the aforesaid possibilities had to be discarded in formulating the plan in the terms in which it was presented to the Department of State.

The offered volume of 1,150,000 acre-feet would not, I repeat, suffice to meet minimum needs. Acceptance of that volume would create in Lower California a situation similar to that existing in the Juárez Valley in which, as is well-known, the area of cultivable lands amounts to 17,000 hectares, of which only half are irrigated. The Government of Mexico cannot agree that the permanently bad situation and the continual international difficulties prevailing in the Juárez Valley should be reproduced, with greater seriousness, in the Colorado zone, where the area of lands to be irrigated is ten times greater than in that Valley and the agricultural significance is of capital importance for all Lower California.

From the studies made by the Mexican Section to which I referred above, it is shown that the volume of the Colorado River amply provides for the uses of both countries and, accordingly, an equitable division of the waters would specify a minimum of 2,000,000 acre-feet for Mexico. Account has been taken of future possibilities in both countries in setting this figure.

In the conclusions reached by Engineer Adolfo Orive Alba as member of the Mexican Section of the International Water Commis-

sion, in his "Hydrological Study of the Colorado River", it is stated that, in accordance with most recent American data and taking into consideration the development, in the United States, of all possible projects, Mexico could receive up to 2,300,000 acre-feet annually without any scarcity being felt in the United States even in periods of drought which, apparently, are produced by the climacteric regime of the region.

According to investigations made in 1930 by Mr. E. B. Debler, engineer of the Reclamation Service—who made use of data of official origin in his studies—the United States requires an annual average of 16,000,000 acre-feet to satisfy its needs in accordance with its foreseeable plans in maximum development. This means a surplus of 2,400,000 acre-feet annually, which amount could be allowed to Mexico without injury to its northern neighbor.

A more recent estimate, published in 1939 in the "Engineering New Record", places American maximum needs at a lower figure than that estimated by Engineer Debler. According to the said calculations, those needs could be met with 14,200,000 acre-feet annually. If the calculation is correct—and everything leads to the belief that this is the case—the surplus would be sufficient not only to satisfy our country's demands but to constitute a margin of safety, in years of scarcity, when the average flow of the Colorado drops from the 19,000,000 acre-feet which statistics consider as the regular flow and which is what has been taken as the base of all studies on the subject.

Despite the fact that, on the basis of the data set forth, Mexico could request, as equitable, a volume between 2,400,000 and 2,500,000 acre-feet, our petition is limited to 2,000,000, an amount indispensable to satisfy the minimum needs of the region.

2. *Procedure for Delivering the Water.* The American proposal to furnish the water controlled according to a fixed table, cannot be accepted by Mexico since it would certainly mean a repetition of the situation in the Juárez Valley, where practice has shown that delivery made in such way gives rise to serious injuries, both with respect to the crops and with respect to a large amount of waste of water occasioned by the method of the fixed table. At present it is not possible to foresee the crops, systems of labor and fluctuations of climate which may occur within 50 or more years, but it can be foreseen that, in the future, deliveries under a fixed table, if accepted today, would cause future friction and difficulties which must be here and now avoided. To this end, the Government of Mexico suggests as being more practicable the delivery of the water according to an annual table which the International Commission would determine, every December, and which would govern during the following year.

3. *Excess of Flow.* With respect to volumes of water which might reach Mexico in excess of the guaranteed amount, the Mexican Gov-

ernment's point of view differs from that of the United States in some aspects of practical application, but it considers it preferable to defer the technical discussion thereof that it may be undertaken when the two parties agree on the basic part of the question, to conclude the friendly arrangement which is desired.

As I had the honor of stating previously, the Mexican Government concurs in the American proposal to give to the present International Boundary Commission between Mexico and the United States of America the powers and duties specified in the draft treaty.

WASHINGTON, March 19, 1942.

711.1216A/2489

The Department of State to the Mexican Embassy

WASHINGTON, March 27, 1942.

MEMORANDUM

PROPOSED WATER TREATY

DISTRIBUTION OF RIO GRANDE WATERS

The Ambassador of Mexico and representatives of the Department of State have had a number of conversations relating to various phases of the contemplated international water treaty.

The conversations up to the present have dealt mainly with the question of the allocation to Mexico of waters of the Colorado River. Without prejudice to the question just mentioned or its present status, the Department is desirous as soon as possible of undertaking conversations relating to the allocation to the United States of waters of the Río Bravo.⁷⁶

It is believed that the Mexican Government understands the approximate needs of the United States. Properly to conserve the waters of the Río Grande below Fort Quitman for the benefit and use of both countries requires storage and diversion works on the main stream located at such points as will best satisfy the requirements for lands to be served. In the lower area of the Río Grande, the supply from the main Mexican tributaries, the San Juan River with its Azucar Dam storage and the Río Salado, can be best utilized by gravity canals on the Mexican side for the development of the Mexican area. On the United States side, however, storage and diversion should be upstream from these two tributaries and the needs of the United States area can best be served from upstream contributions. This explains the physical impossibility of attempting the

⁷⁶ Río Grande.

equal sharing of the main stream flow at given points in its course. To overcome these difficulties it is proposed to allocate to each country's ownership and control definite amounts of flow for storage, diversion and in such a manner as will produce the greatest flexibility and independence of use in both nations.

To that end, it is proposed that a series of storage and diversion dams be constructed on the main stream between Fort Quitman and the mouth of the Río Salado, the latter being the lowest point for effective storage for use of waters in the United States. Above points of international storage the United States believes that there should be furnished from Mexican sources a yearly average (to be determined over three-year periods) of 1,000,000 acre feet of water for storage in the international reservoirs and for diversion and use in the United States. No less than 600,000 acre feet a year, however, should be supplied from the designated tributaries. This amount (1,000,000 acre feet), plus the United States' contributions, would result in suitable allocation to the United States.

In order to permit more tributary control and development in, and by, each country, the United States would be entitled to the sole use of all contributions from its principal tributaries, and Mexico would retain the contributions from its principal tributaries in excess of 1,000,000 acre feet a year. The principal tributaries should be measured, and those to be measured should be specifically enumerated in the treaty.

Increments reaching the main stream from all other sources (such as springs, arroyo flows and other small tributaries difficult of individual measurement) should be divided equally between the two countries, except that where Mexico fails in any three-year period to deliver the stipulated amount of water for American use, the deficiency should be supplied from Mexico's share of the unmeasured contributions.

In order to make the water available for diversion and use on American lands, Mexico's annual deliveries of 1,000,000 acre feet should be from tributaries discharging into the main stream above the lowest point of international storage. Water in the river below this point should be divided equally between the two countries. Each nation should maintain at its own expense proper gaging stations on the designated tributaries at or near the points where they discharge into the river, in order that proper credit may be given for the respective contributions. Gaging stations should be jointly maintained on the main river at suitable locations, in order to determine the increments from sources other than measured tributaries. Water passing Fort Quitman, Texas, should be deemed to be a United States tributary contribution.

Provision should be made for the taking of an annual accounting

of the water in each reservoir, in order to determine the quantity to the credit of each nation. Losses from evaporation and waste should be charged to each nation in proportion to the amount in storage to the credit of each nation.

Each country should be given the right to use the bed of the river to carry water allocated to it or released from storage for its benefit.

The number, approximate locations and capacities of the international storage and diversion dams should be agreed upon in the treaty, subject to variations with the consent of both Commissioners. The costs should be prorated between the two countries by the Commissioners in proportion to the benefits each country will receive by reason of their construction, taking into account their utility both for flood control and irrigation purposes.

711.1216A/2503

The Mexican Ambassador (Castillo Nájera) to the Secretary of State

[Translation]

No. 6387

The Ambassador of Mexico presents his compliments to His Excellency the Secretary of State and, in compliance with instructions received from his Government, takes pleasure in transmitting to him a memorandum in connection with the Department's memorandum sent through the intermediary of Mr. Duggan on March 27, instant. Attached thereto is a report on the American proposal concerning the Rio Bravo prepared by the Technical Section of the Department of Foreign Affairs of Mexico.

The Ambassador of Mexico thanks His Excellency the Secretary for the attention which he may be good enough to give this matter and takes the opportunity [etc.]

WASHINGTON, April 22, 1942.

[Enclosure—Translation] ⁷⁷

MEMORANDUM

APRIL 1942.

PROPOSED TREATY FOR THE DISTRIBUTION OF THE WATERS OF INTERNATIONAL RIVERS BETWEEN MEXICO AND THE UNITED STATES OF AMERICA

MEXICAN COUNTERPROPOSAL RELATIVE TO THE WATERS OF THE RIO BRAVO

With reference to the Department of State's memorandum of March 27 instant, referring to the distribution of the waters of the Rio

⁷⁷ File translation revised by the editors.

Bravo, the Government of Mexico declares forthwith its full willingness to study and settle, jointly with the Government of the United States, the problems presented by the distribution and utilization of the said waters at the same time that the conversations initiated with regard to the Colorado River are carried on.

It is well to point out that a simultaneous consideration of all aspects of the best utilization of the Rio Bravo and the Colorado establishes a solid basis for arriving within the near future at an understanding between the two countries which will definitively solve this complex matter. It is possible to forecast a satisfactory result in view of the fact that, in addition, the conversations between the two Chancelries are guided by a sincere wish to obtain the best complete utilization of the international streams to the benefit of the two countries and a distribution of their waters in a way adequate to the present and future necessities of each of them and in a manner which will entirely prevent or will proportionately and fairly divide the damages resulting from an insufficiency of the volume of the rivers.

From a careful reading of the aforesaid memorandum of March 27, the Government of Mexico has become convinced that the two Governments are entirely in agreement with respect to the greater part of the points to which the said document refers and that these, certainly, are the fundamental aspects of the problem of the distribution of the waters of the Rio Bravo between the two countries.

In fact, it is well known that in order properly to conserve the waters of the aforesaid river, to the advantage and for the use of both countries, constructions for storage and to draw off water are required on the principal stream at those points where a satisfaction of the needs of the lands which must be irrigated is best to be achieved, and that attention must be given both to the requirements of the American bank, which needs hydraulic works upstream from the confluence of the Rio Bravo and the Salado River, and to the requirements of Mexican lands, which need storage and run-off constructions a little below the confluence mentioned. Only, it is necessary to add, to this point of agreement, that all the works—whether they directly benefit the United States or whether they redound preponderantly to Mexico's advantage—must form a coherent whole which will bring benefits to both countries, since together they will serve to store and handle efficiently the volume of the river's flow, a result which it would not be possible to achieve with any one of the works individually.

It is obvious that the number, approximate location and capacity of the international storage and run-off dams must be agreed upon in the Treaty, these points being subject to the variations which are decided upon, by common agreement, by the two Commissioners. It is also considered just and equitable that the costs should be prorated between the two countries in proportion to the benefits which

each of them will receive from the construction of the works, account being taken of the utility thereof, both from the point of view of defense against floods, and from that of irrigation.

The Government of Mexico concurs with that of the United States of America in considering that the physical character of the Rio Bravo valley prevents a distribution by equal parts of the principal stream at specified points of its channel (although it does insist on a total distribution in equal parts of the general flow which the said principal channel carries and conducts). Accordingly, it is considered advisable that the volume assigned to each country be its property and under its control in each of the international storage dams, that the countries may thence run them off in the most advantageous manner and the greatest flexibility and independence in the uses effected by each be achieved.

The above agreement implies a common opinion as to the right to use the channel of the river to transport the water assigned to each country from the storage receptacles to the points of intake or run-off most convenient to the riparian users. In addition, as stated in the Department of State's memorandum under reference, the system requires an efficient appraisal service and the necessity of keeping an account of the water in each storage receptacle, to the end that the amount to be accredited to each country may be determined, losses by evaporation and waste being charged in proportion to the amount stored which has been credited to each country.

Among those most important general points—on which the existing agreement between the two Governments establishes an adequate system for the best utilization and distribution of the waters of the Rio Bravo—there is only one important discrepancy, with certain incidentals, concerning which a fair arrangement can be reached.

The Government of the United States proposed that certain Mexican affluents of the Rio Bravo furnish a volume of one million acre-feet annually for the exclusive use of the American bank. This contribution should be liquidated and completed in cycles of three years. It considers that, with such volume, plus the total contribution of the American affluents and fifty per cent of the flow of the principal channel (not coming from evaluated affluents), the United States would have its needs met.

The Government of Mexico regrets that it is unable to accede to the American proposal in consideration of the fact that the volume of the Mexican affluents assigned to meeting the aforesaid allotment is so low that in dry years Mexico would not be able to comply with its obligation without decreasing uses already existing in the valleys of these affluents. Furthermore, a series of dry years would leave Mexico, when it made the triennial liquidation, with a debt which it would be very difficult to redeem in the future. In order to obtain

a complete regularization of the current of those affluents, the Government of Mexico would need to construct very expensive works which are out of proportion to the utility which would be obtained from them. In view of the foregoing, it does not seem fair for Mexico alone to endure the injuries resulting from lack of precipitation. Nor does it seem fair that, in order to meet such certain contingencies, the valleys of such affluents should be deprived not only of any future development, but even of their present uses.

The Government of Mexico, in exchange, proposes a distribution by equal parts of the general flow of the Rio Bravo, and—as the Mexican affluents furnish this general flow with more than double the volume coming from American tributaries—it is obvious that, in the fifty per cent corresponding to the United States of America there are included: *a*) all contributions by American affluents; *b*) fifty per cent of the flow coming from non-evaluated, transitory and small sources; and *c*) a little more than a fourth of the total flow which reaches the Rio Bravo from Mexican affluents.

Accordingly, in abundant and in normal years, the amount thus formed will be equal to or greater than that desired by the Government of the United States of America and only in dry years will it be less; but it will be less in the same proportion as Mexico has the water corresponding to it reduced. With this procedure, the two countries will feel the injuries resulting from droughts fairly and proportionately. Furthermore, the international storage dams on the channel of the Rio Bravo will be able to regularize the utilization of the river for the purpose of meeting the deficiencies in the dry years, provided that a great many consecutive periods of drought do not occur.

The proposal of the Government of Mexico is based on the fact that available studies indicate that present uses and possible future uses in the valley of Mexican and American affluents will not be able completely to exhaust such streams and, accordingly, there will always be a remainder which, united to waters from freshets, returns, etc., which will be stored in the international dams, will be sufficient to furnish water at the run-offs made in those international works to meet the needs of both banks. Under the foregoing conditions, the amount corresponding to American riparian lands will be approximately what the Government of the United States of America seeks in proposing a fixed quota, furnished by the Mexican affluents.

The said proposal may be supplemented by the possibility that, upon the approval of the two countries, each of them may consume in a specified stretch of the river or at a certain storage dam or group of dams a greater volume than corresponds to it, provided that the difference in excess will be made up to the other country in another stretch or in one or more other dams.

Notwithstanding the foregoing, if the Government of the United States of America should not consider that the flow of the principal channel of the Rio Bravo and its affluents is sufficiently great for the United States to obtain a volume equitably adequate to its needs through a distribution of the total waters by halves, or if it considers that the uses of the affluents may in the future sensibly diminish the volume received by virtue of the distribution by halves, the Government of Mexico agrees that, when the proposed Treaty is signed, the corresponding Commissioners may be authorized to make a joint hydrological study which will include in its entirety the principal stream of the Rio Bravo and that of its affluents for the purpose of establishing regulations to the effect that available waters be distributed in proportion to the legitimate needs which exist or may exist in the two countries.

Finally, the Government of Mexico begs to draw the attention of the Department of State to the present situation in the Juárez Valley. To begin with, the Government of Mexico does not feel that there is any reason or ground for considering the Juárez-Cajoncitos section of the Rio Bravo as a mere water-conveying canal or an American affluent, inasmuch as the said section has not lost its character of an international river boundary. In addition, the table of water delivery to Mexico is contrary to the meteorological and agronomical characteristics of the present time in the aforesaid Juárez Valley and the volume of water actually utilizable from the channel which the United States of America delivers at the Acequia Madre in Ciudad Juárez has in reality decreased through the increase in the alkalinity of the water. The Government of Mexico hopes to receive from the Government of the United States of America a friendly and equitable understanding of these partial problems presented by the utilization of the Rio Bravo, for the purpose of obtaining a final and adequate solution of this question in its entirety.

A brief technical exposition which gives the bases for the proposals contained in this memorandum is attached.⁷⁸

711.1216M/2042

*The Adviser on Political Relations (Duggan) to the Mexican
Ambassador (Castillo Nájera)*

WASHINGTON, June 12, 1942.

MY DEAR MR. AMBASSADOR: I refer to various conversations you have had with representatives of the Department and particularly to your memorandum of March 19, 1942, with respect to the possible allocation of waters of the Colorado River to Mexico under the contemplated Convention concerning international streams.

⁷⁸ Not attached to file copy.

As you know, representatives of the Department recently attended a meeting in El Paso of representatives of the seven Colorado River Basin States to explore the possibilities of allocation of Colorado River waters to Mexico. A further meeting between representatives of the Department and of the Basin States will be held in El Paso next week. The Department hopes to be in a position shortly after that meeting to resume discussions with you on this question.

I am, my dear Mr. Ambassador, with kindest personal regards,

Very sincerely yours,

LAURENCE DUGGAN

711.1216M/2074

Memorandum of Conversation, by the Assistant Chief of the Division of the American Republics (Bursley)

[WASHINGTON,] August 15, 1942.

Participants: Señor Dr. Don Francisco Castillo Nájera, Mexican Ambassador;
PA/LD—Mr. Duggan;
RA—Mr. Bursley.

The Mexican Ambassador called at Mr. Duggan's request.

Mr. Duggan stated that the Department had been giving continued attention to the question of allocation of Colorado River waters and that, in addition to various studies which had been made, representatives of the Department had attended two meetings in El Paso of the Committees of the Colorado River Basin States.

Mr. Duggan then said that during the past few days very long conferences had been held here in which Mr. Lawson and several representatives of the Basin had participated. Mr. Duggan said that despite all the data which had been assembled it still appeared that we were not quite in a position to resume discussions with the Ambassador at this end without obtaining some further technical information and for this reason he suggested a meeting at El Paso on August 31 to be attended by the American and Mexican Boundary Commissioners, one or two representatives of the Basin States and such technical experts as the Mexican Government might designate. It is desired that at this meeting there be a factual exploration of the places where Mexico would want water delivered in order that our engineers might be able to determine where canals, dams and other structures would be necessary and other technical aspects be explored informally.

This proposal seemed satisfactory to the Ambassador who stated he would communicate with his Government promptly and inform us of its decision.

HERBERT S. BURSLEY

711.12155/1986

Memorandum by the Adviser on Political Relations (Duggan) to the Assistant Chief of the Division of the American Republics (Bursley)

[WASHINGTON,] August 19, 1942.

Mr. BURSLEY: The Mexican Ambassador telephoned me late yesterday afternoon to state that the Mexican Government accepted with pleasure the proposal for a meeting of technicians on international waters in El Paso on August 31. Señor MacGregor, the Mexican commissioner, has been instructed to attend. He will be assisted by certain technicians.

I expressed my gratification at the Ambassador's rapid action in securing the approval of the Mexican Government to our proposal.

I did not press the Ambassador with respect to whether anyone from the Mexican Foreign Office would attend. I suggest that Mr. Lawson upon his return endeavor to ascertain this from Señor MacGregor. If there will be representatives from the Mexican Foreign Office, then we can consider sending someone down from here.

LAURENCE DUGGAN

711.1216M/2095

Memorandum of Conversation, by Mr. Charles A. Timm of the Division of the American Republics

[WASHINGTON,] November 4, 1942.

Participants: Señor Dr. Don Francisco Castillo Nájera, Mexican Ambassador
Mr. Duggan
Dr. Timm

At Mr. Duggan's request the Mexican Ambassador called at Mr. Duggan's office to receive an informal confidential memorandum⁷⁹ in reply to Mexico's memorandum of March 19, 1942 in which it was contended that 2,000,000 acre-feet of water would be available for Mexico from the Colorado River even after full development in the United States.

By way of preliminary explanation Mr. Duggan said that a careful study of the Mexican contention had been made for the past six months and that, in consequence, he could state positively that 2,000,000 acre-feet would not normally be available for Mexico after full development in the Basin States. The present memorandum, which he then handed to the Ambassador, contains data, he said, to sustain this conclusion.

⁷⁹ *Infra.*

After reading the memorandum the Ambassador said he would be glad to refer the matter to the appropriate officials. Mr. Duggan stated that the difference between the amount claimed by Mexico and the amount tentatively offered by the Department (1,150,000) was nearly 1,000,000 acre-feet and that it was simply unthinkable that the United States Senate would approve a treaty providing an allocation anywhere near the Mexican figure. He also called attention to the clearly established fact that the Colorado system does not provide enough water for the irrigable lands of both countries; furthermore, he noted that other considerations of great value to Mexico would go far to enable Mexico to make the greatest possible beneficial use of every available acre-foot of water. Both Mr. Duggan and Dr. Timm emphasized the greater value of controlled, scheduled water as compared with natural flow.

In reply to these statements the Ambassador admitted that controlled water had greater value than natural flow, but he said that control did not add enough value to make 1,150,000 acre-feet equivalent to Mexico's just share of the water supply. He added, however, that the data contained in the present memorandum might, if it were made available to him, be quite useful to the Mexican Boundary Commissioner, Señor Ing. Rafael Fernández MacGregor. Mr. Duggan then stated that additional studies were being made of the water supply of the Colorado and of the relative value of controlled water as compared with natural flow. He expressed the hope that as a result of these studies it would be possible to make more rapid progress in the negotiations.

In the course of the conversation Mr. Duggan took occasion to say that Dr. Timm had been added to the staff of the Department of State with the immediate task of making a special study of the water problem existing between the United States and Mexico. He also mentioned that he, Mr. L. M. Lawson, American Boundary Commissioner, and Dr. Timm had recently held conferences with representatives of the Basin States on the subject of the proposed water treaty and that while they (Duggan and Timm) were in El Paso they had had the pleasure of paying a brief visit, accompanied by Mr. Lawson, to the office of the Mexican Section of the Boundary Commission, where they had been most courteously received by the Mexican Commissioner.

711.1216M/2036

*The Department of State to the Mexican Embassy*⁸⁰

WASHINGTON, NOVEMBER 4, 1942.

MEMORANDUM REGARDING THE PROPOSED INTERNATIONAL
WATER TREATY, UNITED STATES AND MEXICO

COLORADO RIVER

The memorandum of the Ambassador of Mexico, dated March 19, 1942, has had careful consideration. Pending the completion of still further studies being pursued with the purpose of ascertaining in the near future whether alternate formulas may be developed, the following observations are made.

The proposal of the United States for the delivery of Colorado River water to Mexico was predicated upon the confirmation and protection of uses in Mexico existing prior to the completion of Boulder Dam, based upon the unregulated flow of the river, and also upon a recognition of the rights of the seven Colorado River Basin States in the United States, as evidenced primarily by the Colorado River Compact among the States.⁸¹ The United States has recognized this Compact in the Act of Congress known as the Boulder Canyon Project Act.⁸² The Compact referred to made a primary allocation for consumptive use within the seven basin States.

This initial allocation of 16,000,000 acre-feet does not represent the maximum quantity which can be put to beneficial use in the United States. It was based, rather, upon what was then considered a firm annual supply, leaving to the future the disposition, among the States, of any additional quantities which might then be found to exist. An exhaustive survey, designed to determine the extent to which the water of the Colorado River may be beneficially used in the United States, and the available supply, is now in progress by agencies of the United States Government. This survey, however, may not be completed for several years.

Based upon the best data presently available, the total virgin flow of the river is estimated at 18,000,000 acre-feet per annum on the average, leaving an estimated average quantity of 2,000,000 acre-feet per year to take care of reservoir losses and for future allocations in the United States. This water can all be beneficially used in the United States. Projects in operation and under construction in the

⁸⁰ See memorandum of conversation with the Mexican Ambassador, *supra*. This memorandum is not filed with the memorandum of conversation but is presumably the one handed to the Ambassador.

⁸¹ The Colorado River Compact assigned 7,500,000 acre-feet per year to the Upper Basin and the same amount to the Lower Basin, with the right, however, to increase this amount by 1,000,000 acre-feet per year.

⁸² Approved December 21, 1928; 45 Stat. 1057.

lower basin of the United States at the present time will use 9,140,000 acre-feet of Colorado River water per year. This is 640,000 acre-feet more than the firm allocations of the Colorado River Compact to the lower Basin States. These projects do not comprehend the total possibilities of the lower basin.

In addition it must be borne in mind that we are here dealing with average figures which do not take into account extended periods of low run-off such as have been recently experienced, where American developments would necessarily be deprived of sufficient water if any substantial amount was guaranteed to Mexico. It is quite possible that in years of abnormal run-off 2,000,000 acre-feet of water or more could be delivered to Mexico without deprivation to lands in the United States, even after ultimate developments in the United States. In the average year, however, the amount that could be so delivered would be very much less than this figure, and during dry cycles much less than 1,000,000 acre-feet would be available without serious deprivation to American interests.

Mexico's estimates of the water supply and that amount which will be available for ultimate use were undoubtedly based on early figures which have been shown by later surveys to be inaccurate. When the Colorado River Compact was negotiated in 1922 it was assumed that total water production in the basin was about 19,000,000 acre-feet. Sixteen million acre-feet were allocated by the Compact. Subsequent stream flow records have indicated that the 1922 estimate was too high. In this connection it is of interest to note that as gauging facilities have been improved, the estimates of virgin flow of the river have tended to decline, so much so as to place in some doubt the present estimate of 18,000,000 acre-feet. The total water production of the basin, including the Gila River, during the low run-off period, 1930-1940, averaged only about 14,500,000 acre-feet per year, or 1,500,000 acre-feet per year short of the Compact allocations. If such a 10-year cycle occurred at the end of the 50-year amortization period provided for Boulder Dam and appurtenant facilities, it is estimated that the release from Lake Mead would be only about 8,500,000 acre-feet per year and this would be made possible only by drawing the contents of the reservoir down 17,000,000 acre-feet during the 10 year period.

Furthermore, no account has apparently been taken in the data cited in the Ambassador's memorandum of March 19, of reservoir evaporation losses, which are estimated as being in excess of 1,000,000 acre-feet annually, thus materially reducing the amount of water available for distribution, either to the United States or to Mexico.

Existing projects below the dam will require 7,800,000 acre-feet of this annual release of 8,500,000 acre-feet without taking into con-

sideration additional units of projects already planned. In fact, studies of releases at Boulder Dam corresponding to the period 1930-1940, inclusive, show that in only three out of eleven years would Mexico have been supplied with the requested amount of 2,000,000 acre-feet after supplying the lower Basin projects under construction. Even this indicated surplus would diminish as future contemplated construction in the United States was realized. It is thus apparent that any waters allocated to Mexico over and above return waters present in the river at the international boundary must operate to restrict proportionately the ultimate development within the United States.

In the ten-year period prior to 1935, when Boulder Dam was placed in operation, the average area cultivated in Mexico was 152,000 acres. If the diversion duty is taken as 4.5 acre-feet per acre per annum the corresponding use of water would have been 684,000 acre-feet. The year of maximum use during this period was 1925, when 217,000 acres were cultivated. Expanded uses in Mexico since 1935 were due to, and made possible by, the construction of Boulder Dam and its appurtenant works, thus controlling and regulating the theretofore erratic flow of the stream. It should not be over-looked that actual water shortages occurred on several occasions between 1920 and 1935, hence the Mexican computations regarding surplus water must refer to the situation created by that Dam. This is a factor that cannot be ignored in determining the beneficial uses to which Mexico has established a right and precludes the use of the period subsequent to 1935 in making this determination.

The quantity that was proposed to be delivered to Mexico by the United States, therefore, is more than sufficient to provide for the maximum area which Mexico had cultivated prior to the construction of Boulder Dam, particularly considering the fact that the delivery was to be a controlled one, subject to agreed schedules. That ultimate uses in the United States will not always leave 2,000,000 acre-feet for Mexico was virtually admitted in the memorandum of July 22, 1941 of the Ambassador of Mexico;⁸³ for therein it was stated that "the volume determined (2,000,000 acre-feet) will normally constitute a surplus from the American uses". It will be recognized at once that no developmental program could safely be based upon a stated amount of water when that supply is only normal or average. Furthermore, as has been shown above, it would be only in years of abnormally high run-off that 2,000,000 acre-feet could be delivered to Mexico after full development in the United States.

⁸³ Not printed.

711.1216A/2617 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO, December 14, 1942—7 p. m.
[Received December 15—4:48 a. m.]

1192. To Duggan from Bursley. Reference your letter December 8.⁸⁴ At the meeting today with Fernández MacGregor, Enriquez⁸⁵ and Hernandez⁸⁶ they laid great stress on importance to the two countries of prompt resolution of the international water problem with particular reference to the example it would set to the world.

They advanced the idea that Mexico would not insist upon a guarantee of a minimum amount of water annually if this would facilitate the Department's negotiations with the Basin States. They stated, however, that this would be conditioned upon the adoption of a strict percentage basis for the allocation of waters, also without any maximum limitation. They said they thought that any deliveries in excess of 2 million acre feet under this arrangement would probably consist only of water which could not be used in the United States otherwise than on a transitory basis. In very tentative way they suggested 12½ percent for Mexico of discharges from Boulder Dam stating also that in dry years it would be very expensive and difficult for the United States to live up to any minimum quantitative guarantee.

Fernández MacGregor is here for two purposes, one, to assist in drafting of reply to Department's latest memorandum⁸⁷ and, two, with a thought that Lawson might be brought here for definitive conversations.

I think I shall be able to manage at least to go over with the Mexican officials their draft of reply.

Although I had not yet received your letter of December 8 I gave no encouragement to the idea of having any definitive negotiations here at this time pointing out (a) that the Department was doing all that it could to reach a satisfactory arrangement with the Basin States which would have some chance of prospering in treaty form and (b) that since this question from its inception had been handled by the United States and Mexican authorities in the United States it seemed better to continue that procedure. I made it clear, however, that I would be available at any time for friendly and informal conversations.

I again sought to convey desirability of some recession by Mexico from 2 million demand with object of facilitating negotiations with the basin people.

⁸⁴ Not printed.

⁸⁵ Ernesto Enríquez, Chief of the Legal and Advisory Department, Mexican Foreign Office.

⁸⁶ Lorenzo L. Hernández, Mexican Foreign Office water and boundary expert.

⁸⁷ Apparently reference is to the memorandum handed to the Mexican Ambassador by Mr. Duggan on November 4, 1942, *supra*.

It was perfectly clear to the Mexican officials that I had absolutely no instructions and except for a desire to be cooperative had no desire to take over any functions which did not appertain to me.

All of these conversations have been on a very cordial basis but without any commitment on either side.

In reverting to the importance of a prompt solution Enríquez said that he regarded draft this matter as far more important than the Chamizal question.⁸⁸

He also said that he had some information regarding international water agreements in South America which he would furnish me.

Since Fernández MacGregor desires to return to El Paso promptly unless there are to be negotiations here I shall inform him in a few days in the absence of instructions to the contrary that the Department and the Embassy appreciate the desire of the Mexican Government to expedite an agreement but the studies and negotiations now proceeding in the United States have not yet reached a point where any action here is practicable. I shall also like to be able to say that while Lawson will continue to consult frankly and freely with Fernández MacGregor the Department would prefer to continue along present lines of procedure at least until such time as they may prove unfruitful which is not anticipated. [Bursley.]

MESSERSMITH

CONSULAR CONVENTION BETWEEN THE UNITED STATES AND
MEXICO, SIGNED AT MEXICO CITY, AUGUST 12, 1942

[For text of the convention and exchange of notes, see Department of State Treaty Series No. 985, or 57 Stat. 800.]

⁸⁸ Dispute over a tract of land at El Paso, Texas, subject to arbitration in 1911; see *Foreign Relations*, 1911, pp. 565 ff. See also *ibid.*, 1933, vol. v, pp. 823-824, and *ibid.*, 1934, vol. v, pp. 477 ff.

NICARAGUA

AGREEMENT BETWEEN THE RUBBER RESERVE COMPANY AND THE BANK OF NICARAGUA GRANTING THE COMPANY EXCLUSIVE PURCHASING RIGHT TO ALL OF NICARAGUA'S EXPORTABLE RUBBER

810.6176/265 : Telegram

The Chargé in Nicaragua (Cochran) to the Secretary of State

MANAGUA, April 23, 1942—10 p. m.

[Received April 24—3:50 a. m.]

174. Reference is made to the Department's telegram no. 82 of February 16, 9 p. m.¹ Mr. Seeley² is now in Managua for a few days and plans to return in about 3 weeks. He agrees with the Legation that before progress can be made in improving methods of processing wild rubber, arrangements must be made for the purchase of the product. There has been no organized system for selling the rubber which is already warehoused here to the United States although some sales have been made to Mexico and Guatemala. Will the Rubber Reserve Company make an immediate offer for the rubber already stored and to buy future Nicaraguan production at a fixed price?

Seeley joins the Legation in recommending that an agreement be negotiated with the Nicaraguan Government providing for the export control of rubber and the sale of all Nicaraguan production to the United States at a price to be agreed upon, all such rubber to be handled by the trading subsidiary of the National Bank, as recommended in the Legation's despatch no. 521 of April 13.¹ Seeley could then return to Nicaragua for 2 months or for whatever period is necessary in order to visit the various rubber producing regions and to stimulate the production of wild rubber. There is no use embarking on the latter program until there is some indication of a market and an acceptable price for the rubber when produced; since it appears that Nicaragua can produce several times as much rubber as it normally consumes, such efforts would seem to be fully warranted.

The Legation urgently recommends that someone be sent to Nicaragua immediately to determine the amount of rubber now available

¹ Not printed.

² George L. Seeley, rubber expert, Office of the Coordinator of Inter-American Affairs.

in warehouses for immediate shipment, its quality, and to quote a price and arrange a sale operating on behalf of the Rubber Reserve Company. If not can Seeley be authorized to do so immediately upon his return 3 weeks hence?

COCHRAN

810.6176/265 : Telegram

The Secretary of State to the Minister in Nicaragua (Stewart)

WASHINGTON, May 8, 1942—9 p. m.

193. Your 174 of April 23. On May 2, 1942 agreements were signed by Rubber Reserve Company and Bank of Nicaragua, subject to ratification by Directors of Bank of Nicaragua, whereby Bank of Nicaragua agreed to cause entire Nicaraguan production to be sold to Rubber Reserve, other than amount required for local consumption. This amount was fixed at 50 tons subject to adjustment if essential needs are found to be in excess of 50 tons. The price to be paid is 33¢ per pound f.o.b. Nicaraguan ocean ports for usual good quality Nicaraguan scrap of the castilloa type with appropriate differentials for other types and grades. In addition, premium payments of 2½¢ per pound for rubber purchased between 200 tons and 700 tons and of 5¢ per pound for rubber purchased over 700 tons during any one year are to be paid to the Bank and made available to the Government for financing immediate expansion of production and improvement of quality of wild rubber in Nicaragua.

Under the agreements, the Bank agrees to cause itself to be established as agency to acquire and sell crude rubber produced in Nicaragua, except that Rubber Reserve may buy rubber for its own account if such purchases do not interfere with the Bank's operations.

The Bank agrees to establish the base price to Rubber Reserve as the price of rubber for domestic consumption or use.

The Bank agreed to restrict to the United States the export of crude rubber from Nicaragua.

Copies of the documents ³ are being forwarded by airmail.

The question of handling stocks on hand is being considered here, and it is expected that plans will shortly be completed.

HULL

³ Not printed.

**AGREEMENT BY THE UNITED STATES TO CONSTRUCT IN NICARAGUA
A HIGHWAY BETWEEN SAN BENITO AND RAMA**

817.154/234

*The President of Nicaragua (Somoza) to President Roosevelt*⁴

MANAGUA, February 28, 1942.

MY VERY DEAR PRESIDENT ROOSEVELT: When in the month of May 1939, I had the honor to know you personally,⁵ and to place before you the vital problems of my country which could be solved by co-operation of the United States of America, I referred especially to the imperious need of connecting the densely populated districts on the Pacific Coast with the extensive and rich zone on the Atlantic Coast, as the only medium to effectively nationalize and incorporate politically and judicially, that section of the nation which in reality, continues to be a social group with different language, religion and customs, from the rest of the country.

Because of this grave problem of lack of national unity there have originated separatistic movements on the Atlantic Coast, formerly occupied by England, and which has frequently been the focal center of revolutionary movements; the Government of Nicaragua tried with more or less success to inculcate an effective cultural and spiritual incorporation of this extensive and important territory, always meeting insuperable obstacles on account of the lack of permanent means of communication. For this same reason, the national progress of the country suffered great losses, as the rich forestal, mining and agricultural resources of that privileged part of our country, lacked commercial connection with the maritime traffic on the Atlantic Coast, so necessary to develop a safe and stable basis for commercial relations with the United States of America. For this same reason I stated to you in my letter of May 22nd, 1939,⁶ that my Government considered it of capital importance, for the development of the production and the commerce of our country, to unite that productive region on the Atlantic Coast, with the zones densely populated on the Pacific Coast, by a more direct road of commercial communication between Nicaragua and the United States of America.

Facing such a grave situation and trusting in your good will and high spirit of justice which animates you, I permitted myself, at that time, to suggest the canalization of the San Juan River,⁷ with economic and technical aid from the United States, crediting the respective expense to the indemnization which Nicaragua should receive

⁴ Both English and Spanish copies received from the Nicaraguan Government.

⁵ For correspondence regarding President Somoza's visit to the United States in 1939, see *Foreign Relations*, 1939, vol. v, pp. 720 ff., *passim*.

⁶ *Ibid.*, p. 725.

⁷ For correspondence regarding proposed canalization of the San Juan River, see *ibid.*, pp. 720 ff.

for the option stipulated in the Bryan-Chamorro Treaty,⁸ in recompense for the negative effects produced by the aforementioned treaty. My hopes were not in vain, as you Sir, gave all attention and acceptance to my suggestions, and gave impetus to this by sending American Army Engineers to make the necessary preliminary studies, before starting the actual work.

Unfortunately, the progress of the realization of the task of the canalization of the San Juan River, and your loyal and noble intention to finish this work, encountered obstacles by the present war, which has been provoked by ambition, hatred and the spirit of destruction of moral and material values, which Mankind conquered only after centuries of long patient labor. A war which treacherously hurt the noble American people, which [*with*] whom my people and I are solidly united by the ideal of democracy, which you with great courage and frankness sustain in this world, hoping for the redemption of oppressed nations and justice for the future of Humanity.

In this condition, Nicaragua, deprived of the fluvial route to the Atlantic Coast, and confronted by the acute problem of the isolation of that region, I consider the only solution to be the obtaining, of any rapid or permanent means of communication, which connects the Atlantic with the Pacific Coast.

With this object in view, my Government proposes the construction in the shortest possible time, of a first class highway, starting from San Benito on the Pan American Highway and terminating at El Bluff, port on the Atlantic Coast, conditioned to receive vessels of deep draught. On this highway intense work is already going on and large sums of money have been spent in the preparation of bridges and opening of the jungle. This highway, aside from being of great economic, political and social value, is also of great strategic importance for the Continental defense, Nicaragua, and also for the defense of the Panama Canal. With this work Nicaragua will contribute a valuable cooperation and assistance to the common task to end that drama which the world faces in these trying days.

But Sir, as my country lacks the sufficient resources to finish the work on this highway, and always trusting in the high spirit of justice and the good will which you have demonstrated in respect to Nicaragua and the Government over which I preside, I permit myself to propose a collaboration on the part of the United States of America, to supply the funds or resources so necessary for the construction of the aforementioned highway to the Atlantic, in substitution of the projected work of the canalization of the San Juan River. These funds or resources, will be credited to Nicaragua by the United States of America, following the same procedure as that of the projected

⁸ Convention between the United States and Nicaragua signed August 5, 1914, *Foreign Relations*, 1916, p. 849.

work of canalization stipulated by the Bryan-Chamorro Canal Convention.

It is understood, that in respect to this highway of twofold importance, commercial and strategic, the Government of Nicaragua is willing to include in the agreement or agreements to be signed, all those stipulations that both countries consider convenient, in order to obtain from this highway, the benefits of military defense.

My Minister of Foreign Affairs, Dr. Mariano Argüello Vargas, who will present this letter, carries my personal representation and also that of my Government, to initiate and terminate, any agreement which tends to the realization of this important work which I have permitted myself to propose to you. Consequently, I request you to give credit to all proposals made by him with respect to this and other matters, in his special mission before your illustrious Government.

I take [etc.]

A. SOMOZA

817.154/231a

General Dwight D. Eisenhower⁹ to the Acting Secretary of State

WASHINGTON, April 2, 1942.

DEAR MR. SECRETARY: During a recent conversation which I had with Ambassador Boal and Mr. Bonsal,¹⁰ of your Department, I was requested by the latter to forward to you the War Department's opinion as to the desirability, from a military point of view, of building the Rama Road in Nicaragua.

The subject of munitions of war under lend-lease for Nicaragua and certain other military questions were also discussed.

With respect to the building of the Rama Road, it is the opinion of the Operations Section that the execution of this project will tend to increase the stability of the country, and so minimize the possibility of trouble with disaffected elements. The road would have a decided tactical value, should it become necessary for United States troops to intervene, either because of attempted uprising by the enemy nationals along the western coast, or because of an attempted hostile raid.

Sincerely yours,

DWIGHT D. EISENHOWER

817.154/243

The Acting Secretary of State to President Roosevelt

WASHINGTON, April 3, 1942.

MY DEAR MR. PRESIDENT: You will recall that during President Somoza's visit to Washington in May of 1939 you had an opportunity

⁹ General Eisenhower was Assistant Chief of Staff, Operations Division, War Department General Staff.

¹⁰ Pierre de L. Boal, Ambassador to Nicaragua, and Philip W. Bonsal, Chief of the Division of the American Republics.

of discussing with him the desirability of linking the east and west coast regions of Nicaragua. The particularly close relations which have always existed between Nicaragua and the United States and the history of the interoceanic canal project make this a problem in which this Government has a very special interest.

Your conversations with President Somoza led to an exchange of letters on May 22, 1939 (copies of which are enclosed)¹¹ in accordance with which this Government undertook the survey of a "canalization and highway project to link the eastern and western regions of Nicaragua". This was in response to President Somoza's suggestion "for the canalization of the San Juan River for vessels of moderate draft". In your reply you pointed to the fact that "should occasion arise, the existence of such a water way would have a very important bearing upon the defense of the hemisphere" and stated that on the basis of the reports of the survey, "we can take such further action as seems in the common interest of our two countries".

The surveys of the barge or light draft canal project led to the conclusion that the benefits to be derived would not be commensurate with the cost, which was estimated at about \$30,000,000. However, President Somoza feels that this Government made a commitment to cooperate in a practical manner in the establishment of communication between the two sections of Nicaragua.

It now appears that in the opinion both of the Nicaraguan Government and of the Department, the cooperation in question can best be rendered through the construction of a road which, branching off from the Inter-American Highway at a point known as San Benito, about twenty-two miles north of Managua, would proceed in an easterly direction to the river port of Rama, on the Escondido River. The distance from San Benito to Rama is about one hundred and fifty miles.

From Rama to El Bluff on the Atlantic Ocean, there is a distance of sixty miles which is navigable for vessels with less than twelve feet draught, so that barge communication is entirely feasible. Eventually it will probably be desirable to construct a road from Rama to El Bluff, but the exact factors involved are as yet unknown, since no detailed survey has been made.

I have taken this matter up with the War Department, with a view to ascertaining the utility of this road proposal in relation to hemisphere defense. There is enclosed herewith a copy of a letter dated April 2, 1942,¹² which I have received from Major General Eisenhower, the substance of which is that the proposed road between Rama and San Benito would have a very definite military value.

¹¹ *Foreign Relations*, 1939, vol. v, pp. 725-731.

¹² *Supra*.

In view of all these circumstances, I recommend that funds, estimated to be in the neighborhood of \$2,000,000, be made available from your emergency fund for the following purposes:

- (1) To construct a paved road from San Benito to Rama;
- (2) To make a survey of a road from Rama to El Bluff.

It would be understood that the carrying out of the above projects would completely relieve this Government of any obligation in this matter to the Nicaraguan Government. It would furthermore be specifically understood that this Government is not entering into any undertaking either for the financing or for the construction of the road from Rama to El Bluff.

There has been drafted a note, a copy of which I enclose,¹³ incorporating the above proposals, which, if you approve,¹⁴ I propose to submit to the consideration of the Nicaraguan Foreign Minister, who is presently in Washington.

Faithfully yours,

SUMNER WELLES

810.154/1776a

President Roosevelt to the President of Nicaragua (Somoza)

WASHINGTON, April 7, 1942.

MY DEAR MR. PRESIDENT: It was a great pleasure to receive from the hands of your distinguished Foreign Minister, Dr. Mariano Argüello, your two good letters of February 26 and February 28¹⁵ in which you describe certain problems with which your Government is currently faced. First of all, let me express to you my appreciation of the opportunity which you have afforded me and the officials of my Government directly concerned to talk over these matters with so competent and understanding a person as Dr. Argüello. His mission has, in my opinion, been highly successful.

The two principal matters dealt with in your letters are as follows:

- (a) The importation of necessary materials and equipment for the Nicaraguan gold mines; and
- (b) The construction of a highway joining the Pacific and Atlantic sections of Nicaragua.

I am happy to say that both of these problems appear to have been satisfactorily disposed of.

¹³ For copy of note as sent on April 8, see p. 574.

¹⁴ This letter was returned to Mr. Welles by President Roosevelt with the following notation in the margin: "O.K., F.D.R."

¹⁵ Letter of February 26 not printed.

With reference to the first of them, it has been agreed by the War Production Board that the Nicaraguan gold mining industry will continue to receive sufficient equipment and materials, so far as these are available in the United States, to continue operations at normal levels. This decision reflects the importance of this industry to the Nicaraguan economy and the desire of the Government of the United States to cooperate to the fullest degree possible in the maintenance of that economy.

With regard to the road question, the Acting Secretary of State has just had the pleasure of signing with Dr. Argüello an exchange of notes¹⁶ in accordance with which my Government will, at its expense, construct a paved road from San Benito to Rama, and will survey the route for a road from Rama to El Bluff in order that your Government may be in a position to reach a decision as to the feasibility and desirability of its undertaking the construction of such a road. This exchange of notes envisages a practical and complete solution of the problem which we discussed in May of 1939 and which has since been the subject of careful consideration by the appropriate authorities of my Government. With the completion of the Rama-San Benito road, I am confident you will agree with me that we may both feel that our efforts have been successful and that an objective which we have both long viewed as being to the very great advantage both of Nicaragua and of the United States, and of great interest from the point of view of hemisphere defense, has been attained in a completely satisfactory manner.

I have also been informed that through an exchange of notes the necessary details for the cooperative completion of the Inter-American Highway through Nicaragua have been agreed to. I believe that the work on these two highway projects will be of the greatest value in promoting the economic well-being of Nicaragua and that upon their completion new sources of wealth and commerce will be opened up to the active enterprise of the industrious and forward-looking people of your country.

It gives me pleasure also at this time very particularly to express my appreciation to you and to your fellow citizens for the whole-hearted cooperation and the enthusiastic support which you have unstintingly afforded to the people and to the Government of the United States in the struggle in which we are engaged side by side.

With assurances [etc.]

FRANKLIN D. ROOSEVELT

¹⁶ Notes exchanged were dated April 8 and 18; see *infra*.

810.154/1768a

The Acting Secretary of State to the Nicaraguan Minister for Foreign Affairs (Argüello), Temporarily in Washington

WASHINGTON, April 8, 1942.

EXCELLENCY: With reference to conversations which Your Excellency has held with officials of this Government and to conversations held by His Excellency President Somoza during his visit to Washington in 1939, I have the honor to inform you that careful and sympathetic consideration has been given by the appropriate officials of this Government to the matter of developing communications between the eastern and western sections of Nicaragua. In this connection I refer particularly to the Nicaraguan Legation's memoranda of November 30, 1938 and August 10, 1940,¹⁷ and to the exchange of views with regard to the possible canalization of the San Juan River.

I regret to inform Your Excellency that these studies have clearly shown that the construction of the proposed barge canal is economically impracticable and that, therefore, I consider the project to be one to which the two Governments will wish to give no further consideration. However, my Government is fully aware of the importance of linking the east coast regions of Nicaragua with the regions of the interior and the Pacific coast. The matter is one which has been frequently discussed by representatives of our two Governments. It has now been agreed that the most promising method of achieving the objective would be the construction of a road from San Benito on the Inter-American Highway north of Managua to Rama on the Escondido River, from which point river communication to El Bluff and Bluefields on the Atlantic is available.

It is the opinion of my Government that the existence of the road mentioned would have, under present circumstances, a very important bearing upon the defense of the hemisphere.

Therefore, taking into account the spirit of the communications which were exchanged on May 22, 1939 between President Somoza of Nicaragua and President Roosevelt of the United States, my Government is willing, at its own expense, to carry out the following:

- (a) The construction of a highway between San Benito and Rama.
- (b) The survey and recommendation of the route of a highway from Rama to El Bluff; the construction and financing of such a road being a matter for the decision of the Nicaraguan Government in the light of the survey, and no obligation in regard thereto being contemplated by this Government.

The construction of the road from San Benito to Rama and the survey from Rama to El Bluff will, in the opinion of my Govern-

¹⁷ Neither memorandum printed.

ment, constitute a complete execution by my Government of any obligation which it may have incurred particularly under numbered paragraph "1" of the aforesaid exchange of letters of May 22, 1939.

From the technical and administrative point of view, it would seem desirable that the construction of the proposed highway from San Benito to Rama and the survey from Rama to El Bluff be carried out in the manner contemplated in the subsidiary agreement to be reached between the pertinent Nicaraguan authorities and the United States Public Road Administration for the completion of the Inter-American Highway.

Accept [etc.]

SUMNER WELLES

817.154/236

The Nicaraguan Minister for Foreign Affairs (Argüello), Temporarily in Washington, to the Under Secretary of State (Welles)

[Translation]

No. 693

WASHINGTON, April 18, 1942.

EXCELLENCY: I have the high honor to acknowledge the receipt of your courteous note of the 8th instant, in which Your Excellency is pleased to advise:

[Here follows in substance the above-mentioned note, printed *supra*.]

In reply I am much pleased to advise Your Excellency that my Government accepts the valued offer made to it in the communication to which I am replying and expresses its appreciation to the Government of the United States which, upon this occasion, reveals once more its good will and high spirit of cooperation in solving the highly important problem of joining the Atlantic and Pacific regions of Nicaragua.

At the same time, I am pleased to advise Your Excellency that my Government, consistently with its international policy, and deeming, like Your Excellency's Government, that this route toward the Atlantic side of Nicaragua will have great strategic importance, is immediately offering it for the use of the defense of the United States of America in the conflict in which our countries now find themselves engaged.

I avail myself [etc.]

MARIANO ARGÜELLO

[President Roosevelt on August 18, 1942, authorized an allotment of \$4,000,000 from the "Emergency Fund for the President, National Defense, 1942 and 1943" for constructing the highway from San Benito to Rama. An agreement for this undertaking was entered into on November 20, 1942, between the Republic of Nicaragua and

the Public Roads Administration; the text of the agreement (not printed), was transmitted to the Department by the Public Roads Administration under covering letter of November 25, 1942 (817.154/260).]

AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA REGARDING THE CONSTRUCTION OF THE INTER-AMERICAN HIGHWAY

[For text of agreement effected by exchange of notes signed at Washington April 8, 1942, see Department of State Executive Agreement Series No. 295, or 56 Stat. (pt. 2) 1845.]

AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA REGARDING A HEALTH AND SANITATION PROGRAM FOR NICARAGUA

[For text of agreement effected by exchange of notes signed at Managua May 18 and 22, 1942, see Department of State Executive Agreement Series No. 368, or 57 Stat. (pt. 2) 1307.]

AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA APPROVING MEMORANDUM OF UNDERSTANDING SIGNED JULY 15, 1942, REGARDING ESTABLISHMENT AND OPERATION OF AN AGRICULTURAL EXPERIMENT STATION

[For text of agreement effected by exchange of notes signed at Washington October 12 and 27, 1942, see Department of State Executive Agreement Series No. 286, or 56 Stat. (pt. 2) 1810. The text of the Memorandum of Understanding signed at Mexico City by the Secretary of Agriculture and the Nicaraguan Minister of Agriculture and Labor is embodied in the Secretary of State's note of October 12 to the Nicaraguan Minister.]

PANAMA

CONCLUSION OF AN AGREEMENT BETWEEN THE UNITED STATES AND PANAMA FOR THE LEASING OF DEFENSE SITES IN PANAMA AND OF AN AGREEMENT RELATING TO THE TWELVE-POINT REQUEST BY THE PANAMANIAN GOVERNMENT¹

711F.1914/407

*The Panamanian Acting Minister for Foreign Affairs (Goytia) to the American Ambassador in Panama (Wilson)*²

[Translation]

D.P. 2957

PANAMÁ, January 14, 1942.

MR. AMBASSADOR: I have the honor to acknowledge receipt of Your Excellency's letter dated October 28, 1941, addressed to Dr. Octavio Fábrega, [then]³ in charge of the office, transmitting the changes made by Your Excellency's Government in the counter-proposal⁴ of the agreement on the leasing of lands for defensive bases.

The preamble and the body of the agreement are based on articles 2 and 10 of the General Treaty of 1936.⁵ Concerning this point, I renew to Your Excellency the opinion already expressed by the Panamanian Chancellery and I add, in addition, that the fundamental article of the agreement is article 10 exclusively, inasmuch as article 2 does not govern the matter. Its purpose is to declare the fact that the Republic of Panama has loyally and satisfactorily complied with its contractual obligations with respect to the granting of lands necessary and convenient for the construction, maintenance, operation, sanitation and protection of the Canal and the formal renunciation by the United States of the occupation of new lands for the purposes indicated. Article 2 of the General Treaty indicates only that in the event of any contingency, action will be taken in accordance with articles 1 and 10. Thus it is that the real basis of the agreement is contained in article 10 and not in article 2, the basic content of which involves the negation of what has been asked.

The Government of the Republic views article 4 with concern as regards the faculty which the Government of the United States

¹ Continued from *Foreign Relations*, 1941, vol. VII, pp. 414-468.

² Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 527, January 17; received January 19.

³ Brackets appear in the file translation. Dr. Fábrega later became Minister for Foreign Affairs.

⁴ Draft not printed.

⁵ Signed March 2, 1936; for text, see Department of State Treaty Series No. 945, or 53 Stat. (pt. 3) 1807.

intends—to reserve to itself to “arrest, judge and punish all persons who in such regions may maliciously commit any crime against the security of the military installations located there. . . .”⁷

One can accept as an extension of the legal fiction of extra-territoriality, arrest, judgment and punishment for crimes against the security of the military installations within the defense areas; but it is not desirable nor is it absolutely necessary for the purposes of the agreement that Panamanian citizens, within their own territory, unaffected by restrictive clauses stipulated in a Public Treaty, be subjected to this jurisdiction of another country; wherefore it is considered that the said Article might be modified so as to exclude Panamanian citizens from the penal jurisdiction of the United States entirely, except for those cases in which Panamanian citizenship was acquired for the purpose of committing hostile acts against the Canal or the Republic of Panama.

Article 9 establishes that “upon completion of these roads (those named in the clause cited) the Republic of Panama will assume responsibility for their maintenance, with the exception of repairs for any damage caused during the existence of this Agreement by transit of armed forces of the United States.”

The paragraph transcribed does not fit in with the idea of Clause 9, in as much as the upkeep of said roads will be the responsibility of both parties, in the proportion in which damage is caused by wear and tear or by accident. It is suggested that it be eliminated.

It would be more convenient for both parties to substitute periodic estimates of the damage caused by transit of military vehicles of the United States, by quotas calculated on a basis of depreciation and accidental damage caused by said vehicles.

In the last paragraph of the same clause it is fitting to specify that the “United States will take *at all times* the precautions necessary to avoid, if possible, interruptions of transit in the Republic of Panama.”

At the end of Clause 10 will have to be added the following expression: “without prejudice to the free access of the inhabitants established within the restricted areas to their respective properties.”⁸

Article XII could be completed with the following paragraph: “Whenever it is possible and at reasonable prices, the provisioning and equipment of the bases and their personnel will be done with products, articles and foodstuffs coming from the Republic of Panama.”

The provisions of Clause XIII ought to be concrete and uniform, for which [reason]⁹ the following change is suggested: “The annual

⁷ Omission indicated in the file translation.

⁸ This was intended as a limitation on the United States military authorities to prohibit public travel on access roads.

⁹ Brackets appear in the file translation.

rental which the Government of the United States will pay to the Republic of Panama in accordance with this contract shall be one hundred balboas or dollars annually, of the weight and fineness of the present balboa or dollar per hectare.

"In case that within the sites chosen for bases there exist buildings, industries, cultivations, installations or improvements, the United States will pay beforehand the indemnities which experts designated by both governments may fix. If the said experts do not reach an agreement in their evaluation, a referee shall be chosen, whose decision shall be final."

I am confident that Your Excellency will receive the viewpoints shown above with consideration and an exact comprehension of the reasons which motivate them.

I avail myself [etc.]

VICTOR F. GOYTÍA

711F.1914/414

*The Panamanian Acting Minister for Foreign Affairs (Goytía) to the American Ambassador in Panama (Wilson)*¹⁰

[Translation]

D. P. No. 3053

PANAMÁ, February 5, 1942.

MR. AMBASSADOR: I have the honor to address myself to Your Excellency with the purpose of hastening the conclusion of the Agreement concerning sites for bases for the defense of the Canal during the present conflict.

To facilitate the solution of the two points which seem of greatest interest to Your Excellency's Government, namely, the inclusion of Article II as the basis of negotiation and the reservation on the part of the United States of certain attributes of penal jurisdiction applicable to citizens of the Republic who may threaten the security of the military installations, my Government would be able to accept the following additional amendments and clarifications:

1. Suppression of all specific reference to Articles II and X, by which the Agreement would have as its basis the global text of the clauses of the Treaty of March 2, 1936, and

2. Modification of Article I of the Agreement as follows:

" . . .¹¹ These lands will be evacuated by the United States and will revert to Panama as soon as the state of emergency which motivates this temporary concession shall cease, it being understood that this state of emergency has ceased to exist upon the beginning of the demobilization of the reserve¹² forces called to arms because of the present war against the Totalitarian Powers."

¹⁰ Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 596, February 7; received February 10.

¹¹ Omission indicated in the file translation.

¹² In note No. 3177, February 25, the Panamanian Acting Minister for Foreign Affairs informed the Ambassador that the word "reserve" was an error and should be eliminated (711F.1914/427).

The adoption of this principle offers the advantage of determining the moment in which the occupation of the areas under reference will become unnecessary by reason of the disappearance of all immediate or early danger of aggression, since the release from duty of the conscripts is always equivalent to the implicit declaration of the restoration of international order.

With reference to Article IV, which treats of the delegation to the United States of certain jurisdictional attributes within the areas destined to defense, it is appropriate to express that, even although the Penal Code in force in the Republic does not expressly contemplate the juridical location of the delinquent who makes an attempt against the security of military bases set up by an allied nation for the common defense within Panamanian territory, it does give the penalties corresponding to this class of crimes, in their two characteristic aspects:

- a) when the criminal acts of his own free will, and
- b) when he does so at the instigation of an enemy power: in the first case Article 213 is applicable, and in the second Articles 98 and 100, in relation to Article 105 of the Penal Code. The penalties provided in conformity with the gravity of the crime reach a maximum of 20 years and do not permit the release of the persons under trial during the investigation.

These precepts permit the Panamanian judicial authorities the use of a rigorous criterion in the application of penal arithmetic in those individuals excluded from the jurisdiction of the United States who in any way make an attempt against the installations for defense in the zones provisionally ceded.

I am in a position to affirm that the Panamanian Judicial Power, being fully aware of the gravity of the conflict, will act with diligence in the conduct of proceedings of this nature which may arise, with precision in the classification of the crime and with severity in the punishment of the infractor.

The foregoing statements strengthen the thesis that Panamanian citizens should be totally excluded from the penal jurisdiction delegated to the United States and should be submitted to the ordinary jurisdiction of their country, which is the territorial sovereign, except those cases in which Panamanian citizenship shall have been acquired for the purpose of conducting hostile acts against the Canal or against the Republic of Panamá.

I feel convinced that Your Excellency's Government will consider as just the formula proposed for the term of occupancy and reversion of the areas destined to defense and as sufficient the securities that the Panamanians, excluded from the penal jurisdiction of the United States because of their quality of citizens of a sovereign land, who

may make an attempt against the defense works within said areas will receive punishment in proportion to the gravity of the crime.

I take this occasion [etc.]

VICTOR F. GOYTÍA

711F.1914/424

*Memorandum by the Chief of the Division of the American Republics
(Bonsal) to the Under Secretary of State (Welles)*

[WASHINGTON,] February 5, 1942.

MR. WELLES:

CURRENT NEGOTIATIONS WITH PANAMA

The Panamanian Government has now replied to our most recent proposal for a contract covering the defense sites. There are two principal points at issue:

- (1) The applicability of Article II of the Treaty of 1936 and
- (2) The amount to be paid to Panama as annual rental for the defense sites.

With regard to the first point, the present Panamanian administration takes almost exactly the same position as that assumed by Dr. de Roux¹³ in the course of his conversations with you last summer. That Government feels that the acceptance by Panama of our interpretation of Article II would mean an agreement to give the United States lands and territories on a permanent basis beyond that contemplated in the agreement under negotiation. Ambassador Wilson feels that reference to Article II might be omitted in the agreement, but that our position as to the interpretation of this Article might be made plain to the Panamanian Government through some other means. This matter has been discussed in RA¹⁴ and the proposal is made, subject to your approval, that the agreement on defense sites omit all reference to specific Articles of the Treaty of 1936 and that it be based upon the joint obligation of the two countries to take all necessary measures for the effective protection of the Canal. A draft along these lines is being prepared.

With regard to the second principal point upon which agreement has not been reached, the Panamanian Government now proposes that all lands occupied by the defense sites (with the exception of Rio Hato¹⁵), whether public or private, be paid for at a rental rate of \$100 per annum per hectare. This would involve the payment of about \$700,000 per year (which compares with the Canal annuity of

¹³ Raúl de Roux, former Minister for Foreign Affairs.

¹⁴ Division of the American Republics.

¹⁵ Most of the defense sites were relatively small, from 20 to 25 acres; the Rio Hato area consisted of some 19,000 acres.

\$430,000 per year). On the basis of a Panamanian willingness to make available the defense sites, we have already stated that we would make concessions to Panama worth many millions of dollars (the railroad lots, the water works and the completion of the Rio Hato Highway, to say nothing of the fact that we are constructing at our expense a number of other highways in the territory of the Republic which will be extremely useful to the Panamanians).

It seems to me that Congress will be most unwilling to pass the necessary legislation to make effective the Department's agreement on these specific points if, at the same time, it is confronted with a defense site agreement under which Panama is paid a most exorbitant sum for the sites themselves. My proposal, therefore, on this point is that we adhere to our original position, which is the same as that agreed to with the British in the case of the island bases, namely, to pay nothing for public lands and for private lands to reimburse the Panamanian Government for legitimate expropriation or other expenditures.

There are also a number of minor points at issue regarding such matters as jurisdiction, maintenance of roads, et cetera. I believe that these can be satisfactorily ironed out without troubling you about them.

We now have drawn up a draft of a message to Congress¹⁶ proposing legislation needed to transfer the railroad lots and the water works, and to reimburse Panama for her share in the Rio Hato Highway. I have had two conversations recently in the War Department on this subject, the last one with Mr. Harvey Bundy, the Secretary of War's Special Assistant. My purpose has been to keep the War Department informed in general as to the progress of these negotiations and to assure myself that the War Department was fully aware of the extremely cooperative attitude of the present Panamanian Government. I believe that the War Department, while not highly enthusiastic about the twelve points,¹⁷ will be cooperative in the matter of the legislation which, I assume, in accordance with the President's directive of last summer concerning the railroad lots will be introduced by the War Department when and if the defense sites matter is satisfactorily arranged.

PHILIP W. BONSAI

¹⁶ Not printed.

¹⁷ See note from the Panamanian Ambassador to President Roosevelt, February 18, 1941, *Foreign Relations*, 1941, vol. VII, p. 430.

711F.1914/439

The Panamanian Embassy to the Department of State

[Translation]

MEMORANDUM

The Government of Panama has received with pleasure the information furnished to it by its Ambassador at Washington regarding the acceptance by the Government of the United States of America of the modification introduced by the said Ambassador in point five, out of the twelve involved in the just aspirations of Panama to obtain certain compensations for the vital concessions which Panama has granted for the defense of the Panama Canal, to the effect that the Panamanian Government should fix a specific sum of money which the Government of the United States of America will pay annually to the Republic of Panama, as compensation for the damage done to the Panamanian highways by the transit over them of the American motorized army.

The Government of Panama, in accordance with its purpose of accelerating as far as may be possible to it the course of these negotiations which it considers of invaluable importance for the United States of America and for the Republic of Panama, and being aware that it is incumbent upon it to indicate the value of the damage annually suffered by its highways, which value is to be compensated for in part by the American Government, has made minute and detailed studies regarding the conservation of its national roads, and has arrived at the conclusion that the expense which it incurs in order to keep them in good condition amounts approximately to the sum of three hundred thousand dollars a year.

The Panamanian Government, being aware that the cost of repair of its roads is so high because the greater part of their wear and tear has been occasioned by the mechanized equipment of the American army which continually passes over them, and knowing the sincere spirit of collaboration which animates the high American officials of the present Administration, estimates that it would be a matter of strict equity and justice that the Government of the United States of America should contribute to the repair of the Panamanian highways the sum of one hundred thousand dollars a year, that is to say the third part of their total cost.

WASHINGTON, February 19, 1942.¹³

¹³ The Spanish text of this memorandum as printed in Panamá, *Memoria Que el Ministro de Relaciones Exteriores Presenta a la Asamblea Nacional . . . de 1943*, p. 280, is dated February 23, 1942.

711F.1914/432

The Ambassador in Panama (Wilson) to the Secretary of State

No. 922

PANAMÁ, March 9, 1942.

[Received March 12.]

SIR: I have the honor to refer to my despatch No. 804 of February 27, 1942,^{18a} regarding the draft Agreement for the defense sites and to report as follows:

The President¹⁹ asked me to call on him on March 5, and when I arrived I found the Foreign Minister there. We had a conversation that lasted two hours concerning the negotiations for the defense sites, the gist of which was as follows:

The President stated that he had been considerably disturbed by our insistence on our formula for Article I. He raised much the same arguments and expressed the same points of view as Dr. Fabrega had done in our conversation on this matter on February 26, as reported in my despatch No. 804. The President said flat-footedly that he would never accept Article I of our draft, and that he would prefer to have no Agreement and have the negotiations break down rather than accept such a formula. I went over the same ground with him as I had done previously with Dr. Fábrega, pointing out that the Government of Panamá had never made an issue of Article I heretofore, that the main point had been the elimination of any reference to Article II of the 1936 Treaty, and this we had accepted. The President said that the elimination of reference to not only Article II but also to Article X of the 1936 Treaty made the phraseology of Article I of the draft Agreement even more unacceptable to Panamá, because it left the whole question of evacuation of the lands to future agreement between the two Governments.

The President then said that he had a new formula to propose, to the effect that the lands would be evacuated and revert to Panamá one year after the signature of the Treaty of Peace, except that if during this one year period both Governments were in agreement that danger still existed, then consultation would take place for a new agreement for the continued temporary occupation of the defense sites, or of some of them. I asked if he could give me his proposal in writing and he said that the Minister for Foreign Affairs would hand it to me within a day or so. The President said that these alternative proposals, the one made in Foreign Office Note No. 3177 of February 25,²⁰ transmitted by my despatch No. 804 of February 27, and the one which the Foreign Minister would hand me shortly, were his last words on the matter. He said that his own preference was for the new formula which he had just outlined and which would

^{18a} Not printed.

¹⁹ Ricardo Adolfo de la Guardia.

²⁰ See footnote 12, p. 579.

be given me by the Foreign Minister. It was agreed that I would await the text of this formula and then report it to Washington for consideration.

A note from the Foreign Minister, No. 3239 of March 6, has now been received, which, among other matters, contains this formula. A single copy of the note in Spanish, and office translation, are attached hereto. The formula for Article I in English translation reads as follows:

“The Republic of Panamá grants to the United States the temporary use for defense purposes of the lands referred to in the Memorandum attached to this Agreement and forming an integral part thereof. These lands shall be evacuated and the use thereof by the United States of America shall cease one year after the date on which the Treaty of Peace which brings about the cessation of the present war shall have entered into effect. If within that period the two Governments believe that, in spite of the cessation of hostilities, a state of emergency continues to exist which makes vitally necessary the continuation of any of the said defense bases or areas, the two Governments shall again enter into mutual consultation and shall conclude the new agreement which the circumstances require.

“The national authorities of the Republic of Panamá shall have access at all times to the defense sites mentioned herein.”

As regards this matter, my opinion is the following: As reported in my despatch No. 804, I believe that the earlier proposal, that the lands would be evacuated and revert to Panamá “upon the beginning of the demobilization of the forces called to arms by the United States because of the present war”, should be satisfactory to us. Under this formula the whole matter is left in our hands, we cannot be called upon to evacuate the sites until after we have begun demobilization, and it is inconceivable that we should in fact demobilize until all danger has ceased to exist. I prefer this formula to the new one giving a year's grace after the signature of a Treaty of Peace, because it is not impossible that an inconclusive Treaty of Peace might be patched up merely to give both sides time to prepare for the continuance of the war a little later. On the other hand, the proposal provides for consultation and negotiation in the event of continuing danger after a Treaty of Peace. We should probably be reasonably safe in accepting either formula.

To revert to my conversation with the President: After the discussion of Article I we had considerable discussion of Article XII, concerning the amount to be paid for the use of the defense sites. It came out in this discussion that the President probably would be willing to accept an annual rental of \$1 for all public lands, provided \$100 annual rental per hectare was paid for the privately owned lands. At this point, however, a new and rather disturbing factor arose. I said that on the foregoing basis of \$100 per hectare annual rental for the private lands, it was of course my understanding that

the large Rio Hato site would, for reasons which were obvious, not be included in this treatment but be handled as a separate case. At this point Dr. Fábrega interjected with considerable vehemence that this was not at all his understanding and that on the contrary he had understood that all privately-owned lands used by the United States would be treated on the same basis and that whatever rental was paid for other privately-owned sites would be paid for Rio Hato. I pointed out that in my discussions with Dr. de Roux, before the present Government came into office, it had been the point of view of the Panamanian Government that Rio Hato should not be included with the other defense sites but should be treated on a different basis. I further pointed out that the United States Army had been renting Rio Hato since January 21, 1935, paying \$2400 annually for the 7676 hectares with an option of purchase at \$18 per hectare. I said that these figures which had been agreed upon in the contract between the Army and Mr. Kierulff, the owner of the land, had been accepted by Mr. Kierulff as fully satisfactory and represented an idea of what the owner considered a fair value. I also pointed out that I had been advised by the State Department (instruction No. 523 of February 18, 1942²¹), that the Panamanian proposal that public and private lands be paid for at a rental rate of \$100 annually per hectare, involving the payment of approximately \$700,000 a year (exclusive of Rio Hato), was regarded as excessive. Furthermore, that it was felt in the United States that in view of the many millions of dollars of benefits which would accrue to Panamá from our favorable action on the Railroad lots, liquidation of the Rio Hato credit, etc., the United States Congress would be reluctant to pass this legislation approving the transfer of the Railroad lots, etc., if at the same time it had before it a defense site agreement under which Panamá was to be paid an exorbitant sum for the sites themselves. I said that on the basis of the Panamanian proposals, the Government of Panamá was asking the United States, in addition to all the benefits which Panamá would derive from the 12 points, to pay an annual rental for the defense sites of approximately \$700,000 for the sites exclusive of Rio Hato, and \$767,600 for Rio Hato, making a total of \$1,467,600 annual rental. I said that I could not believe that the Panamanian Government meant this seriously. Dr. Fábrega said that the rental for public lands could be omitted. I said that we, of course, had no figures on the break-down between public and privately owned lands and were still awaiting this information from the Panamanian authorities. Assuming, however,—and the assumption might be wide of the mark—that on this basis we would be called upon to pay, say, \$300,000 annual rental for the privately owned lands, this added to what they were now asking for Rio Hato

²¹ Not printed.

would mean an annual payment of over \$1,000,000. I also pointed out that it seemed most exaggerated to request the United States to pay \$767,600 annual rental for an area for which we were at present paying only \$2400 annual rental, with an option of purchase at only \$18 a hectare, all this to the entire satisfaction of the owner. Dr. Fábrega said that so far as he was concerned Rio Hato would have to be treated on the same basis as the other privately owned lands.

At this point the President intervened to say that he recalled distinctly that under the previous Government consideration had been given to treating Rio Hato as a separate case, apart from the other defense sites. He asked how I thought the matter might be handled. I said that my personal suggestion would be the following: Either that a separate agreement be made for Rio Hato in which we would continue to pay for the duration of the emergency a reduced rental, approximately that which we are now paying, or else that the Rio Hato site would be thrown in with the other defense sites, but that the rental for Rio Hato be figured at the lower amount, approximately that which we are now paying. The President said that he would give further consideration to this matter and would see that I was advised later concerning it.

I then said to the President that I would be less than frank if I failed to make clear to him that a somewhat painful impression had been produced in Washington by the claim of the Panamanian Government to receive large sums of money for the use of these defense sites. I said that it had been the understanding in Washington, after the request for the use of the defense sites had been made by the United States, that when the former Panamanian administration presented its 12 points, favorable action on the part of the United States concerning these requests would be regarded as full and ample compensation for the use of the defense sites, I said that a good deal of surprise had therefore been caused by, first, the utterly fantastic request of the Arnulfo Arias administration for a rental of \$4,000 per hectare, and then later by the maintenance by the present Panamanian administration of a request for a considerable annual rental.

The President spoke at some length of the other factors involved in the matter besides the commercial one, of the virtually complete occupation of the Republic of Panamá by the armed forces of the United States, and the additional expenses involved for Panamá in increasing its police force and taking on other employees to assist in maintaining order throughout these areas, etc., etc.

The new proposal made for rental in Panamanian note No. 3239 of March 6, is, in brief, that the United States should pay rental of

\$100 per hectare annually for the privately-owned lands, and \$1 per hectare annually for the Government-owned lands. An exception would be made for Rio Hato, the rental for this area to be fixed by two experts, one appointed by each Government, and in case of disagreement an arbitrator to be named whose decision would be final. The experts, in fixing the amount of rental for Rio Hato, would take into account not only the intrinsic value of the land but also "the injuries, burdens and consequences of every kind which may befall the Republic of Panamá through the use of these lands by the military forces of the United States".

The annual rental for all the defense sites would be paid as from the date on which the United States began to enjoy the temporary use of the lands, except that in the case of Rio Hato the United States would be permitted to deduct from the rental fixed for this area, the sums which have been paid annually to date to the owner of the land.

The Panamanian proposal for Article XII maintains the provision in the earlier Panamanian draft that payment will be by the United States for all buildings, cultivations, improvements, etc., existing on the defense sites, the value of such buildings, etc., to be fixed by experts appointed by both Governments, and in event of disagreement between the experts then an arbitrator to make the final decision.

My recommendations on this point of rental are as follows: That we should indicate to the Panamanian Government willingness in principle to consider the proposal that privately-owned lands be paid at the rate of \$100 per hectare annually, and public lands at \$1 per hectare annually, subject to examination of information to be received from the Panamanian Government as to the approximate amount of these lands which are in fact privately-owned and the approximate amount which are public lands.

As regards Rio Hato, it will be noted that the Panamanian proposal is in effect that the new rental basis for this area should be applied retroactively to the time when the United States first began renting Rio Hato, January 21, 1935. I believe that we should propose that the new rental basis for Rio Hato should commence either on January 1, 1943, at the expiration of the existing contract between the Army and the owner of this land, or else at some more recent date, for instance, the date on which the first of the defense sites proper was formally occupied by the United States. As to the amount of rental to be paid for Rio Hato, I believe it preferable to fix this amount in the Agreement rather than leave it to later negotiation and probable arbitration. If the Department is prepared to consider the Panamanian proposal of \$100 annual rental per hectare for the privately-owned lands exclusive of Rio Hato, then I suggest

that I be authorized so to inform the Panamanian Government, but on condition that the rental fixed for Rio Hato be only slightly higher than that now being paid under the Army's lease. We might offer, instead of the present rental of \$2400 per annum, \$12,000 or \$15,000 per annum. If the Panamanian Government insists upon a higher rental, then we should state that we will be unable to consider \$100 per hectare for the private lands but would have to scale this figure down so that the total amount we should be paying for all private lands, including Rio Hato, would not amount to more than \$100 per hectare for the privately-owned lands exclusive of Rio Hato, plus \$12,000 to \$15,000 for Rio Hato.

Before reaching a final agreement regarding the rental for these defense sites, we should have a definite understanding with the Government of Panamá regarding the two areas for Combat Teams near Chorrera and Pacora (despatches No. 527 of January 17, 1942, and No. 568 of January 24, 1942,²² page 9). The Chorrera area comprises 530 hectares and Pacora 1010 hectares. I recently discussed this matter with Dr. Fábrega, and in view of the uncertainty as to whether these areas will be used throughout the period of the emergency, I agreed, at his suggestion, to continue their present status, which rests upon the basis that these forces are carrying out maneuvers, for the next few months. Permission on a three months' basis was originally accorded by the Panamanian Government for maneuvers by these forces in both areas, and Dr. Fábrega proposes to extend this permission for two or three further periods of three months each. As there is, however, likelihood that these areas may in fact be utilized by our forces throughout the emergency, I believe we should have an understanding that if this takes place, then whatever rental or charge might be made by Panamá for the use of these areas, should be at a lower figure than that paid for defense sites as such.

It will be observed that Panamanian Note No. 3239 of March 6 covers several other points besides Article I and Article XII. These points, with my comments concerning them based upon necessarily hasty consideration today, are as follows:

(1). The final paragraph of the Panamanian proposal for Article I provides that the national authorities of the Republic of Panamá shall have access at all times to the defense sites. Our draft provided that such access should be subject to arrangement with the military authorities of the United States. I believe that the Panamanian proposal is made more from a sense of maintaining prestige than from anything else, and that if we should accept it there would in fact be little tendency on their part to exercise the right. On the other hand, it is clear that these areas are military reservations, and no one outside of our armed forces can expect to appear at the areas at any time and be admitted to them. I would suggest, therefore, that we might ac-

²² Neither printed.

cept their proposal but upon condition of an exchange of letters providing that in order to insure the access of the Panamanian national authorities to these sites and to prevent misunderstandings, such authorities should communicate sufficiently in advance with the military authorities of the United States in order that appropriate arrangements might be made for them to visit the sites.

(2). The Panamanian proposal for a minor change in the second line of Article IV seems satisfactory.

(3). The proposal for a change in the tenth line of Article IV is to make this section of Article IV agree with the second paragraph of Article I as proposed of Panamá (see above). If we accept the Panamanian proposal on the second paragraph of Article I, then this change in Article IV can also be accepted.

(4). The proposal for redrafting Article V is to bring it into line with Article I as now proposed by Panama; whichever of the two formulas proposed by Panamá for Article I may prove acceptable to the United States, could then be repeated in Article V.

(5). The change proposed by Panamá in Article VI would seem acceptable by adding the words "or used by" after the words "which may have been constructed".

(6). The modification proposed by Panamá in the last three lines of Article VI seems acceptable.

(7). With reference to the third paragraph of Article VIII, regarding repair of damage to roads, Panamá proposes that instead of consultation between the appropriate authorities of the two Governments to fix the share of the United States, there be agreement now on a fixed annual sum to be paid by the United States. The Panamanian note refers to conversations which the Ambassador of Panamá has had in Washington on this subject, conversations concerning which I have no information. It strikes me, however, that it would be preferable in fact to agree now upon a fixed sum rather than to have consultations and probably disputes in the future regarding the respective shares of the two Governments in the damage caused to Panamanian roads. One possible way of arriving at a fixed amount would be to agree that the United States would pay, say, half the amount actually expended in the previous year by Panamá for the repair of Panamanian highways. According to information furnished the Embassy by Mr. Humbard, of the Public Roads Administration, Panamá spent during the period 1931-1941 an average of \$280,000 annually for road maintenance; in 1941 \$318,000 was spent.

(8). The Panamanian proposal for modification of Article XIII seems satisfactory.

I should appreciate the Department's instructions on the foregoing points. I suggest that this time, instead of sending a new counter-draft, the Department give me instructions to be followed in conversations on the points raised, affording me some latitude in these matters.

To revert to the question of rental for the defense sites, Article XII, it occurs to me on further consideration that the best arrangement from our point of view would be to offer a fixed sum as rental, say, \$300,000 or \$400,000 annually to cover all the lands, including Rio

Hato, leaving to the Government of Panamá to pay costs of expropriation, indemnities for improvements, and such further payments to the private owners as it might judge desirable. This would avoid bickerings and disputes, and possible arbitrations, over questions of valuation and indemnities. In my judgment, the Government of Panamá would not accept anything less than \$300,000 a year.

Respectfully yours,

EDWIN C. WILSON

[Enclosure—Translation]

The Panamanian Minister for Foreign Affairs (Fábrega) to the American Ambassador in Panama (Wilson)

D. P. No. 3239

PANAMÁ, March 6, 1942.

EXCELLENCY: I have the pleasure to refer to Your Excellency's kind note of February 26, together with which you were so kind as to submit for the consideration of my Government the text, newly revised, of the project of agreement regarding the lease of defense sites, which revision has been made after study of notes D.P. No. 2957 and D.P. No. 3053 of January 14 and February 5, respectively, sent to Your Excellency by this Ministry.

After having carefully studied this last project, I now advise Your Excellency of the changes which my Government considers indispensable before it can approve the said Agreement.

My Government proposes that Article 1 read as follows:

"The Republic of Panamá grants to the United States the temporary use for defense purposes of the lands referred to in the Memorandum attached to this Agreement and forming an integral part thereof. These lands shall be evacuated and the use thereof by the United States of America shall cease one year after the date on which the treaty of peace which brings about the cessation of the present war shall have entered into effect. If within that period the two Governments believe that, in spite of the cessation of hostilities, a state of emergency continues to exist which makes vitally necessary the continuation of any of the said defense bases or areas, the two Governments shall again enter into mutual consultation and shall conclude the new agreement which the circumstances require.

"The national authorities of the Republic of Panamá shall have access at all times to the defense sites mentioned herein."

As I have had occasion to manifest to Your Excellency on various occasions, it is impossible for the Government of Panamá to accept any article which, in referring to the period of occupancy of the lands destined to defense sites, permits or even leaves in doubt the fact that those lands can remain occupied for an indefinite period even after the present war emergency has ceased to exist. The occupation, which in fact exists today, of Panamanian territory by the

military forces of the United States is so vast that it covers zones of land situated in all the Provinces, without exception, into which the Republic is divided. This occupation on such a large scale, even if the Government can endure it as a painful necessity during the period of the present war emergency and as an example of its desire to cooperate in the defense of the Panama Canal, interferes seriously with our territorial integrity, with our life as a free and sovereign nation, and gives rise, frequently, to disagreeable incidents injurious to the good name of our Republic.

This Government has not hesitated in giving its full and decided cooperation in face of the present war emergency. But it must respond, at the same time, to its patriotic duty of not authorizing that occupation for an indefinite period after the termination of the present conflict.

This is such a vital point for my Government, insofar as this present Agreement is concerned, that I must advise Your Excellency that the formula contained in Article I which my Government now proposes represents the maximum of our concessions as far as the duration of the said occupation is concerned and is, therefore, our definitive proposal.

In Article IV, my Government proposes a slight change in the phraseology, in the second line. My Government proposes that instead of the initial phrase of this clause which says:

“The Republic of Panamá retains its sovereignty over the areas of land and water *in question* . . .”

it read:

“The Republic of Panamá retains its sovereignty over the areas of land and water *mentioned in the Memorandum referred to in Article I* . . .”

In the same Article IV, in the tenth line, my Government proposes that the phrase

“. . . and shall be empowered, moreover, to exclude such persons as it sees fit, without regard to nationality, from these areas . . .”

be replaced by the phrase:

“. . . and shall be empowered, moreover, to exclude such persons as it sees fit, without regard to nationality, from these areas *except the Panamanian national authorities mentioned in the second paragraph of Article I of this Agreement* . . .”

The purpose of this change is to make Article IV agree with Article I on this point.

My Government proposes that Article V read as follows:

“The Republic of Panamá and the United States reiterate their understanding of the temporary character of the occupation of the defense sites covered by this Agreement. Consequently, the United

States, recognizing the importance of the cooperation given by Panamá in making these temporary defense sites available and also recognizing the burden which the occupation of these sites imposes upon the Republic of Panamá, expressly undertake the obligation to evacuate the lands to which this contract refers and to terminate completely the use thereof, at the latest within one year after the date on which the treaty of peace which brings about the cessation of the present war, shall have entered into effect. It is understood, as has been expressed in Article I that if within this period the two Governments believe that in spite of the cessation of hostilities, a state of emergency continues to exist which makes vitally necessary the continuation of any of the said defense bases or sites, the two Governments shall again enter into mutual consultation and shall conclude the new agreement which the circumstances require."

The purpose of this amendment is to bring into agreement this Article with Article I as it has been proposed by my Government.

In Article VI, proposed by Your Excellency, my Government suggests that the phrase, in the seventh line, which says:

"There shall be no obligation on the part of the United States herein or the Republic of Panamá to rebuild or repair any destruction or damage from any cause whatsoever on any of the said buildings or structures *owned or used* by the United States in the said areas . . ."

be replaced by the following phrase:

"There shall be no obligation on the part of the United States herein or the Republic of Panamá to rebuild or repair any destruction or damage inflicted from any cause whatsoever on any of the said buildings or structures *which may have been constructed* by the United States in said areas . . ."

The purpose of the amendment is to make this phrase agree with the provisions of the last paragraph of Article XII, as that Article is proposed by my Government, as set forth below. It should be observed that in the project presented by the United States on October 28, 1941, mention was not made in this Article VI of the buildings, structures, improvements, etc., which were not constructed by the United States. Since there are included in the new project all the buildings or structures which exist in said areas, even though they were not constructed by the United States, the change proposed here is necessary in order that this article may agree with Article XII proposed hereinafter insofar as it refers to indemnity for the buildings, improvements, etc., existing in these areas at the time of their occupation and which were not constructed by the United States.

In the same Article VI, it is suggested that in the last three lines of that Article the phrase:

". . . all of which shall become the property of the Republic of Panamá upon the reversion to Panamanian jurisdiction of the areas where the structures have been built . . ."

be replaced by the following:

“. . . all of which shall become the property of the Republic of Panamá upon the termination of the use by the United States, of the areas where the structures have been built . . .”

This amendment is for the purpose of preventing the inference that Panamá would dispossess itself completely of its jurisdiction over the said areas during the period of their use for defense purposes.

In Article VIII, my Government proposes that, in the 6th line of the third paragraph, the phrase which says:

“. . . The respective responsibilities of the two Governments with respect to the execution and costs of subsequent repairs and maintenance shall be the subject of consultation between the appropriate authorities of the two Governments, it being understood that the United States will bear the expense of any wear or damage to roads caused by movements related to defense activities as set forth below . . .”

be replaced by the following:

“. . . The respective responsibilities of the two Governments with respect to the execution and costs of the subsequent repairs and maintenance shall be the subject of consultation between the appropriate authorities of the two Governments, it being understood that the United States will bear the expense of any wear or damage to roads caused by movements related to defense activities as set forth below, *which costs are at this time fixed at the annual sum of B. which the Government of the United States will pay annually to the Government of Panamá.*”

This change is due, as Your Excellency is undoubtedly aware, to the fact that my Government, through our Ambassador in Washington, has been making representations, in order to prevent future disagreement regarding the estimate of the wear and damage caused to our roads by the North American military forces, that there be established at this time the annual cost agreed upon by the parties in this respect.

My Government proposes that Article XII read as follows:

“Taking into account that of the lands whose use is granted by means of this Agreement, some are the property of the Government of the Republic of Panamá while others are privately owned, it is agreed that the annual rental fee which the Government of the United States will pay to the Republic of Panamá for the use of the said lands, shall be the following:

“Regarding those lands which are now privately owned and which the Government of Panamá must acquire from the owners in order to grant the use thereof to the Government of the United States, the rental fee shall be one hundred balboas or dollars of the weight and fineness of the present balboa or dollar, for each hectare, per annum.

“Regarding those lands which are at present the property of the Panamanian Government, the rental fee shall be one balboa or dollar for each hectare, per annum.

“There is expressly excepted the land situated in the Corregimiento of Río Hato and indicated by No. . . in the attached Memorandum,

it being understood that, regarding these lands, the annual rental fee shall be established by two experts, one of whom shall be appointed by each Government. In case of disagreement, the two Governments shall designate an arbiter whose decision shall be definitive.

"The experts, in order to establish the rental fee, shall take into account not only the intrinsic value of the land, but the injuries, burdens and consequences of every kind which may befall the Republic of Panamá through the use of these lands by the military forces of the United States.

"It is agreed also that the expenses of this appraisal shall be paid equally by the two Governments.

"The rental fee to which this Article refers shall be payable from the date on which the use thereof by the United States began, but in the case of the lands situated in the Corregimiento of Río Hato, and indicated by No. . . in the attached Memorandum, the United States may discount from the sum established in the mentioned valuation, the sums which they may have paid annually up to that date as rental to the owners of the said lands.

"It is expressly agreed that in the event that within the sites chosen for bases there should exist any buildings, industries, cultivations, installations or improvements, the United States shall first pay the indemnities established by the experts designated by both Governments. If the said experts should not be able to reach an agreement on the valuations, an arbiter shall be chosen whose decision shall be definitive."

My Government proposes that Article XIII read as follows:

"The provisions of this Agreement may be terminated upon the mutual consent of the signatory parties even prior to the expiration thereof in conformity with Articles I and V above, it being understood also that any of the areas to which this Agreement refers may be evacuated by the United States and the use thereof by the United States may be terminated prior to that date."

The change in this article is merely one of phraseology since the intention of the parties is the same regarding the faculty to terminate even prior to the expiration of the agreement, the occupation and use of any of the said areas.

My Government appreciates, Mr. Ambassador, that the United States in this new project have made some changes in consideration of the counter-proposals suggested by the Panamanian Government. And in turn, as you will observe, my Government, in the counter-proposals presented herewith, has made new concessions in consideration of the observations and comments made by Your Excellency in the course of our conversations. But my Government believes that, aside from certain changes mentioned here which are changes in form or phraseology rather than basic changes, the counter-proposals which my Government now makes in the points which may be considered essential, represent the maximum limit to which my Government may go in spite of its being inspired, as it has shown and shows

more each day, by the keenest desire to cooperate in a decided and effective manner in the defense of the Panama Canal and the vital interests common to us.

I take this opportunity [etc.]

OCTAVIO FÁBREGA

711F.1914/418

The Acting Secretary of State to the Ambassador in Panama (Wilson)

No. 576

WASHINGTON, March 10, 1942.

SIR: Reference is made to your despatch no. 738 of February 17, 1942²⁴ reporting your conversation with General Andrews concerning the position which this Government should take on the question of the exercise by the United States authorities of penal jurisdiction over Panamanian citizens for offenses of espionage and sabotage committed within the defense sites.

The Department is in full accord with the opinions which you expressed to General Andrews on this question. As reported in your telegram no. 112, February 23, 1942, 3 p. m.²⁴ you have now received the Department's instruction no. 523 of February 18²⁴ and are, therefore, aware that the revised phraseology of the draft agreement supports your views on this matter; namely, that this Government should not be responsible for the trial and punishment of Panamanian citizens who may be detained or arrested by the authorities of this Government.

It is hoped that the Department's acceptance of the Panamanian proposal as respects this question will expedite an early conclusion of the negotiations for the defense sites.

Very truly yours,

SUMNER WELLES

711F.1914/434

The Ambassador in Panama (Wilson) to the Secretary of State

No. 924

PANAMÁ, March 10, 1942.

[Received March 12.]

SIR: I have the honor to report, for the sake of the record, and with special reference to my despatch No. 321 of October 29, 1941, and to the Department's instruction No. 341 of November 21, 1941,²⁵ as follows:

During my conversation on March 5 with the President (see despatch No. 922 of March 9) I said to him that I wished to make

²⁴ Not printed.

²⁵ Neither printed.

clear one aspect of these negotiations, in order to avoid any possible misunderstanding or charge of bad faith that might otherwise arise in the future. I said that in my conversation with Foreign Minister Fábrega on February 26²⁸ I had spoken at length on this particular point, and that I wished to mention it to him. I stated that it was of course clear that we were negotiating the present lease agreement on the basis that the defense sites would be made available temporarily to the United States and that they would be evacuated and revert to Panamá as soon as conditions no longer warranted their continued use. I said, however, that the military advisers of our Government had pointed out that with the development of aerial warfare and the tendency towards undeclared wars beginning without previous warning, that in their opinion there would always be a necessity in the future, if the United States Government was to maintain, operate and adequately defend the Panama Canal, for the retention by the United States of a certain number of these defense sites. I said that these military advisers felt that many of the defense sites, such as gun positions and some of the air fields, could be abandoned, once so-called peaceful times had been restored, but that in their judgment certain auxiliary air fields and particularly aircraft warning stations would have to be maintained for all time hereafter. I said that in my judgment it was very likely that at the close of this present war, when the United States Government under the terms of the agreement we were negotiating would prepare to evacuate these sites, it would be found necessary to request the Government of Panamá, as a result of experience gained in the war and as a measure required for the effective protection of the Canal, to lease or make available in some manner on a long term basis certain of these defense sites. The President made no comment nor did he raise any objection to what I had said. I might add that when I expressed myself in the same sense to Foreign Minister Fábrega on February 26, he said that he appreciated this fully, and that there was no reason that he could see why the Panamanian Government at the time contemplated should not consider the matter and undertake a negotiation for such sites. He stressed that this would of course be a new negotiation.

Respectfully yours,

EDWIN C. WILSON

²⁸ Reported in despatch No. 804, February 27, 1942, from the Ambassador in Panama, not printed (711F.1914/427).

711F.1914/435: Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, March 16, 1942—5 p. m.
[Received March 17—3:45 a. m.]

153. For the Acting Secretary. Reference my letter March 10²⁷ regarding the negotiations for the defense sites. I strongly urge you to authorize me without delay to reach agreement with the Panamanian Government on the lines recommended in my letter and despatch no. 922 of March 9.

I have had another talk with the President and the Minister for Foreign Affairs. They are becoming nervous and disturbed about the matter. The Government is losing prestige because of inability to announce the benefits which Panama will get in return for turning over the Republic to military occupation by United States armed forces. This occupation is causing frequent incidents and creating constant sources of irritation. The public in general (and in particular the political opposition including supporters of the previous administration who are becoming much more active of late because of this situation) are demanding what the Government is doing to protect Panamanian interests. Unless we can soon place the Panamanian Government in a position to announce a satisfactory conclusion of the negotiations with the benefits accruing to Panama we shall run the risk of drifting into a situation in which incalculable damage may be done to the friendly and cooperative atmosphere which has been built up here.

We are now in possession of all the necessary elements to conclude an agreement which in my judgement should be satisfactory to us and equitable to Panama. If you will give me the instructions requested I believe I can reach agreement in a week with the possible exception of minor points of drafting.

WILSON

711F.1914/432: Telegram

The Acting Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, March 19, 1942—9 p. m.

162. Your despatch 922, March 9, 1942. You are authorized to accept draft of Article I as proposed by Panama in its note D.P. 3239 dated March 6, 1942, inserting in paragraph 1 "definitive" before "treaty" and changing "state of emergency" to read "state of international insecurity". The Panamanian proposal for Article V should be modified accordingly. You may likewise accept,

²⁷ Not printed.

making such changes in phraseology as you deem desirable, the suggested modifications of all other articles, except the proposed addition to Article VIII concerning wear and damage to roads and the proposals for Article XII concerning annual rentals.

The Department feels it is unable at this time to determine the extent of wear or damage to Panamanian roads which will be caused yearly by troop movements, and therefore prefers to retain the phraseology submitted by this Government. There would apparently be no more room for disagreement regarding the estimate at a later date than there is at the present time.

The Department reiterates its proposal of an annual rental of one balboa for all the public lands. Further consideration will be given the question of the rentals to be paid for the use of private lands when figures on the breakdown between public and privately owned lands are made available. Please urge the appropriate Panamanian authorities to endeavor to obtain this information for Department at earliest possible date. When agreement has been reached on all other provisions of the draft agreement, please forward copy of phraseology agreed upon.

WELLES

711F.1914/446

The Ambassador in Panama (Wilson) to the Secretary of State

No. 1025

PANAMÁ, March 27, 1942.

[Received March 31.]

SIR: I have the honor to refer to the Department's telegram No. 162 of March 19, 9 p. m., regarding the negotiations for the defense sites and to report as follows:

As a result of conversations with Dr. Fábrega on March 20 and today, we have reached agreement on the text of the draft Agreement with the exception of that part of Article VIII which refers to the method of determining the amount to be paid by the United States to repair wear and damage to the roads of Panamá caused by troop movements, and with the exception of Article XII as it relates to the rental to be paid for privately owned lands. Copies of this text are enclosed herewith.²⁸ It will be noted that Panamá accepts in Article I the insertion of "definitive" before "treaty", and changing "state of emergency" to read "state of international insecurity". Attention is also invited to the new wording of paragraph two of Article I; the changes made at the end of the second paragraph of Article VIII; and the new wording of Article XIII. Other changes from the Department's draft of February 13, 1942²⁸ are very minor.

²⁸ Not printed.

As regards Article VIII, Dr. Fábrega tells me that following our conversation on March 20 he placed before the Panamanian Cabinet and urged acceptance of the State Department point of view that the phraseology submitted in our draft of February 13, 1942, be accepted. Subsequently, however, a note was received from Ambassador Jaén Guardia dated March 20, stating that he had seen Acting Secretary Welles on March 19 and had requested that the Panamanian proposal that an annual sum be fixed in the Agreement to cover the cost of repairs to roads be accepted by the State Department. The Ambassador reported that Mr. Welles had said that there would be a meeting of some governmental Board on March 20 and that he would see that the Ambassador's request was laid before this Board. Dr. Fábrega said that as this conversation had taken place on March 19, subsequent to the date of the State Department's instructions to me on which our conversation in Panamá had taken place on March 20, the Panamanian Government would prefer to await a report from Ambassador Jaén Guardia on the further talk which he expected to have with Mr. Welles following the meeting of the Board on March 20. Dr. Fábrega said that he hoped we might accept the Panamanian proposal, as the fixing of a lump sum payment would obviate protracted discussions over this point in the future. I reiterated to Dr. Fábrega that I had not been informed by the State Department of any conversations which Ambassador Jaen Guardia may have had in Washington on this matter, but that I would report to the Department what he told me concerning it. I request the Department's instructions regarding this Article.

As regards Article XII, Dr. Fábrega told me today that Panamá will accept an annual rental of B.100 for all the public lands. As regards the private lands, he handed me a confidential letter, a single copy of which I am attaching hereto.²⁹ (There is no time before closing the air mail pouch to make a translation). It will be noted from this letter that the breakdown given can only be very approximate. This is because of various factors: only about half the defense sites have been accurately surveyed; moreover, there is considerable discrepancy between the figures of the Panamanian Commission and those of our Army Commission even as regards those sites which are supposed to be accurately surveyed; furthermore, as regards a number of the sites that have been recently requested and permission for occupancy of which has been given informally by Panamá because of urgent need to begin preparation of the defense works, only a very rough description has been furnished the Panamanian Commission by our Army Commission and this, in many cases, does not permit the Panamanian Government to identify accurately the areas in question.

²⁹ Not printed.

On the basis, however, of this very rough and approximate breakdown, it appears, according to the information furnished by Dr. Fábrega, that some 2,312 hectares are public lands; some 5,515 hectares are private lands exclusive of Rio Hato; and 7,774 hectares comprise the privately-owned area of Rio Hato, which, as indicated in Dr. Fábrega's letter, can, if desired, be treated for rental purposes on a basis different from that applied to the other private lands.

I should be glad to receive the Department's instructions as to the question of rental for the private lands. My recommendations on this point were made in the last paragraph of my despatch No. 922 of March 9, 1942, and in my letter to Acting Secretary Welles of March 10, 1942.^{29a}

Respectfully yours,

EDWIN C. WILSON

711F.1914/448a : Telegram

*The Acting Secretary of State to the Ambassador in Panama
(Wilson)*

WASHINGTON, April 4, 1942—9 p. m.

227. The Panamanian Ambassador came in yesterday to reiterate his proposal previously made to the Under Secretary that an annual sum be fixed to cover this Government's share of the cost of repairs to Panamanian roads caused by troop movements. He referred in particular to the inadequacy of the phraseology of Item 5 of the Department's memorandum of July 8, 1941³⁰ covering the negotiations on the twelve points. The Ambassador recently sent a memorandum to the Department³¹ stating that detailed studies regarding the conservation of Panamanian roads had revealed that the expense incurred yearly in road maintenance amounted to approximately \$300,000 and suggested that this Government contribute one third of this amount or an annual sum of \$100,000.

The Ambassador was apprised of the phraseology of Article VIII of the Department's most recent draft of the defense site agreement and was informed in the sense of the second paragraph of the Department's telegram no. 162 of March 19, 1942 to the effect that it does not seem feasible at this time to endeavor to determine the extent of wear and damage to Panamanian roads which will be caused yearly by troop movements, and that it would therefore seem preferable to retain the phraseology submitted by this Government. The Ambassador was informed that the Department agreed that this Government's responsibility should be designated in the form of a fixed sum

^{29a} Letter not printed.

³⁰ *Foreign Relations*, 1941, vol. VII, p. 455.

³¹ Dated February 19, p. 583.

or of a proportionate share of the total maintenance cost of Panamanian roads but that in the interest of bringing these negotiations to a prompt conclusion, the details concerning maintenance responsibilities should be the subject of subsequent consultations and a subsidiary agreement to be worked out by local road experts of the two Governments.

The Ambassador has now been handed a copy of the Department's proposal for Item 5 of the twelve point memorandum and has promised to consult his Government immediately concerning the Department's proposal. The phraseology submitted to the Ambassador is identical to that of Article VIII of the defense site agreement with the exception that in paragraph 4, second sentence, there is inserted after the word "maintenance" the following expression "of these roads as well as all Panamanian roads used periodically or frequently by the armed forces of the United States." This has the effect of making the article on roads in the twelve point memorandum general while the article on roads in the defense site agreement remains specific referring only to those roads which are enumerated.

WELLES

711F.1914/453

Memorandum by the Chief of the Division of the American Republics (Bonsal) ³²

[WASHINGTON,] April 7, 1942.

The Panamanian Ambassador came in this morning at his request. He stated that his Government does not consider acceptable our proposal to have the amount to be paid to Panama for road maintenance by this Government subject to further discussions. The Panamanian Government wishes to have the figure set at this time and proposes \$100,000 per annum as the appropriate figure. The Ambassador said that in part the attitude of the Panamanian Government arose from a fear that unless the road maintenance matter was specifically presented to our Congress at this time, together with the defense sites arrangement and the other items which Panama is to receive, it might be difficult for us to secure the funds. In reply I said that in our judgment we would have no difficulty in obtaining the necessary funds to fulfill any commitment which we might make to Panama, and that this was a matter which we had of course examined before making the proposal in the form which he had received it last week.

However, I stated that I would be glad to have a check of the situation made to determine whether we could enter into a commitment

³² Addressed to Mr. Daniels and Mr. Wise of the Division of the American Republics.

to pay Panama \$100,000 annually for road maintenance. Please arrange to consult the appropriate people in the War Department and in The Panama Canal in order to get their views urgently on this subject. I should think that Governor Edgerton would be the best-informed person on this subject. If we do agree upon a specific amount, I think we would wish to obtain a specific commitment from Panama as to the type of maintenance envisaged. This point was one which I hoped would be covered in the subsidiary agreement between the appropriate authorities of the two countries.

Please endeavor to expedite the clearing of this point.

PHILIP W. BONSAI

711F.1914/455 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, April 9, 1942—4 p. m.

245. Your 268, April 7.³³ You are authorized to accept Panamanian proposal that the section in Article VIII of the defense site agreement referring to maintenance of roads should be general and thereby include all roads in Panama used by the armed forces of this Government. In the subsidiary agreement the Department prefers that this Government's responsibilities be designated in the form of a proportionate share of the total annual maintenance costs. You are authorized to propose that this Government's responsibilities in this respect be fixed at one third the total maintenance costs. This is the proportionate share which the Panamanian Government through its Ambassador in Washington has suggested that this Government bear.

WELLES

711F.1914/454a : Telegram

The Acting Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, April 15, 1942—7 p. m.

269. Since the present Rio Hato lease which expires December 31, 1942 was in existence before negotiations were begun for the use of the other defense sites³⁴ and since the nature of the activities and installations at Rio Hato are such that an arrangement for a relatively long term tenure of that base is desirable (an arrangement which is not guaranteed under the provisions of Article I of the omnibus defense agreement) the Department feels that every effort should be made promptly to reach a separate agreement for the continued use of this

³³ Not printed.

³⁴ It appears that the United States rental of the Rio Hato area began in January 1935.

area. Do you think that the Panamanian Government would consider the possibility of expropriating the Rio Hato property on the understanding that this Government would rent the area beginning January 1, 1943, at the rate of 10,000 balboas per annum for a 99 year period or for an indefinite period which would extend until such time as the two Governments would agree that conditions no longer warrant the use of Rio Hato as a base necessary for the defense of the Canal?

Please submit at your earliest convenience a draft proposal which you feel might be presented to the Panamanian Government.

WELLES

711F.1914/455 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, April 16, 1942—3 p. m.

[Received 8:21 p. m.]

313. Your 269, April 15, 7 p. m. I fear there is no possibility whatsoever that the Panamanian Government would accept such a proposal. It is my belief that the Government will not give consideration to a separate agreement for Rio Hato until such time as it knows what rental we are prepared to pay for the privately-owned lands under the defense sites agreement. My judgment is that no useful purpose would be served by presenting a separate proposal for Rio Hato in advance of making known our offer regarding rental for the defense sites.

WILSON

711F.1914/456 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, April 20, 1942—3 p. m.

[Received 9:56 p. m.]

331. Your 245, April 9, 4 p. m. The Minister for Foreign Affairs inquires whether there would be any objection to stating in article VIII of the Defense Sites Agreement that the responsibilities of the United States for repairs and maintenance³⁵ are fixed at one third the total annual maintenance costs. He suggests a sentence to this effect at the end of paragraph 4 of article VIII after the sentence ending with the words "as set forth below." If this is not acceptable then he suggests an exchange of notes at the time of signature of the agreement fixing the responsibilities of the United States in this sense.

Please instruct.

WILSON

³⁵ Refers to all roads used by United States armed forces.

711F.1914/450 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, April 25, 1942—2 p. m.

[Received 8:36 p. m.]

362. For the Under Secretary, Welles. The President and the Minister for Foreign Affairs have both inquired on various occasions recently when our offer on rental for the private lands of the defense sites can be expected. As you know this is the only point which remains unsettled in the negotiations.

The Minister for Foreign Affairs has been pressing me almost daily of late on this matter and has today told me off the record that a most embarrassing situation is being created by our failure to make a satisfactory proposal on this point. He says that the subject comes up at every Cabinet meeting and that it has become so embarrassing to him that he has now proposed that he be relieved of the negotiations on this point and that they be transferred to the Panamanian Ambassador in Washington.

As I have reported on many occasions failure to reach agreement and to announce the benefits which Panama will receive places the Panamanian Government in an exceedingly awkward situation and is steadily weakening its position. The Republic of Panama is today under virtual military occupation by the forces of the United States. Incidents involving members of our armed forces are constantly taking place and the general Panamanian attitude towards the United States, which has hitherto been most friendly is beginning to change and an atmosphere of criticism and complaints is being created.

The Panamanian Government and people read of the large sums of money which the United States is making over to Brazil, Peru, Colombia, et cetera for services to be received in the future. The Panamanian people are aware that for well over a year Panama has been turning over defense bases throughout the Republic to the United States armed forces and that constant requests are being made by the United States for special favors, consideration and cooperation, and that the Panamanian Government is granting all these requests without stint.

It is my considered judgment that unless we can very shortly make a generous proposal to Panama on this rental question, thereby bringing the negotiations to a prompt and satisfactory conclusion, we shall be faced with a very unsatisfactory situation in Panama and one which will be increasingly prejudicial to our national defense efforts in this area.

WILSON

711F.1914/460: Telegram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, April 28, 1942—9 p. m.

321. Your telegram 362, April 25, 2 p. m. You are authorized to submit the following proposals to the Government of Panama regarding Article XII of the proposed defense site contract referring to rentals:

1. The United States to pay an annual rental of one balboa for all publicly-owned lands covered by the defense site agreement;
2. The United States to pay an annual rental of fifty balboas per hectare for all privately-owned lands covered by the defense site agreement other than the Rio Hato tract, the Government of Panama to assume all expropriation expenses, indemnities and reimbursements;
3. The United States to pay an annual rental of 10,000 balboas for the entire Rio Hato tract, commencing January 1, 1943, this payment to be included in a separate contract for a period which would extend until such time as the two Governments agree that conditions no longer warrant the use of Rio Hato as a base necessary for the protection of the Canal. If, however, the Government of Panama prefers that the annual rental for Rio Hato be determined by experts appointed by both Governments, you are authorized to accept the procedure outlined in the Panamanian note of March 6, 1942 for treating Rio Hato separately.

Please telegraph your views and those of the Panamanian Government regarding the foregoing proposals. If there should still be any question regarding the fair rental value for the defense sites, please likewise telegraph your views as to whether it would serve any useful purpose for a representative of the State Department to make a brief trip to Panama to assist in arriving at a fair valuation of the lands with a view to reaching a mutually satisfactory agreement on the rentals.

HULL

711F.1914/456

The Secretary of State to the Ambassador in Panama (Wilson)

No. 734

WASHINGTON, April 28, 1942.

SIR: Reference is made to your telegram no. 331 of April 20, 1942, stating that the Minister of Foreign Affairs inquires whether "there would be any objection to stating in Article VIII of the defense site agreement that the responsibilities of the United States for repairs and maintenance are fixed at one third the total annual maintenance costs."

In principle the Department perceives no objection to the Panamanian proposal but suggests, rather than add a new sentence at the end of paragraph four, that the thought be incorporated into the

last sentence of the paragraph as has been done in the quotation below. If the foregoing is taken into consideration, as well as the agreement expressed in the first sentence of the Department's telegram no. 245 of April 9, 1942; namely, that the section in Article VIII referring to the maintenance of roads should be general and include all roads, then it is the Department's understanding that paragraph four of Article VIII of the defense site agreement as amended would read as follows:

"Upon the completion of these highways the Government of the United States will assume the responsibility for any necessary post construction operations, that is, the performance of work necessary to protect the original construction until such time as the roads become stabilized. The respective responsibilities of the two Governments with respect to the execution of subsequent repairs and maintenance of these roads as well as all Panamanian roads used periodically or frequently by the armed forces of the United States shall be determined by the appropriate authorities of the two Governments, it being understood that the United States will bear one third of the total annual maintenance costs in order to cover the expense of any wear or damage to roads caused by movements related to defense activities as set forth below."

Please ascertain whether this phraseology is acceptable to the Panamanian authorities.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

711F.1914/466 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, May 2, 1942—9 a. m.

[Received 2:08 p. m.]

409. For Under Secretary. Reference your 325, April 29, 9 p. m.³⁶ I am happy to say that thanks to the Department's very helpful telegram No. 321, April 28, 9 p. m., I have reached complete agreement with the Foreign Minister on the defense site agreement.

Full report by air mail today³⁷ which will be in the Department tomorrow. One point only departs from telegram number 321, namely that the lease for Rio Hato is to be of the same duration as that for the other defense sites. I consider this entirely satisfactory and request Department's early approval of this and of various points of procedure mentioned in my despatch of today.

I believe you need have but little concern over the Taboga question. The President considers that the conditions covering this lease, reported in my despatch, and which have been accepted by the Commandant of the 15th Naval District will enable him to handle it satis-

³⁶ Not printed.

³⁷ Despatch No. 2089, May 2, not printed.

factorily with public opinion. I am convinced after careful exploration of all other possible sites that only Taboga meets the essential requirements for this much needed base.

WILSON

711F.1914/467 : Telegram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, May 5, 1942—10 p. m.

351. Your despatch 2089, May 2.³⁸ You are authorized to accept the Panamanian proposal regarding the Rio Hato tract, as set forth in numbered paragraph 3 of your despatch.

The agreement regarding Taboga Island is acceptable.

The Department prefers that the proposed press releases to be issued simultaneously in Washington and Panamá, be issued on the date of signature of the defense site agreement rather than in advance thereof. If this is politically impracticable in Panamá, please telegraph your further recommendations.

The proposed arrangement regarding Chorrera and Pacora is approved.

The proposed exchange of notes referred to in numbered paragraph 8 is approved. Please forward full texts of notes.

There appears to be no reason to anticipate difficulty in obtaining Congressional approval of the proposals in the twelve points relating to the liquidation of the Rio Hato highway credit and conveyance of the railroad lots and waterworks to Panamá. The Department has requested the War Department to support the proposed legislation. It is my understanding that with the foregoing all remaining points of difference have been eliminated, other than the date of the proposed press releases. Please confirm.

HULL

711F.1914/473 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, May 8, 1942—4 p. m.

[Received 7:51 p. m.]

455. Reference defense site agreement. In view of time required for preparation of Panamanian statement and of memorandum annexed to agreement describing the defense sites we have decided to set the date for signing the agreement and releasing the statement on Wednesday May 13 at noon Panamanian time. Will it be agree-

³⁸ Not printed, but see telegram printed *supra*.

able to the Department to issue the statement in Washington at the same time?

Reference my 449, May 7, 4 p. m.³⁹ The Panamanian Government intends to make public the text of the defense site agreement together with the statement which in addition to describing the negotiations will give the substance of the twelve points agreement.

WILSON

711F.1914/473 : Telegram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, May 9, 1942—11 p. m.

394. Your 455, May 8, 4 p. m. Decision to set the date for signing the defense site agreement and releasing the statement on Wednesday, May 13, noon, Panamanian time, is agreeable to the Department.

Since the Panamanian Government intends to make public the text of the defense site agreement the Department does not care to object and will do likewise. It is assumed that the attached memorandum listing the sites will not be made public.

With reference to the twelve points the Department prefers not to release at this time any formal text covering any of these points, but has no objection to including in the proposed public statement the substance of the twelve points agreement. Accordingly, the statement to be issued simultaneously in Washington will contain a brief description of the negotiations, the text of the defense site agreement (not including the attached list) and a brief reference to the major points included in the twelve point agreement.

HULL

[The agreement for the leasing of defense sites in Panama was signed in Panama on May 18, 1942; for text, see Department of State Executive Agreement Series No. 359, or 57 Stat. (pt. 2) 1232. The "twelve points" agreement was signed in Washington on May 18, 1942, and was published in 1945; for text, see Department of State Executive Agreement Series No. 452, or 59 Stat. (pt. 2) 1289.]

711F.1914/482

The Secretary of State to the Ambassador in Panama (Wilson)

No. 821

WASHINGTON, May 25, 1942.

SIR: Reference is made to the Department's instruction No. 737 of April 29, 1942 and to the Embassy's despatch no. 2160 of May 9,⁴⁰

³⁹ Not printed.

⁴⁰ Neither printed.

regarding the advisability of proposing to the Panamanian authorities some type of management contract under which the water and sewerage systems in Colón and Panamá, when ownership is transferred to the Panamanian Government, would be operated by the Panama Canal Department.

There seems to be a definite consensus among the interested departments of this Government that the intimate association of the residents of the Canal Zone with the cities of Panamá and Colón makes it advisable and necessary that this Government continue to bear the responsibility for the operation of the water and sewerage systems, when the transfer of ownership to Panama is approved by the Congress. The Department is, therefore, of the opinion that you should discuss this matter with the appropriate Canal Zone authorities without further delay and request that they, in close consultation with you, formulate a concise proposal for a management contract under the provisions of which the Panama Canal Department would continue to operate the water and sewerage systems once the title to them has been placed in the hands of the Panamanian authorities. Such a contract should be arranged so as not to prejudice in any way the pertinent provisions of the agreement reached in Washington on May 18, 1942, a copy of which was transmitted to you in the Department's instruction No. 807, dated May 21, 1942,⁴¹ and should definitely provide for increased participation of Panamanian personnel in sanitation activities in those cities as set forth in the exchange of notes accompanying the General Treaty of March 2, 1936, which in turn refers to the earlier proposal of October 1931.

The Department will appreciate being kept informed of any progress which is made on the drafting of such a contract and requests that before any proposal is made to the Panamanian authorities, the approval of the Department be obtained.⁴²

Very truly yours,

For the Secretary of State:
SUMNER WELLES

711F.1914/496

The Ambassador in Panama (Wilson) to the Secretary of State

No. 2328

PANAMÁ, June 1, 1942.

[Received June 4.]

SIR: I have the honor to report that the Minister for Foreign Affairs tells me that President de la Guardia has decided not to call the National Assembly into special session to consider the Defense

⁴¹ Not printed.

⁴² The transfer of the water and sewer systems to Panama and the arranging of a management contract which left the administration of this public works in the hands of the Zone authorities, were not effected until December 1945.

Sites Agreement until after the United States Congress has acted favorably upon the three points to be submitted to it under the Washington exchange of notes on May 18, 1942.

Dr. Fábrega said that President de la Guardia felt he would have no difficulty in obtaining approval of the Defense Sites Agreement by the National Assembly even in advance of action by the United States Congress on the Twelve Points, but that he desired to avoid any unpleasant incidents which could arise in the National Assembly through statements which might be made by certain opposition deputies recalling delays in ratification of the 1936 Treaty, alleging that Panamá would probably never effectively get the benefit of the Twelve Points, etc. President de la Guardia appreciates that the two negotiations were independent of each other, and that Panamá's obligation under the 1936 Treaty was to make the defense sites available without reference to the action by the United States on the Twelve Points. Nevertheless, as the two negotiations were concluded and announced at the same time, and as public opinion in Panamá inevitably links them together, he prefers, for the reason stated hereinabove, not to lay the Defense Sites Agreement before the National Assembly until after the United States Congress has acted on the Twelve Points.

I advised Dr. Fábrega informally of the information contained in the memorandum of conversation dated May 27, 1942, between Mr. Wise of RA and Colonel R. H. Brennan of the War Department.⁴³ Dr. Fábrega was pleased to know that efforts are being made to submit the proposed legislation to Congress without delay.

Respectfully yours,

EDWIN C. WILSON

711F.1914/548

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] September 22, 1942.

The Ambassador of Panama⁴⁴ called to see me this morning at his request.

The Ambassador said that his Foreign Minister had asked him to see me in order to let me know that the Government of Panama was concerned by the continuing delay in favorable action on the part of the United States Congress in approving the recent twelve-point agreements entered into by the Government of the United States with the Government of Panama. The Ambassador said that Dr. Fábrega had also asked him to let me know that public opinion in Panama was becoming exercised, and that the propagandists were starting the story

⁴³ Memorandum not printed; Colonel Brennan indicated that the War Department hoped to submit the proposed legislation on the twelve points to the Bureau of the Budget that week (711F.1914/516).

⁴⁴ Ernesto Jaén Guardia.

that Panama had given everything required by the United States for the war effort, but that the Congress was not going to approve the agreements, and that, consequently, the Government of Panama had made a bad bargain.

I told the Ambassador that I was sure the Government of Panama, as well as public opinion in Panama, must realize that under our Constitutional form of Government immediate action on important questions of this kind was rarely possible. I said that it was my understanding that the Foreign Affairs Committee of the House of Representatives had reported out favorably the legislation required in order to carry out the agreements entered into, and that the matter was now before the Foreign Relations Committee of the Senate. I said that, of course, as the Ambassador well knew, very many urgent and pressing measures were now before the Senate for its consideration, and that I could not hold out the slightest hope that final action could be anticipated in the immediate future. I said, however, that I felt that the prospects were favorable and that I would be glad to talk personally with Senator Connally, Chairman of the Foreign Relations Committee, in order to ascertain what his views might be.

S[UMNER] W[ELLES]

711F.1914/552: Airgram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, October 6, 1942—10:35 a. m.

[Received October 8—3 p. m.]

A-390. In response to recent request for additional defense site for searchlight and radio detector station, Minister for Foreign Affairs has replied referring to his note of July 15 last No. D.P. 3909 (see telegram No. 783, July 16, 4 p.m. and despatch No. 2617 same date),⁴⁵ stating that Panamanian Government has approved 12 additional defense sites (actually 9 new sites and 3 enlargements of old sites) since signature of the Agreement of May 18⁴⁶ and that it has become particularly difficult for the Government to continue authorizing the use of national territory without being in a position to inform the country that the agreement signed over 4 months ago has entered into effect. The Foreign Minister states that because of this situation he finds it necessary before authorizing the new defense site requested, to have a meeting of technical representatives of the United States and of Panamá to establish fully the necessity, urgency and other details concerning the new defense site. (Since receipt of this note the Army has requested one more defense site for observation post).

⁴⁵ None printed.

⁴⁶ See bracketed note, p. 609.

This note from the Foreign Minister is an added indication of the concern which the President and the Minister for Foreign Affairs have expressed to me of late regarding the question of early approval by our Congress of those points of the Washington exchange of notes of May 18 which cover the railroad lots, water works and Rio Hato Highway credit.

The problem for the Panamanian Government is that until the Defense Sites Agreement enters into effect (which they feel can only be after our Congress acts on the Twelve Points) they are unable to make arrangements with private owners of lands used. As a result criticism of the Government increases steadily, and its opponents charge that the United States either will not ratify the Twelve Points or will delay ratification for some years as in the case of the 1936 Treaty.

I have of course explained to the President and to the Minister for Foreign Affairs that the United States Congress has before it for consideration a great volume of proposed legislation of tremendous importance to the war effort, and have pointed out that as regards the legislation of interest to Panamá the Foreign Affairs Committee of the House has given a favorable report and a hearing of the Senate Committee is taking place today (October 5).⁴⁷ The President and members of his Government, however, are deeply anxious over this question, and their anxiety has been augmented by the injection of the private land claims into the matter.

WILSON

711F.1914/581

The Ambassador in Panama (Wilson) to the Acting Secretary of State

PANAMÁ, October 9, 1942.

[Received October 17.]

DEAR SUMNER: I have sent the Department in the last few days a number of telegrams and airgrams regarding the reaction here to the discussion in the Senate Sub-committee of Foreign Relations on the injection of the Isthmian Timber Company claims into the hearing on the proposed legislation affecting the Government of Panamá. As of possible interest I attach hereto a leading editorial⁴⁸ from the *Panamá American* of last night.

There is no question but that we have a serious proposition on our hands with this matter. Feeling is rising strongly about it, and I already note a difference in attitude on the part of some prominent Panamanians, including members of the Cabinet. A member of the

⁴⁷ In telegrams No. 729, August 17, and No. 895, November 24, the Department informed the Embassy of the favorable action of the House and the Senate Committees (711F.1914/526a, 593d).

⁴⁸ Not reprinted.

Cabinet said to me last night that this matter planted squarely the question of the Good Neighbor policy, whether it was to be merely a matter of pleasant words on the part of our Government, or whether it was to be a reality. Tato Fábrega has informed a friend of mine that if ratification of the Three Points is delayed indefinitely because of these private claims,⁴⁹ he will resign from the Cabinet.

You know the fine cooperation we have been steadily receiving up to now from the Government of Panamá. They have never delayed action on any of the defense sites which we have requested. Subsequent to signature of the Defense Sites Agreement on May 18 last we have requested nine additional sites and enlargements of three old sites. The Panamanian Government acted immediately and favorably on these requests. I have just recently presented two additional requests for defense sites at the urgent request of General Andrews, one for an airplane detector station and one for a beach observation post, and Dr. Fábrega has informed me that it will now be necessary to have these requests considered by technical representatives of both governments to determine the advisability of granting them. I fear that we shall now encounter delay and difficulties in obtaining much needed action in the defense effort. I shall of course make every effort possible to convince the Government that action on defense matters here must not be delayed because of the developments in Washington, and that I believe that the Department's point of view regarding the private claims will prevail and Congressional approval be obtained within a reasonable time. Nevertheless, I feel that I must let you know that there is a real chance of our running into serious trouble of this nature here until the matter of Congressional action is settled in Washington.

President de la Guardia said to me the other day that he had confidence that this matter would eventually work out satisfactorily, because he was confident that President Roosevelt would himself intervene.

With all best wishes,

Yours, as ever,

EDWIN C. WILSON

711F.1914/583

The Chief of the Division of the American Republics (Bonsal) to the Ambassador in Panama (Wilson)

WASHINGTON, October 13, 1942.

DEAR MR. AMBASSADOR: It has been most helpful to receive your airgrams and telegrams regarding the reaction in Panama to the

⁴⁹ The private claims of Panamanians against the United States for damages due to military traffic which the United States agreed to consider in the eleventh of the twelve points was not included here. It was one of the eight points not submitted to Congress.

hearings being held before the Senate Subcommittee in connection with the proposed legislation on the "three points". I have been able to make some effective use of some of this material, on an off-the-record basis. It will interest you to know that Senator Gillette has already received independently at least one editorial from the *Star and Herald* in regard to the hearings, and presumably will receive more.

As indicated in a telegram we are sending today,⁵⁰ we all hope that the Panamanian press will not indulge in gratuitous and unjust criticism of the United States Senate because of the hearings which have taken place. Critical or provocative statements from Panamanian sources might have an unfavorable effect on the Senators, and prejudice prompt and favorable action.

In this connection I think it only fair to let you know that we all here feel strongly that the Panamanian Government itself has by no means been as helpful as it might have been in assisting us in this matter. The Panamanians were informed some time ago that the question of the claims was going to come up, and it was indicated to them that a helpful attitude on their part would greatly assist in overcoming this obstacle. All that was required, in my judgment, was a responsible statement to the effect that any claims advanced by American claimants against the Government of Panama would be accorded a fair hearing under Panamanian law, that there was no disposition to prejudge the claims, and that in the event that our Government were to present officially any claims through diplomatic channels the Panamanian Government would of course be willing to have such claims adjudicated in the usual way, whether by arbitration or otherwise; that the question of claims of citizens of one country against the Government of the other are of course separate from the governmental negotiations on major matters which have taken place, but that Panama is always willing to cooperate with the United States in bringing about a settlement of such claims in order to remove, so far as possible, all pending differences between the two countries. However, instead of any helpful statement of this character, which would be in the interest of Panama as much as the United States, the Government of Panama has seen fit to convey the impression that it is not even willing to discuss fair arbitration of these claims. Obviously such an attitude makes our task here much greater than it need be, and I think the Panamanian officials should be aware of this fact. I am sure that you have fully appreciated the importance of the foregoing, and I know the difficulties with which you have had to cope; but at the same time, if things do not go as well as we now hope in the Senate, it is still not too late in my judgment for a helpful statement from the Panamanian Government in

⁵⁰ Telegram No. 830, October 13, 5 p. m., not printed.

regard to the claims matter to be a contribution to the successful passage of the legislation. Such a statement need not be made public. If it were transmitted officially to the Department, it could be shown in confidence to Senator Gillette and the Committee, and if necessary kept off the record in order to avoid confusion with the legislation itself.

I don't think we should press hard for any such statement, since we are not seeking any concession from Panama in this connection. It is merely a question of letting them know what in our judgment is best for all of us in the long run. I should be glad to have your reactions to the foregoing.

With cordial regards,
Sincerely yours,

PHILIP W. BONSAI

711F.1914/583

*The Acting Secretary of State to the Ambassador in Panama
(Wilson)*

WASHINGTON, October 13, 1942.

DEAR ED: I have read with interest your letter of October 9 regarding the Panamanian attitude toward the proceedings in the Subcommittee of the Senate Committee of Foreign Relations concerning the Panamanian legislation. I feel it important to give you a summary of the situation as it appears to us and of the dangers inherent in a failure of the Panamanian authorities and of the Panamanian press to realize this situation. I have sent you a telegram on this subject today.⁵¹

The private claimants to whom you refer have been represented at the hearings by Mr. Roy C. Hackley, an energetic attorney from San Francisco, whom, I believe, you know; by former Senator King of Utah and by a Mr. Walker, a lawyer in Senator King's law firm.

Mr. Hackley has attacked the proposed legislation unsoundly but vigorously. Not only has he stated that it is contrary to the interests of the United States Government, he has also gone at some lengths into the alleged interests of the East Indian and Chinese tenants on the railroad lots who, he says, are being thrown to the wolves by our proposed action. He has also endeavored to make out that the reversionary rights in these lots are in the Colombian Government⁵² and that the Panamanian Government had no right to transfer them to us in 1903. He has stated that the \$2,500,000 lent

⁵¹ Telegram No. 830, October 13, 5 p. m., not printed.

⁵² This was based on the theory that Panama did not succeed in 1903 to the reversionary rights of Colombia which grew out of the terms of contracts of 1850 and 1867 between the Panama Railroad Company and New Granada whereby the latter conceded a 99-year lease to the former in return for the extension of the railroad.

by the Export-Import Bank to Panama for the construction of the Rio Hato Highway was in fact squandered by high Panamanian officials and not devoted to highway purposes at all. All of these contentions and many, many others with which I will not bore you, but which you will be able to read from the record have, I hope, been disproved by the Department to the satisfaction of Senator Gillette, the Chairman of the Subcommittee.

Mr. Hackley was of course perfectly within his rights as an American citizen in attacking this legislation, and the Subcommittee could not in practice have refused to hear him. However, when he endeavored to connect the private claims in which he is interested with the legislation he found the Subcommittee less than sympathetic.

I fully appreciate the fine cooperation which we have been steadily receiving from the Government of Panama. I also feel strongly, as I know that you do, that our treatment of Panama under the circumstances has been extremely enlightened. On the other hand, the Panamanian record regarding certain private claims which have been duly entertained by the Department of State and which at one time were submitted to a Joint Claims Commission, only to be rejected for jurisdictional reasons, has been far from good.

Please assure our Panamanian friends that the Department's point of view regarding private claims is, so far as we can judge at the moment, the view of the Senate Subcommittee. Please also use your best efforts in explaining our Congressional practices to your Panamanian friends and indicate to them discreetly but firmly the serious possibilities that are inherent in ill-considered or hasty judgments or statements on their part. The clipping which you sent me from the *Panamá American* of October 8 links the legislation now before the Subcommittee with the Defense Sites Agreement in precisely the manner in which, in our opinion, they are not connected.

Sincerely yours,

SUMNER WELLES

711F.1914/621a : Telegram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, December 16, 1942—8 p. m.

926. Owing to the absence of a quorum, the only way in which the Panama legislation could be passed by the House would be by unanimous consent. The Department is informed that this is unobtainable since at least 6 Representatives have been asked by Senators who opposed the measure in the Senate to object if the measure is brought out. It has, consequently, been decided that it will not be brought up at this session, which is scheduled to adjourn today, but that it will be the first measure reported by the House Foreign Affairs Committee at the next session. The Department does not anticipate any

insuperable difficulty in securing passage of the measure in both Houses since the issue in the Senate has already been fought out and since an ample majority remains available.

The situation is being explained to the Panamanian Ambassador here and you are requested to discuss it with the President and the Minister for Foreign Affairs. The Department is confident that they will understand the political situation which has confronted the Administration here and the further fact that every effort has been made in this matter. The Department, of course, shares in the disappointment which the Government and people of Panama will feel at this delay. It should be pointed out, however, that opposition to the legislation was in no sense based upon unwillingness to fulfill the legitimate aspirations of Panama, but rather upon internal political factors. The measure itself was reported favorably by the House Foreign Affairs Committee with no dissent. It was reported favorably by the Senate Foreign Relations Committee with only two Senators expressing dissent. It was amended and passed by the Senate with a comfortable margin, in spite of the Constitutional issue⁵³ injected for political purposes and it could have been passed in the House if the time factor and the lack of quorum had not operated against the efforts of Administration leaders.

For your information, however, opponents of this legislation would be quick to use any intemperate expression on the subject which might appear in the Panamanian press or be given out by Panamanian officials. It is important, therefore, that you do your utmost to prevent such statements in the interest of the passage of the legislation. This, of course, does not mean that legitimate expressions of Panamanian disappointment, coupled with expressions of confidence in the ultimate passage of the legislation, would be undesirable.

You will, of course, keep the Department fully informed as to local sentiment on this matter with particular reference to the forthcoming meeting of the Panamanian National Assembly.

HULL

711F.1914/622 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, December 17, 1942—11 a. m.

[Received 2:52 p. m.]

1059. The President asked me to call on him yesterday afternoon. He said that the adjournment of Congress without the House having acted on the Panamanian Legislation was a great blow to him and would undoubtedly cause serious political difficulties for him. He

⁵³ The question was raised by Senators Arthur Vandenberg and Robert Taft as to why a treaty form was not used by the two countries.

said, however, that he wanted me to know and wanted my Government to know that this would not affect in any manner the policy of wholehearted cooperation on the part of his Government with the United States in defense and all other matters. Panama will continue to give the same complete cooperation which it has given heretofore.

The President said that he hoped very much that there would be no delay in submitting the Panamanian questions to the new Congress as soon as the latter convenes and that he was confident that the United States Government would make every appropriate effort to have this legislation enacted as soon as possible. He asked me to convey to President Roosevelt, to you, the Under Secretary, Mr. Bonsal and other officials of the State Department his great appreciation for the efforts that were made to obtain affirmative action.⁵⁴

WILSON

AGREEMENT PROVIDING FOR THE DETAIL OF A MILITARY OFFICER FROM THE UNITED STATES TO PANAMA TO SERVE AS AN ADVISER TO THE MINISTER FOR FOREIGN AFFAIRS, SIGNED JULY 7, 1942

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 258, or 56 Stat. (pt. 2) 1545.]

PANAMANIAN PROTEST AT THE ESTABLISHMENT OF A COMMERCIAL AIRPORT IN THE CANAL ZONE

819.7962/66

The Panamanian Ambassador (Guardia) to the Secretary of State

[Translation]

No. D-165

WASHINGTON, March 23, 1942.

MR. SECRETARY: Pursuant to instructions from my Government, I present a formal protest to Your Excellency's Government because of the surprising and inexplicable fact that, in the Canal Zone, there is under way at the present time the construction of a concrete building, the foundations of which already exist, intended as an airport for Pan American Airways, Inc., an enterprise of a private character which is devoted exclusively to commercial ends, and which has nothing to do, directly or indirectly, with the use, operation, or protection of the Panama Canal.

The construction referred to above is being carried out in a place immediately adjacent to the building which now serves as an airport for Pan American Airways, Inc., and in this same building is displayed a drawing, officially approved by the Panama Canal Construction Quartermaster, where it is indicated that such building has been

⁵⁴ The legislation was approved by Congress early in 1943 and signed by the President on May 3 (57 Stat. 74). The National Assembly of Panama then approved the whole agreement, and it became effective on May 11, 1943.

especially designed for Pan American Airways, Inc. The building, the construction of which has already been begun, will constitute a first class airport in the event that it is completed, with all the characteristics of a permanent building and not an airport of a temporary nature as is the one which they now use.

The initiation and continuation of the construction of the building which will be intended as an airport for Pan American Airways, Inc., in the Canal Zone, is in open conflict with the principles which the Republic of Panama has always maintained and continues to maintain, that the only activities which can be carried on within the said Zone are those expressly authorized by existing treaties and which are directly and necessarily connected with the use, maintenance, sanitation, operation, or protection of the Panama Canal; that all other activities are prohibited; and that, with regard to them, the exclusive right to regulate or utilize them appertains to the Republic of Panama, which is the sovereign and which has granted the use of the lands which constitute the Canal Zone with the above-mentioned limitations.

Your Excellency's Government must further take into account the fact that, if the construction of the building to which I am referring is not prevented the Republic of Panama will be unjustly injured, in express violation of the terms of the General Treaty of March 2, 1936,⁵⁵ which provides, in its third article, that the Republic of Panama shall have the right to benefit by "the commercial opportunities inherent in its geographical situation." Because of such conditions, it is logical and just to reach the conclusion that the construction of a building of this kind cannot be viewed by the Panamanian Government except as tending to destroy legitimate rights of the Government and to cause serious harm to the Republic of Panama with regard to the future development of commercial air traffic, which is destined to be one of the principal sources of wealth of the Republic and to counteract the serious disadvantage which my country has suffered for lack of sea ports in territory under its control.

The Government of Panama, in its sound intention of protecting the legitimate rights of the Republic of Panama, has formulated requests on previous occasions to Your Excellency's Government in relation to the problems which the Canal Zone airdromes raise for my country, which requests have been disregarded for reasons which are still unknown. In fact, on June 3, 1941, Dr. Carlos N. Brin, who was then Ambassador of Panama in Washington, presented a formal protest⁵⁶ to Your Excellency, in the name of the Government of Panama, because of the use which is being made of Canal Zone airdromes

⁵⁵ Department of State Treaty Series No. 945, or 53 Stat. (pt. 3) 1807.

⁵⁶ Not printed.

by certain civilian and commercial enterprises (i.e., Pan American Airways, Inc.) the purposes of which, I repeat, are foreign to the defense or protection of the Canal.

This protest was met by the reply of the Under Secretary of State of the United States, the Honorable Sumner Welles, on August 5, 1941, in which no other reason tending to justify this commercial use of that airdrome by private companies was given than that these activities had been carried on in the Canal Zone for some time.⁵⁷ This reason, naturally, has not satisfied the Government of Panama, which does not admit that its tolerance or failure to protest previously can give rise to any right which might curtail the rights clearly acquired by the Republic of Panama according to existent treaties.

Subsequently, that is, on September 17, 1941, the Ambassador of Panama in Washington at that time addressed to Your Excellency Communication No. D-464,⁵⁸ in which he again expressed the inconformity of Panama with this unlawful use of the Canal Zone airdromes. The following, among other things, was said in this note, which has not yet been answered:

"The tolerance of my Government in the face of the observance of this practice was due to the fact that the Republic of Panama did not have the resources necessary for the development of aviation at that time nor experts in the technics of that branch. It tolerated the said practice only in a provisional way and not as an obligation to suffer perpetually that limitation which might have an unfavorable influence in the future, when the causes ceased which gave rise to that situation which undoubtedly is an obstacle to our progress.

"The Republic of Panama due to its exceptional geographical position and by reason of the great possibilities of the development of its commercial aviation, considers today that such activity will constitute in the course of time a source of revenue and of trade with the other countries. Therefore, as it is now in a position to attend in a proper manner to the development of commercial aviation it cherishes the hope 'that the United States, in view of the object expressed in Article III of the Treaty of 1936, relative to the benefit which Panama should obtain from the commercial advantages inherent in its geographical position, will also be keenly interested in contributing to the progress of Panama, in as much as both countries are united by very cordial relations and similar interests.'

"My Government deems that the commercial aviation companies established in fact in the Canal Zone do not justify the legality of their existence by their longer or shorter duration in that place but by the legality of their establishment subject to the clauses of the treaties between Panama and the United States. And as they have no legal basis in the Treaty of 1903⁵⁹ which specifies the uses to which the United States Government might destine the Canal Zone, nor are such private commercial aviation companies included in no. 5 of

⁵⁷ Mr. Welles' reply indicated that the activities had been carried on for 12 years without any question from Panama (819.7962/51).

⁵⁸ Not printed.

⁵⁹ Signed November 18, 1903, *Foreign Relations*, 1904, p. 543.

Article III of the General Treaty approved by the Republic of Panama and the United States in 1936, we must admit that their operation in the Canal Zone is contrary to the spirit and letter of both agreements.

"Panama has full confidence in the good desires and cordial interest which animates the Government of Your Excellency in its economic development and does not doubt that on this, as on other occasions, its great friend of the North will know how to receive the just protests of my country in a spirit of understanding, sincere international friendship and loyal cooperation thus making more practicable the plan of works which my Government proposes to carry out in the matter of aviation and which includes the establishment of a modern airport in the City of Panama to meet all the needs which this order of activities requires.

"It is obvious that the establishment of airports on territory under the jurisdiction of Panama is a factor of extreme importance in the commercial development of the whole of the Isthmus and the enlightened judgment of Your Excellency's Government cannot fail to note the significance which this may acquire in unforeseen circumstances where situations might arise which would alter the state of peace which happily exists on this continent."

For the reasons set forth, the Republic of Panama emphatically declares its inconformity with regard to the construction of the building which it is proposed to use as an airport of Pan American Airways, Inc., in the Canal Zone, and in an act of strictest justice requests the Government of the United States of America that the contractual rights of Panama be respected and that this new construction be suspended without delay, which construction, if terminated, would have the effect of prejudicing, indefinitely and permanently, vital interests of the Republic of Panama to which it has unquestionable rights because of its geographical situation and as a result of its condition as a Sovereign and Independent State.

Please accept [etc.]

E. JAEN GUARDIA

819.7962/68

The Ambassador in Panama (Wilson) to the Secretary of State

No. 2012

PANAMÁ, April 21, 1942.

[Received April 27.]

SIR: I have the honor to refer to the Department's strictly confidential instruction No. 648 of April 1, 1942, transmitting a copy of a note dated March 23, 1942,⁶¹ from the Ambassador of Panamá at Washington protesting the construction of a concrete building intended as an airport for Pan American Airways, Inc., and requesting an expression of my opinion as to the reply which should be made to this note.

⁶¹ Instruction No. 648 not printed; for note dated March 23, see *supra*.

My despatch No. 19 of June 3, 1941,⁶² which first reported on this subject, stated my opinion that what had mainly aroused the anxiety of the Panamanian Government was the implication that this construction which appeared to be permanent in character, was an indication that the United States intended that all future commercial aviation development on the Isthmus should take place within the Zone to the exclusion of such development in Panama. I suggested at that time that a possible solution might be to try to reach agreement with the Government of Panama on the basis that the present development of the commercial airport at Albrook Field is to take care of an emergency situation and would in no way be considered as prejudicing the future of commercial air services on the Isthmus once the present emergency had come to an end. I suggested that Panama might be assured that once the existing world emergency was over, the United States would be prepared to give consideration to the question of whether during normal periods commercial aviation might use Panamanian air fields. In other words, the suggestion was that the present status be maintained during the emergency. I pointed out at the time that it was of course likely that the Panamanian Government, if it should agree to any such suggestion, would desire, in order that the new commercial airfield in the Zone might not have the appearance of a definite long-term development, that certain features be eliminated.

The Department replied by its instruction No. 43 of June 18, 1941,⁶³ to the effect that it was the preliminary view of the Department that the project constituted no violation of the treaty of 1936; that the Department was strongly of the opinion that under present emergency conditions international commercial aircraft should continue to land in the Canal Zone; but that, for my strictly confidential information, if at some time in the future conditions seemed to warrant, the United States Government might be glad to consider sympathetically the development of a Panamanian system of airports. The Department then sent its note of August 5, 1941, in reply to the Panamanian Embassy's notes of June 3 and June 18⁶³ on this subject.

In considering this matter the following considerations occur to me: As has been pointed out in various despatches (e.g. No. 19 of June 3, 1941 and No. 486 of January 14, 1942)⁶⁴ whatever Panamanian Government may be in office after the war during what may be termed a "normal" period will unquestionably desire to provide for the construction of a large commercial airport in Panamanian territory and to have commercial air lines on the Isthmus land at this Panamanian airport. The present Panamanian Government fully recognizes, I

⁶² Not printed.

⁶³ None printed.

⁶⁴ Neither printed.

believe, that under war conditions it is necessary for the control of commercial aviation to be exercised by our Army. Because of this, and because of the fact that there is at present no airport in Panamanian territory at which large air liners can land, the Panamanian Government is raising no objection to the continued use by commercial aviation of Albrook Field. What it does object to, however, is the construction of installations having a permanent character and which therefore might have the effect of prejudicing the interests of Panama as regards the future development of commercial aviation on the Isthmus. Panama fears that with this permanent and costly construction completed, that when Panama may attempt after the war to carry out plans for the construction of a commercial air field in Panamanian territory, it will be met with objections from the United States Government pointing out that this is unnecessary, unwise, etc., because of the existing construction which has been provided by the United States Government in the Canal Zone. My strictly confidential despatch No. 1003 of March 19, 1942,⁶⁵ conveys the opinion of the President of Panama on this score.

Subsequent to the receipt of the Department's instruction under acknowledgment, I have again conferred with General Andrews⁶⁶ as to the possibility that the permanent administration building might be removed from the site on which it is being constructed (only the foundation has been built to date) and placed further to the northeast on the border of the Republic, which would make it possible for passengers destined for Panama to exit immediately on Panamanian territory (see page 3 of memorandum attached to my despatch No. 486 of January 14, 1942. The thought was that this might make this development more acceptable to Panama). After study of this suggestion, General Andrews informs me that it would not be possible to do this, as the area in question must be kept free of any construction so that airplanes approaching the field from this direction may have unimpeded access. Under this circumstance, the General believes, in view of the crowded and congested conditions at the present temporary administration building, that there is no other course than to go ahead with the construction of the new building, which will in any case, he states, be required in the future for the service of passengers arriving in the Canal Zone, regardless of whether the Republic some day obliges the airlines to land somewhere in the Republic passengers destined for Panama.

Under the circumstances, my suggestion is that our reply to the Panamanian Embassy's note of March 23, 1942, might take the following lines: That the United States Government is unable to share the

⁶⁵ Not printed.

⁶⁶ Maj. Gen. Frank M. Andrews, Commanding General, Caribbean Defense Command.

view of the Government of Panama that the use by commercial aviation companies of airports in the Canal Zone violates provisions of treaties between the two countries; that the United States is, of course, as always, desirous of cooperating with Panama so that the latter may take advantage of the commercial advantages inherent in its geographical situation; that the present development of the commercial airport at Albrook Field is required only in order to take care of existing traffic needs; and that this development is in no way intended to modify or prejudice the situation as regards the future development of commercial aviation on the Isthmus.

I should like, after the Department has sent its reply to the Panamanian Embassy, to have a full and frank conversation with the Minister for Foreign Affairs on this subject. I should propose to talk with him along other lines than those set out in the Department's instruction No. 191 of September 5, 1941,⁶⁷ which, as stated in my despatch No. 486 of January 14, 1942, I believe do not meet the situation. My thought would be to say to the Foreign Minister something as follows: That while there appears to be in this question of the development of commercial aviation on the Isthmus a conflict between the interests of the United States and those of Panama, there is in fact no conflict that cannot be satisfactorily resolved. As has occurred in so many other cases, with the exercise of patience and friendly understanding, the interests of both Governments can be adequately safeguarded. The Panamanian interest is primarily that of obtaining the advantages in a normal period in the future of the development of commercial aviation on the Isthmus. The primary United States interest is the necessity of exercising adequate control over aviation in this area so as to protect the Canal Zone. With the tremendous development in military aviation taking place today it is certain that within a year or two this Canal will be vulnerable to air attack from any capital in the world by planes capable of carrying a bomb-load forty or fifty times more destructive than that carried by Stuka dive bombers today. What we have witnessed in the Nazi attacks on Poland and the Low Countries, and in the Japanese attack on Pearl Harbor, show clearly that even in any "normal" period in the future the United States will have to exercise at all times effective and far-reaching measures of control regarding all aviation coming to the Isthmus. It would seem, however, that once this world emergency is over and assuming that within any reasonable length of time the world may return to what can be termed a "normal" period, it should be readily possible for Panama and the United States to reach an agreement which would conciliate and safeguard adequately these two primary interests.

⁶⁷ Not printed.

I should be glad to receive a copy of the Department's note to the Panamanian Ambassador⁶⁸ and also to be advised whether the Department desires to have me engage in a frank discussion with the Foreign Minister along the lines set out above.

Respectfully yours,

EDWIN C. WILSON

819.7962/68

The Secretary of State to the Panamanian Ambassador (Guardia)

WASHINGTON, June 23, 1942.

EXCELLENCY: I have the honor to reply to Your Excellency's note no. D-165 dated March 23, 1942 relative to the erection at Albrook Field in the Canal Zone of a concrete construction designed to serve as a new administration building for Pan American Airways. I also refer to your predecessor's note no. D-464 of September 17, 1941,⁶⁹ as well as to previous exchanges of communications regarding aviation matters on the Isthmus of Panama.

In referring to these communications I wish to restate this Government's position as expressed in its note of August 5, 1941,⁶⁹ that the use of airdromes in the Panama Canal Zone by commercial aviation companies does not represent an infraction of either the spirit or the terms of any treaty provisions in force between the Government of the United States and the Government of the Republic of Panama. The improvements now being made at Albrook Field, including the construction of a concrete administration building, are essential in view of present conditions, and should in no way be considered as a change in the situation which has prevailed since the establishment of the existing services.

Your Excellency's recent note states that the construction of the concrete building for the Pan American Airways, Incorporated, "an enterprise of a private character which is devoted exclusively to commercial ends", is in open conflict with the principles of existing treaties. In this connection Your Excellency's attention is invited to the provision of Executive Order No. 8974 issued by the President on December 17, 1941,⁷⁰ by the terms of which the Secretary of War is authorized and directed to take possession and assume control of civil aviation systems to the extent necessary for the successful prosecution of the war. Pursuant to this authority the War Department on May 14, 1942, announced its program to control operations of commercial airlines. It is clear, therefore, that although Pan American Airways is an enterprise of a private character, it is not at present devoted exclusively to commercial uses, since its services and facilities

⁶⁸ *Infra.*

⁶⁹ Not printed.

⁷⁰ 6 *Federal Register* 6441.

have been brought within the program of our armed forces in the interest of the defense and security of the hemisphere.

The objection of Your Excellency's Government to the construction of the concrete building at Albrook Field has been brought to the attention of the appropriate authorities of this Government, who state that in view of the crowded and congested conditions at the present temporary administration building, it is imperative that the new building be completed and put into service at the earliest possible date. As Your Excellency is aware, the strategic geographical location of the Isthmus of Panama, the progress made in modern aerial warfare, and the recent expansion of the theatre of war have made it increasingly necessary to augment the system of aviation controls in order adequately to govern the entry into, the navigation within, and the departure from the Isthmus, of military and civil aircraft.

This Government, always interested in maintaining the best of relations with Your Excellency's Government, has in the development of the airport at Albrook Field, no thought of interfering in any way with the national economy of Panama or of prejudicing the sovereignty of the Republic, and wishes at this time to reiterate its continued determination as expressed in the Treaty of 1936 "to enable the Republic of Panama to take advantage of commercial opportunities inherent in its geographical situation." The only interest which this Government has in the development of the airport at Albrook Field is that of providing adequate protection for the Panama Canal.

In view of the foregoing, it is felt that the Panamanian Government has no justification for feeling that the completion of a new airport administration building in the Canal Zone "would have the effect of prejudicing, indefinitely and permanently vital interests of the Republic of Panama".

Accept [etc.]

For the Secretary of State:
SUMNER WELLES

819.7962/69

The Panamanian Ambassador (Guardia) to the Secretary of State

[Translation]

No. D-571

WASHINGTON, August 4, 1942.

[Received August 7.]

MR. SECRETARY: I have the honor to refer to Your Excellency's kind communication 819.7962/68 of June 23, last, by means of which you were good enough to reply to my note No. D-165 of March 23 of this year, both with regard to the request made by my Government arising from the advanced state of the construction of a concrete build-

ing which is being put up in the Canal Zone and which will be meant for the new airport of the Pan American Airways Inc.

In the second paragraph of Your Excellency's note mentioned above, Your Excellency says in part as follows:

"In referring to your communications I wish to reiterate the position of this Government, as expressed in its note of August 5, 1941, that the use of airdromes in the Panama Canal Zone by commercial aviation companies does not represent an infraction of the spirit or of the text of any of the stipulations of the treaties in force between the Government of the United States and the Government of the Republic of Panama."

Allow me to state to Your Excellency that your assertion goes much beyond the immediate point in discussion as to whether the building which is now being constructed for the Pan American Airways, Inc. is primarily for commercial or military purposes. This is a question of fact which I am taking the liberty of commenting on later. But before starting upon such a commentary, I must indicate my Government's non-acquiescence in the general assertion which I have just quoted, which maintains the legality, on the part of the United States, of the operation of commercial aviation in the Canal Zone.

Such a proposal is, as I have already said, in conflict with the stipulations of existing treaties, with the very nature of the Canal Zone and with the fundamental rights of the Panamanian nation.

No further analysis of the treaties of November 18, 1903 and March 2, 1936 is needed to come to the conviction that, under them, only activities having to do with the construction, protection, maintenance, sanitation and defense of the Panama Canal are authorized within the Canal Zone. In addition to being the fundamental spirit of both agreements, this is expressly declared in the General Treaty of March 2, 1936, when it is stated that, with the exception of such activities, the United States of America "*will not permit the establishment in the Canal Zone of private business enterprises other than those existing therein at the time of the signature of this Treaty.*"

With respect to any other activity different from those mentioned, it is clearly understood that Panama is the only power called upon to engage in them or authorize them. This proposition is so clear that no reasoning seems necessary to maintain it. The said treaty of March 2 already cited establishes, as I have stated before, that one of the purposes of that treaty (article 3) is "to enable the Republic of Panama to take advantage of the commercial opportunities inherent in its geographical situation."

With matters thus, my Government cannot agree to the general declaration that the Government of the United States can authorize the use of airdromes in the Canal Zone by commercial aviation companies without violating the aforesaid agreement.

This proposition, one with great scope at present, but with still greater scope for the future, entails a serious injury to the future economy of Panama.

If through the natural development of modern aviation, commercial aviation has become, and will be tomorrow, a source of constantly increasing economic wealth, it is obvious that the enjoyment of this situation corresponds exclusively to the Republic of Panama for the reasons set forth.

In note No. 819.7062/68, Your Excellency states that Pan American Airways, Inc. should not at present be considered as a company engaged solely in commercial activities, since the services and facilities which it is furnishing have been subordinated to military interest and control, decreed by the War Department under date of May 14, 1942 in behalf of defense. Your Excellency also states that, as a result of the congestion at present existing in the building where the management of this company is temporarily located at Albrook Field, it is imperative for it to use a new building of larger size, a need which also exists in view of the progress of modern air warfare, which makes it necessary to increase the system of air control of military and civilian aviation over the Isthmus of Panama.

My Government assumes that Your Excellency wished to refer to air control over the Panama Canal, since in the case of air control over the remainder of the Republic of Panama, such control would devolve exclusively upon the Government of Panama, which would be the one to order the pertinent measures or to be consulted in advance with respect to any advisable measures which should be ordered jointly by Panama and the Canal Zone.

The Government of Panama recognizes that the present emergency requires an expansion of the existing conditions [*facilities?*]⁷¹ at the airdrome at Albrook Field and also admits that, at present, the Government of Panama cannot offer an airport in first-class condition for use by the continent's commercial aviation. My Government also recognizes the fact that the needs and dangers of the present war require extraordinary measures of expansion, watchfulness and control as respects air activities which might endanger the defense of the Panama Canal. As respects those necessities, my Government does not wish to interpose any obstacle, my Government having always been the first to give the most active and effective cooperation in the common defense of the Panama Canal, the American continent and the noble and just cause of the United Nations, in which Panama appears as a military ally.

But my Government has found reason for the representations made both in my note No. D-165 of March 23, 1942 and in the present note precisely in the circumstance that the new building under construction,

⁷¹ Brackets appear in the file translation.

which will replace the present airport of the Pan American Airways at Albrook Field, is a building which has all the appearance of a permanent construction and not of a temporary erection intended solely to meet needs resulting from the present war emergency. If it were a building belonging to the Government of the United States itself, devoted to military purposes, or if it were a building which, although for the exclusive use of the Pan American Airways System, was of a temporary character and designed solely for the present emergency, then my Government would find no reason for apprehension but rather, on the contrary, would be ready once more to declare its intention to cooperate in the common interest of defense. But as it is a concrete structure, with all the signs of a permanent construction, built on the instructions of the Government of the United States and exclusively for the use of the Pan American Airways, Inc., a company which normally engages in private operation of commercial aviation, my Government cannot but be decidedly apprehensive, and must proceed clearly to repeat its non-acquiescence and its confidence that Your Excellency's worthy Government will make categoric statements which will assure the Government of Panama that Panama's commercial future will not be injured through the commercial operation of aviation in the Canal Zone.

Awaiting the pleasure of a reply from Your Excellency, I take pleasure in renewing [etc.]

E. JAEN GUARDIA

819.7962/70

The Ambassador in Panama (Wilson) to the Secretary of State

No. 2792

PANAMÁ, August 11, 1942.

[Received August 15, 1942.]

SIR: I have the honor to refer to the Department's strictly confidential instruction No. 925 of June 23, 1942,⁷² in further relation to the Panamanian protest regarding the construction of a new administration building at Albrook Field, and to report that I have now had a full and frank discussion with the Minister for Foreign Affairs⁷³ along the lines suggested on the last page of my despatch No. 2012 of April 21, 1942.

The occasion for this discussion was a reference made by Dr. Fábrega in conversation with me to the Department's note of June 23, 1942, to the Panamanian Ambassador in Washington in reply to the latter's note of March 23, 1942. Dr. Fábrega said that he was not impressed with the argument in the Department's note to the effect that since the War Department had assumed control of civil aviation systems, Pan American Airways had in effect been removed from the

⁷² Not printed.

⁷³ Octavio Fábrega.

category of an enterprise of private character devoted exclusively to commercial ends. Dr. Fábrega said, furthermore, that he thought the Department's note left the whole question about where it was before.

I remarked that there was no question but that Pan American Airways, together with other heretofore private commercial air systems which had been brought under the control of the Secretary of War, was being used principally for purposes related to the prosecution of the war. Furthermore, I said that frankly it seemed to me that the Department's note ought to be satisfactory to the Panamanian Government: The note states that the construction taking place at Albrook Field is essential in view of present congested conditions and should in no way be considered as a change in the situation which has prevailed since the establishment of existing services. Further, the note states that the United States Government has had, in the development of the airport at Albrook Field, no thought of interfering with the national economy of Panamá or prejudicing the sovereignty of the Republic. The note reiterates the declaration of the Treaty of 1936 about enabling Panamá to take advantage of opportunities inherent in its geographical situation, and states that the only interest which the United States Government has in the development of the airport at Albrook Field is that of providing adequate protection for the Panama Canal. I said that it seemed to me that these statements were reasonable and sound, and I could not see any cause for Panamá to take exception to them, nor, indeed, to have any apprehension in the matter.

Dr. Fábrega went on to say that he was pessimistic regarding the economic future of Panamá, insofar as this might be based upon activities in the Canal Zone related to the passage of vessels through the Canal. He said that with the phenomenal development in aviation, it would probably be a matter of only a short time before much of the cargo heretofore transported in ships through the Canal would be carried by air. It occurred to him, he said, that when because of this development receipts from the Canal should fall off, there might be a temptation for the United States in the post-war period, when retrenchment and economy would probably become the order of the day, to seek to recoup the losses from Canal tolls by insisting that the augmented air services continue to use Canal Zone facilities and pay fees to the United States. He said that, furthermore, it was not at all sure that the increased air transportation services of the future would continue to use the Isthmus as a central junction point, as is being done at present. Panamá must, however, maintain intact its rights to profit economically from the development of air transportation in the future insofar as facilities on the Isthmus might be used by commercial air companies. He reiterated that he feared that

with this large permanent construction at Albrook Field, there would be a great temptation for the United States, once the war is over, to put obstacles in the way of Panamá's developing its own national airfield and having commercial lines use that field.

I said that I could not agree with him that there was any just cause for apprehension that the United States Government would in the future, because of economic reasons, attempt to evade its commitments to Panamá. We had declared in the 1936 Treaty, and now reiterated, that we wished to see Panamá have advantage of the commercial opportunities inherent in its geographical situation. Furthermore, the only interest of the United States in the development of the airport at Albrook Field is, as stated in the Department's note, that of providing adequate protection for the Canal. I said that it seemed to me that there was no reason whatsoever why the Panamanian interest in this question, which is that of obtaining advantages in the future from the development of commercial aviation on the Isthmus, should not be reconciled with the United States interest, which is that of exercising adequate control over aviation in this area so as to protect the Canal. I said that it seemed to me these two interests, instead of being in conflict, were actually complementary. The development in aviation, accelerated by the war, concerning which Dr. Fábrega had spoken, would mean that within a brief period the Canal would be vulnerable to air attack from any capital in the world by planes carrying bomb loads vastly more destructive than any known today. With the experience gained in this war as regards treacherous surprise attacks, it will obviously be necessary for the United States in the future, even in any so-called "normal" period, to exercise at all times effective measures of control regarding aviation coming to the Isthmus. But there was no reason that I could see why such measures of control could not be reconciled with the obtaining by Panamá of the economic advantages which might accrue from the development of commercial aviation in this area.

As Dr. Fábrega had mentioned the construction in the future of a national airport in the vicinity of the City of Panamá, I said that it seemed to me personally that the military necessities for the protection of the Canal in a "normal" period would be served by an agreement that all commercial planes coming to the Isthmus would be under the control of the United States military authorities as to identifying themselves and as to routes they would follow, and that they would first land at Albrook Field for discharge of passengers and freight for the Canal Zone; cleared by the military authorities they could then take off and at the Panamanian National Airport, a few miles distant, would land passengers and freight destined for the Republic. Dr. Fábrega did not comment on the foregoing. He said that he agreed with me that with good will and patience it should be

possible to work out an agreement in the future, once the war is over, which should protect adequately the two primary interests involved.

Respectfully yours,

EDWIN C. WILSON

819.7962/69

The Secretary of State to the Panamanian Ambassador (Guardia)

WASHINGTON, October 28, 1942.

EXCELLENCY: I have the honor to refer to Your Excellency's note no. D-571 dated August 4, 1942 and previous correspondence relative to the erection at Albrook Field in the Canal Zone of a concrete construction designed to serve as a new administration building for Pan American Airways.

I am pleased to note that Your Excellency's Government is fully cognizant that the needs and dangers arising out of the present world crisis require extraordinary measures of watchfulness and control over air activities which might endanger the defenses of the Panama Canal, and that it does not wish to place any obstacle in the way of essential or required improvements of the airdrome at Albrook Field. My Government appreciates this expression of the friendly attitude of the Government of Panama and fully realizes, as Your Excellency has stated, that the Republic has given most active and effective cooperation in matters relating to the defense of the Panama Canal, the American Hemisphere and the cause of the United Nations.

Although no one can be sure of what the post war situation may be with respect to the development of commercial aviation, the Commanding General of the Caribbean area believes that a permanent administration building at Albrook Field will always be necessary as a measure of military preparedness. He has stated that this will be the case irrespective of whatever measures the Panamanian authorities may wish to take with respect to the construction of a national airport. To me this appears to be a reasonable and sound statement and I am unable to see why the Panamanian Government need have any apprehension over the erection of a permanent administration building at Albrook Field. As Your Excellency is no doubt aware, this building is a project sponsored and supervised by the War Department and financed by the Government of the United States to meet additional needs brought about by the war.

The Department has once more given careful consideration to the statements contained in Your Excellency's note of August 4 relating to the possible applicability of existing treaty provisions to the matter under discussion. However, the same conclusion has been reached as previously set forth, particularly in the Department's notes of August 5, 1941⁷⁴ and June 23, 1942 to the Ambassador of Panama at

⁷⁴ Not printed.

Washington, to the effect that the provisions of the Treaty of 1936 between our two countries are not infringed by the construction of the administration building at Albrook Field. As I am sure Your Excellency's Government will readily agree, this Government not only intends but has endeavored in every practical way to comply strictly with both the spirit and the letter of this Treaty and of the agreements supplementary thereto.

Accept [etc.]

For the Secretary of State:
SUMNER WELLES

**AGREEMENT BETWEEN PANAMA AND THE RUBBER RESERVE
COMPANY CONCERNING RUBBER**

811.20 Defense (M)/5839a : Telegram

The Acting Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, March 19, 1942—midnight.

164. Rubber Reserve Company⁷⁵ is prepared to enter into commitment with Panamanian Government to purchase entire production of rubber in Panama except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at price of thirty-five cents per pound c. & f. United States continental port for usual good quality *Castilloa* rubber as understood in New York, with appropriate differentials for other grades. The term of the agreement would be for 5 years, unless sooner terminated by mutual consent. The Government of Panama would agree to restrict export licenses to Rubber Reserve Company or its nominees. The exportation of manufactured rubber, if any, would be restricted to the United States. Panama would agree to use its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some governmental agency, if desirable, would be designated as the single buying agency, otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

Foregoing proposal corresponds generally to agreements entered into with Brazilian Government on March 3.⁷⁶

For your information we understand certain American republics are negotiating to acquire rubber production in some Latin American countries. Please consult immediately proper Panamanian authorities and request their prompt consideration of proposal. If Panamanian authorities agreeable in principle to sale of rubber to United

⁷⁵ A purchasing agency of the Department of Commerce.

⁷⁶ See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

States, Rubber Reserve willing to enter into an agreement immediately to acquire it. Upon consummation of purchasing agreement we will be prepared to discuss with Panamanian authorities any useful joint arrangements to increase rubber production.

WELLES

811.20 Defense (M)/5840 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, March 26, 1942—4 p. m.

[Received 11:12 p. m.]

213. Reference Department's No. 164, March 19, 2 p. m. [*midnight.*] I discussed this question with the Minister of Foreign Affairs⁷⁷ on March 23. He has today informed me that the Cabinet has considered it and referred it to the Banco Agropecuario for examination and recommendation as to price. The Minister said that the Government had already offered certain local rubber producers a price higher than that proposed by the United States. He will advise me further as soon as the report is received from the bank.

WILSON

811.20 Defense (M)/5979 : Telegram

The Acting Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, April 10, 1942—7 p. m.

249. Your 269 of April 7.⁷⁸ Price offered to Panama is same as that offered other producing countries for the same type of rubber, and negotiations are being rapidly concluded elsewhere on that basis. If the Government would prefer a price f. o. b. Panama, Rubber Reserve is prepared to pay 33 cents f. o. b. Panama ocean ports. The Department hopes that an agreement can be reached promptly at this price.

In connection with the minimum required locally mentioned in your telegram, please keep in mind the attitude expressed in the circular telegram of March 28.⁷⁹ It is the belief here that, in view of the loss of the Far Eastern supplies and the urgent demands for military purposes, uses of rubber in the producing countries as well as elsewhere must be kept to those absolutely essential and that the producing countries cannot hope to get disproportionate amounts of the finished products.

WELLES

⁷⁷ Octavio Fábrega.

⁷⁸ Not printed; the Ambassador indicated that the price offered was too low.

⁷⁹ *Ante*, p. 172.

811.20 Defense (M)/6245: Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, April 20, 1942—4 p. m.

[Received 10:02 p. m.]

332. Your 249 of April 10. Minister of Foreign Affairs replies that price of 35 cents per pound in New York offered by Rubber Reserve is not sufficient to stimulate the production and gathering of rubber in this country but that price of 40 cents per pound in Panama would stimulate production and extraction.

Luedtke⁸⁰ and Seeley⁸¹ have looked into the question of costs in getting rubber out under present conditions but find it practically impossible to establish as there has been no rubber gathering in Panama for more than 20 years and no data available regarding costs. Owners of old and abandoned rubber plantations of which there are a number say they are willing to undertake extraction but do not want to lose money.

And in considering statement in Department's instruction number 249 that price offered to Panama is the same as that made to other producing countries for same type of rubber and Luedtke and Seeley feel that in view of the high wage scale and scarcity of labor in Panama some additional inducement will have to be made if rubber extraction in Panama is to be stimulated.

WILSON

811.20 Defense (M)/6824: Telegram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, May 28, 1942—11 a. m.

469. Your 523, May 23.⁸² You are authorized to inform the Panamanian Government that the 33 cents per pound offered by Rubber Reserve Company for rubber in Panama will be on the same basis as that agreed on with Costa Rica.⁸³ The Rubber Reserve offer is for castilloa of usual good quality which contemplates tolerance for moisture and foreign materials. A premium will be paid for dry sheet rubber.

Under plans now in process of execution, Rubber Reserve Company contemplates the creation of an organization to aid in the development of the rubber resources of Panama and to carry out its procurement program there, and has entered into a contract with Chicle Development Corporation providing for the purchase of rubber for the account

⁸⁰ Charles L. Luedtke, Agricultural Attaché, Costa Rica.⁸¹ George L. Seeley, rubber expert, Office of the Coordinator of Inter-American Affairs.⁸² Not printed.⁸³ For correspondence on rubber agreement with Costa Rica, see pp. 228 ff.

of Rubber Reserve in Panama. A copy of the contract is being forwarded by airmail.⁸⁴ Chiclé Development Corporation's plans are expected to go forward immediately.

HULL

811.20 Defense (M)/7596: Telegram

The Chargé in Panama (Muccio) to the Secretary of State

PANAMÁ, July 6, 1942—8 p. m.
[Received July 7—1:08 a. m.]

756. My June 27.⁸⁵ Banco Agropecuario e Industrial has submitted a counter draft of rubber agreement which is in substantial agreement with draft submitted with Department's instruction 864, June 8.⁸⁶ Only important differences are (1) contract will be signed by bank on behalf of Government of Panama, (2) right of export not "exclusive" as in our paragraph two but bank's paragraph three provides that bank agrees that all rubber produced is to be sold to agency, (3) bank's draft includes a new paragraph providing that reserve obligates itself to receive (up to) 240 tons of rubber and return equivalent amount of manufactured products within 4 months of bank's delivery of rubber, (4) price is made delivered bank's warehouse in Panama not f.o.b. ocean port. Our paragraph five is therefore eliminated.

Copy and translation of counterproposal going forward by air mail tomorrow.⁸⁷

MUCCIO

811.20 Defense (M)/8111: Telegram

The Ambassador in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, August 4, 1942.
[Received August 5—12:27 a. m.]

412. From Apodaga⁸⁸ to Bicknell,⁸⁹ Rubber Reserve Company. As feasible way of promptly concluding negotiations suggest compromise on Panama's counterproposal. We might allocate from development fund provided in article VII an average of \$15,000 annually to reimburse bank upon presentation of proper vouchers for expenses of warehousing, handling and delivery of rubber aboard ship for sale to Rubber Reserve at 33 cents f.o.b. steamer. Bank to handle all shipping details. This would meet their demand while literally retaining

⁸⁴ Not printed. This corporation was to act for the Rubber Reserve Company in purchasing and developing rubber in accordance with the policy of making all possible use of existing commercial organizations (811.20 Defense (M)/6879a).

⁸⁵ Telegram No. 707, not printed.

⁸⁶ Not printed.

⁸⁷ Despatch No. 2531, not printed.

⁸⁸ Presumably J. L. Apodaca, official of Rubber Reserve Company.

⁸⁹ John W. Bicknell, vice president, Rubber Reserve Company.

our uniform price. If suggestion meets your approval I can present it to bank next week. [Apodaca.]

SCOTTEN

811.20 Defense (M)/8377: Airgram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, August 14, 1942—6 p. m.

[Received August 18—12:30 p. m.]

A-131. My 800, July 23, 4 p. m.⁹¹ A last minute hitch has arisen in connection with negotiations for rubber agreement which is most unfortunate. Apodaca has been here twice on this matter, seeking to find a compromise on the question of price to be paid by Reserve. Two feasible formulas were submitted by him to Reserve for clearance both of which we had reason to believe would be acceptable to Panama. This presumably had settled the last remaining point of difference and we were hoping to arrange this afternoon for signature of agreement. In telephone conversation however which Apodaca has just had with Bicknell latter insisted that the bank must not pay a higher price than 33 cents internally for rubber purchased within the Republic of Panama. This is a complete surprise to us, since our telegram no. 707, June 27, 11 a. m.⁹¹ stated specifically that the plan of the bank was to pay rubber producers a price sufficiently attractive to stimulate production, the bank paying difference between 33 cents received from Rubber Reserve and any higher price paid producers by bank, this difference to be absorbed by Government and recovered from price paid by purchaser for rubber tires and products. The Embassy's telegram No. 756, July 6, 8 p. m. referred specifically to No. 707, June 27 and in answer thereto the Department in its telegram No. 694, July 21, 10 p. m. stated that draft was satisfactory subject to two points which made no reference to question of internal price.⁹² Furthermore, Apodaca wrote Bicknell from Panamá on July 30 explaining in detail the plan of the bank to pay to producers an initial price of 40 cents per pound and to make up the difference by charging higher prices on finished rubber goods. Rubber Reserve presumably after receiving foregoing letter replied to Apodaca at San José in Department's No. 334, August 10, 11 p.m.⁹¹ raising no question regarding this matter of differential as regards internal price.

⁹¹ Not printed.

⁹² Telegram No. 694 not printed; the Rubber Reserve Company wanted to institute controls over rubber export and to absorb loading charges and export taxes (811.20 Defense (M)/7651).

In telephone conversation today Bicknell stated that bank's counterproposal submitted in Embassy despatch No. 2531⁹³ was acceptable provided price paid to producers in Panama by bank would be no higher than 33 cents. He stated, furthermore, that Reserve and Board of Economic Warfare did not favor the charging of higher prices for manufactured rubber goods since an effort was made to supply goods to all Latin American countries and every attempt is made to see that ultimate consumers in Latin America do not pay exorbitant prices for goods supplied by United States.

It seems to me that if the United States Government is really interested in the one essential aspect of this matter, namely that of getting rubber for the war effort, it is no concern of ours what Panama pays internally to the producers of rubber or what price Panama sets for finished rubber goods, provided we get the crude rubber at a price satisfactory to us. In order to speed up action on this rubber agreement I have recently spoken with the President and members of the Cabinet, and as a result the negotiations on the agreement from Panama's side have been placed in the hands of the Minister of Agriculture,⁹⁴ who is doing everything possible to conclude the negotiations without further loss of time. It is, however, utterly useless for us to go back to Panama and attempt to dictate to them what they are to pay producers in the country or what price they are to set on finished goods. The responsible officials of the Government of Panama are convinced that in order to get rubber out of the interior they will have to pay producers 40 cents or more a pound. It is a matter of common knowledge that wage scales are considerably higher in Panama, due to the Canal Zone and demand for labor there, than they are in any of the neighboring countries. The only way that Panama can accept our price of 33 cents is to pay producers the price which will bring the rubber out.

I recommend strongly that Apodaca be authorized to sign the agreement on the basis of the draft already submitted to the Department as amended in two particulars, first, paragraph 6 to be so worded as to permit the bank to pay producers a higher price than the fixed price; and second, the fixed price to be 33 cents on dock Panama ocean ports.

WILSON

⁹³ Not printed; in this counterproposal Panama indicated its wish that the Banco Agropecuario act for it, that rubber products up to 240 tons be supplied, and that warehouse price be used as the standard (811.20 Defense (M)/7651).

⁹⁴ Ernesto Fábrega.

811.20 Defense (M)/8325: Telegram

The Ambassador in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, August 15, 1942—4 p. m.
[Received August 16—12:55 a. m.]

433. Reynolds⁹⁶ to Rosenthal⁹⁷ and Bicknell, Board of Economic Warfare and Rubber Reserve.

"Spent yesterday in Panama. After talking with Apodaca and getting views of the Ambassador am thoroughly convinced we cannot reach an agreement with Panama unless we recognize the fact that Panama can pay any price she wishes for rubber produced domestically so long as she sells to Reserve at 33 cents. Full assurance has been given by bank that they will maintain premium payments internally not only to stimulate production of 240 tons necessary for domestic needs but for all possible production. Careful estimates indicate production of approximately 568 tons which means that their plan will require an average of only \$1.60 per tire increase in price. Panama officials feel they have complete right to pay their producers what they wish for crude rubber and to sell imported rubber goods at prices determined by Panama.

Understand Board of Economic Warfare objects to higher charge for tires to Panamanian consumers. Let's be realistic! This is strictly a domestic economic and political problem not for determination by us. Ambassador and Apodaca believed you had recognized this right of Panama since no objection had been received to cables setting forth bank's plan nor did your reply to bank's counter proposal indicate objection to internal premium payments of which you had been forewarned.

Only other issue relates to point of delivery at 33 cents and Apodaca has offered two formulas that assure agreement.

Though everybody here realizes this is not ideal, it is the best practical solution of a difficult situation and I strongly recommend that you authorize Apodaca to sign at once."

SCOTTEN

811.20 Defense (M)/8377: Telegram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, August 21, 1942—9 p. m.

741. Your Airgram 131, August 14, and 433, August 15, and letter August 15 to Feis.⁹⁸

⁹⁶ George M. Reynolds, Board of Economic Warfare.

⁹⁷ Morris Rosenthal, Assistant Executive Director, Board of Economic Warfare.

⁹⁸ Letter of August 15 not printed; Herbert Feis was Adviser on International Economic Affairs.

(1) At time of drafting Department's 694 of July 21⁹⁹ it was assumed by Department that Panama had abandoned its plan to employ a double price basis with compensation derived from sale of rubber products. Your 800 of July 23⁹⁹ did make clear that it had not been abandoned but message received from Apodaca on August 4 from Costa Rica created new misunderstanding on our part because it appeared to indicate that the difference between the 33 cent price and the 40 cent price would be taken care of not through the employment of a double price system but through expenditures from the Development Fund. This is recounted to you just by way of explanation.

(2) All agencies here are of the opinion that we should, if possible, seek better means of dealing with difficulty than the double price system proposed which appears susceptible of great misunderstanding. We have carefully reviewed the alternatives. First, we might agree to a higher price for Panamanian crude rubber on the basis of facts outlined in your letter to Feis. This of course might have repercussions in other producing countries which we desire to avoid if possible. Second, we might be able to compensate for the higher Panamanian costs through use of the Development Fund. The Fund might, for instance, be used to pay unusually high transportation costs, to make supplies needed in production available at low prices, as well as food and medical supplies. This seems to us the most satisfactory alternative and it is suggested that you, with the assistance of Apodaca should see whether a solution along this line, is not satisfactory to the Panamanian Government possibly providing for the payment of 33 cents f.o.b. dock as well as expenditures from the Fund. We recognize the special cost situation in Panama and are ready to consider any satisfactory immediate solution. We greatly appreciate the personal attention you have given to the matter.

HULL

811.20 Defense (M)8702: Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, August 31, 1942—noon.

[Received 3:41 p. m.]

869. Your 741, August 21, 9 p. m., and Apodaca's airmail letter to Bicknell of August 29.¹ Apodaca and Seeley had a most satisfactory meeting this morning with the Minister of Agriculture, the Minister of Finance, the Manager of the Agricultural Bank and representatives of rubber producers. At the close of the meeting the Minister of Agriculture indicated informally that the draft memorandum of agreement enclosed with Apodaca's letter of August 29 to Bicknell

⁹⁹ Not printed.

¹ Letter of August 29 not printed.

was acceptable to the Government of Panama. The obstacle which had existed as described at the foot of page 2 of Apodaca's letter of August 29 is susceptible of satisfactory solution on the basis indicated in the letter: It appears that there are only about 5 tons of rubber involved which were purchased at 35 cents a pound.

Please rush authorization to submit formally the memorandum of August 29 to the Panamanian Government and for Apodaca to sign.

WILSON

811.20 Defense (M)/9080

*Rubber Agreement Between Panama and the Rubber Reserve Company, Signed at Panama, September 11, 1942*²

The undersigned, Octavio Fábrega, Minister for Foreign Affairs of the Republic of Panamá, acting on behalf of his own Government, and J. L. Apodaca, acting on behalf of the Rubber Reserve Company, an Agency of the United States Government, being duly and legally authorized, have concluded the following Agreement:

1. Rubber Reserve is obligated to supply to the Republic of Panamá an annual quantity of manufactured rubber products containing an equivalent of not more than two hundred forty (240) tons of rubber, in accordance with the specifications that the authorized officials of the Republic of Panamá give to Rubber Reserve. The Republic of Panamá agrees to take effective measures for the purpose of conserving the rubber products and directing them toward the most essential uses, including measures to avoid the hoarding of rubber and rubber products.

2. The Republic of Panamá obligates itself to prohibit exports of rubber and rubber products from Panamá to any country or territory other than the continental United States and to make every effort to see that all rubber products in the territory of the Republic of Panamá which are not required by the Republic of Panamá for domestic use or consumption shall be made available for export to the United States. The amount of rubber (including the rubber contained in the rubber products) required by the Republic of Panamá for internal use shall be fixed at not more than two hundred forty (240) tons per year; but it is understood and agreed that this amount may be increased by mutual consent of the parties up to the point in which it is shown that a larger amount is required to meet the justifiable needs of Panamá.

3. The Republic of Panamá consents to the establishment by Rubber Reserve of the necessary organization or agency in the Republic of

² Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 2962, September 11; received September 17.

Panamá, which shall be the only organization or agency empowered to purchase crude rubber for export, to assist in rubber production and to aid in the development of the rubber resources of the Republic of Panamá. It is understood that such organization or agency as may be established shall have all powers necessary and appropriate to the performance of these functions. It is further understood that the Republic of Panamá will collaborate with the program in every possible way to the end that the largest possible quantity of rubber, consistent with the conservation of the resources of Panamá, may be produced.

4. Rubber Reserve, through its agency, and the Republic of Panamá will jointly take such measures as may be deemed necessary to assure that gatherers of rubber receive a fair proportion of the final price paid at the ports of shipment. Rubber Reserve agrees to collaborate fully with the Republic of Panamá in accomplishing such purposes, and to consult, through the proper channels, with the Ministry of Commerce and Agriculture of the Republic of Panamá with respect to the inclusion in contracts of provisions for accomplishing such purposes as well as other methods of improving economic conditions for the growers of rubber.

5. The term of this agreement shall be for a period beginning with the date hereof and ending December 31, 1946, unless sooner terminated by the mutual consent of the parties hereto.

6. This agreement requires the approval of the Executive Power of the Government of the Republic of Panamá.³

Signed in Panamá in duplicate in both English and Spanish this 11th day of September, 1942.

On behalf of the Government of the Republic of Panamá,

OCTAVIO FÁBREGA
Minister for Foreign Affairs

On behalf of the Rubber Reserve Company, Agency of the Government of the United States of America,

J. L. APODACA

³ The agreement was signed by the Panamanian President on September 12.

PARAGUAY

AGREEMENT BETWEEN THE UNITED STATES AND PARAGUAY REGARDING CONSTRUCTION OF AN AIRPORT AT ASUNCIÓN

810.20 Defense/2345a : Telegram

The Acting Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, March 23, 1942—8 p. m.

84. Under a new contract entered into between the War Department and Pan American Airways it is contemplated to go ahead with construction of airport improvements at Asunción and Concepción in the near future.

Since it is now well known throughout the American republics that the airport development work of Pan American under the original program was financed by this Government, and in view of the changed situation, it is believed that such negotiations as may be required with the Paraguayan Government should be conducted by this Government rather than through Pan American Airways as was done in the first program. If, in the case of Paraguay, no further permissions or negotiations are necessary, it presumably will be sufficient for you to notify the Paraguayan Government that the construction work will be undertaken soon and at the instance of this Government.

Specific details of the work contemplated are being sent you by air mail.

WELLES

810.20 Defense/2346

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 473

ASUNCIÓN, March 28, 1942.

[Received April 2.]

SIR: I have the honor to acknowledge the Department's telegraphic instruction No. 84 of March 23—8 p. m. with reference to the undertaking in the immediate future of airport improvements at Asunción and Concepción. In accordance with this instruction I have both orally and in writing informed the Foreign Minister¹ that if in the case of Paraguay no further permission or negotiations are necessary it is desired to notify his government that the construction in question will be undertaken soon and at the instance of the American Govern-

¹ L. Argaña.

ment. He has also been informed that specific details as to the work contemplated are en route by air mail and will be furnished him when received.

Dr. Argaña, who has recently taken a strong position in favor of the airport improvements in Cabinet meetings as a result of hints from me, expressed himself as pleased at the Department's attitude, and he awaits with interest the receipt of detailed information.

Meanwhile there are transmitted herewith copies and translations of the "presentation" made by the local manager of Pan American Airways to the Director of Aerial Traffic on January 22, 1942, and of the draft project for the contract which he hoped to secure from the Paraguayan Government on behalf of Pan American Airways, Inc.² Further comment on these documents and on the negotiations in connection with which they were prepared will be submitted in a subsequent despatch; but it may be mentioned that the principal point of discussion was the matter of exclusive rights for Pan American Airways mentioned in Articles 1 and 5 of the draft project.

Respectfully yours,

WESLEY FROST

810.20 Defense/2481 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, April 21, 1942—4 p. m.

[Received 7:24 p. m.]

161. Department's No. 84, March 23, 8 p. m. Argaña has been trying to secure clearance for airport improvement and has twice referred me to the Minister of War,³ the latter has finally taken documentary file on the matter away from air force and general staff and under President's⁴ order is personally drafting clause regarding exclusive rights sought by Pan American. Some adjustment of latter's existing and future position is regarded as necessary, Pan American Airways alleging that Paraguayan Government schemes to take field over and make it free national airport for all classes of companies and traffic with no safeguarding of Panair's rights. Minister of War promises action and I offered to intervene informally to secure arrangement with Panair. He states and so does Argaña that there is no reason why the work should not proceed prior to the adjustment mentioned but they seem uneasy and I rather share their feeling that the Panair aspect should be cleared up. I think they are now anxious to close the matter immediately.

FROST

² Not printed.

³ Brig. Gen. Vicente Machuca.

⁴ Higenio Morínigo.

810.20 Defense/2481 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, April 28, 1942—9 p. m.

123. Your 161, April 21, 4 p. m. The War Department has reached an agreement with Pan American Airways whereby Pan American Airways grants the use of airports constructed with United States Government funds to United States public aircraft and certified United States civil aircraft for the duration of the present emergency. The Department believes that phraseology such as the following, to which Young of PAA has agreed, in whatever contract may be necessary between the Paraguayan Government and Pan American Airways, will be desirable both from the point of view of Paraguay and the United States:

“The use of the airport shall be restricted to airlines owned, operated and effectively controlled by citizens of the American republics who subscribe to the Declaration of Lima.”⁵

The Department does not wish, of course, to exclude friendly airlines owned or operated by citizens of any of the American republics from the use of airfields constructed wholly or substantially with U.S. Government funds.

HULL

810.20 Defense/2707 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, May 22, 1942—9 p. m.

[Received May 23—2:08 a. m.]

225. Department's No. 84 March 23, 8 p. m. Foreign Minister summoned me today and in presence of Minister of War informed me that Cabinet voted unanimously yesterday to authorize immediate airfield improvement work on condition of 20-year contract instead of 30 years. This was based on terms opened by Panair agent here as per my despatch No. 473 of March 28, 1942. Foreign Minister promised a written communication immediately.

I trust Panair may instruct its agent at once that this is satisfactory. Please telegraph.

FROST

⁵ December 24, 1938; for text, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189.

810.20 Defense/2740 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, undated.

[Received May 27, 1942—10:08 p. m.]

230. My No. 225, May 22, 9 p. m. Minister of War today stated that authorization air field applies to only Asunción, as Panair has submitted no petition respecting Concepción. He requests immediate formulation of request for Concepción, taking into account that the field there is and must remain a military field.

I have the honor to request that Panair be at once directed to instruct its representative at Asunción immediately to submit proposal for Concepción. Engineer Somers should be placed in position to operate simultaneously as to both fields. I should appreciate telegraphic instruction as to whether the Department takes such action.

Military Attaché has prepared following suggestions regarding Concepción field which have my full endorsement.

"(1) Panair to [apparent omission] field, make any necessary installations.

(2) Panair to pay for additional land, but land will be obtained by Government condemnation proceedings and Government will retain ownership and title. (If Panair feels price is too high, it may withdraw from the whole deal).

(3) In return for above, Panair be granted free use of field for 20 years. At end of period the whole passes to the Government and Panair gets first refusal to rent.

(4) Phraseology quoted in Department's telegram 123, April 28, 9 p. m. paragraph [1] may be added in appropriate places: (a) Panair maintain field's landing facilities for public and military use. (b) In return Panair will have right control all civilian use of the field, under supervision of the military commander. Planes of Paraguayan registry will have free use of landing facilities, others will pay such fee as may be determined by Panair in agreement with military.

The above arrangements are suggested to meet the presumptive view of Paraguay that: (a) Field remain primarily military. (b) Paraguay, looking to national air lines, have some say in control of civilian traffic. (c) Many Paraguayans resent the fact that a foreign concern can issue orders to Paraguayans.

Others are suggested to protect Panair to the extent of: (a) If Panair maintains field, it should have control necessary to carry out effective maintenance. No control, no responsibility."

FROST

810.20 Defense/2753 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, May 28, 1942—7 p. m.

[Received May 29—3:02 a. m.]

233. Referring to my telegram No. 225, May 22, 9 p. m and my despatch No. 473, March 28, 1942, and enclosure, file 879.62. Cabinet of Paraguay has approved and Foreign Office has sent me today copy of project decree law as enclosure to note dated May 27 regarding expansion of airfield at Asunción. The new text is identical with draft enclosed with my despatch, with following exceptions which are quoted in full.

Article 1. There is established in favor of the air transport company Pan American Airways, Inc., the usufruct, for the period of 20 years, of the fiscal property situated in Campo Grande, in the vicinity of kilometer markings 10 and 12 of the Central Paraguay Railway Line, in an extension 2,000 meters in a north-south direction and 2,000 meters in an east-west direction, which the company at present occupies.

Article 4. At the end of the concession, or if same would extinguish before due date for failures on the part of the usufructuary, there will pass automatically to the benefit of the Government all of the installations and constructions made at the exclusive expense of the company and which can be included in the term "fixed and secured within the property" no matter how high the cost of same may have been. Upon delivery, the installations and constructions herein referred to must be in a good state of repair and preservation.

Article 7. The company will insure the installations over which the concession is granted against fire risks or destruction from unforeseen causes.

Article 9. The General Aeronautics Administration shall be able to utilize the airport whenever opportune, during the time which may be necessary; and shall likewise be delivered to grant special permission for the use of the airport by specified foreign or national airships, in common accord with the concessionary company in the case of foreign airships.

Article 10. The usufructuary company is exempted from fiscal or municipal taxes on the property in usufruct.

Article 11. The operation of the airport remains subject to the permanent control of the proper agency of the General Aeronautics Administration.

Article 12. The control of the customs, police and sanitary authorities will be affected within airport without any knowledge of restrictions, in accordance with laws and regulations in force.

Articles 13 and 14 appeared as articles 9 and 10 in the former text.

FROST

810.20 Defense/2757 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, May 29, 1942—noon.

[Received 8 : 44 p. m.]

234. My 233, May 28, 7 p. m. Paraguayan Government is prepared to modify article 9 of air field contract so that first phrase will read as follows "The General Aeronautics Administration shall be able to utilize the airport in such cases and during such time as may be necessary." This change was worked out by me with Argaña to make clear the intermittent and non-definitive character of the Paraguayan Government's utilization of the field.

Referring to the Department's telegram no. 123, April 28, 9 p. m., Paraguayan Government will insert in the contract the phraseology suggested by the Department if there be added to it the following "while the present international emergency continues, after the disappearance of which there will be concerted new bases or conditions for the utilization of the air field by non-American companies or citizens". Non-American signifies non-Western Hemisphere.

I have the honor to recommend acceptance of contract as offered by the Paraguayan Government with the above changes. Contract for Concepción Field would be immediately granted on same general terms, allowing for fact that it will be a military field. Please telegraph at earliest convenience as contract must be approved by Council of State which meets June 2 and June 5.

FROST

810.20 Defense/2759 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, May 29, 1942—1 p. m.

[Received 11 : 06 p. m.]

236. My 233, May 28, 7 p. m. As of interest to show the manner in which the terms contained in proposed air field concession were approached the following differences in the preamble compared with text forwarded with my despatch 473,⁶ are quoted :

"That the property in question belongs to the National Government and on the property the petitioning company has provided the installations necessary for the functioning of the service which it discharges.

That the stipulated conditions will permit the state when the concession ends, to enter into possession without special formalities, of a modern aviation field capable of handling the traffic of large commercial airships.

That the field mentioned may be used by airplanes of the state at any time and during the time which may be necessary.

⁶ Dated March 28, p. 644.

The petitioning company in the 4 years of its operation in the country has sufficiently demonstrated its capacity, skill and qualifications to afford aerial services and meet the heavy expenses which the necessary installations require."

FROST

810.20 Defense/2757 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, June 5, 1942—3 p. m.

170. Your 234, May 29, noon. The Department does not consider acceptable the phraseology proposed by the Paraguayan Government in the second paragraph of your telegram under reference. There is no assurance that when the "international emergency" disappears it will be consistent with the safety and security of the Hemisphere to facilitate aviation activities in the Hemisphere by non-American companies or citizens. The Department strongly urges that the formula contained in the Department's 123, April 23 [28], 9 p. m., be used without modification.

Your 230, May 27; 233, May 28; and 236, May 29, 1 p. m. This Government considers it important that the decree contain no language that would operate to give Pan American exclusive rights of a nature which would conflict with our agreement with Pan American as described in the Department's 123, April 23 [28], 1942 and believes that this result will be best accomplished by a specific provision in the decree that the field may be used by United States publicly owned or duly registered privately owned aircraft and aircraft operated for the United States Government under contract and by any other aircraft authorized by the United States Government and Paraguayan Government. Such reasonable landing fees or charges as Paraguayan laws or regulations may require will be paid by all aircraft using the field except for United States and Paraguayan Government owned aircraft which would of course use the field without payment of fees or charges.

HULL

810.20 Defense/2804 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, June 11, 1942—10 p. m.

[Received June 12—12: 15 p. m.]

258. Department's no. 170, June 5, 3 p. m. The Department's attitude was discussed by me with the Foreign Minister on June 8 and 10 and by him at subsequent Cabinet meetings.

I also conversed extensively with Finance Minister. Tonight I have received formal memorandum to the following purport. The phraseology discussed in Department's first paragraph is too absolute

and categoric to be acceptable except during emergency importing most grave and unnecessary restriction, which may well be deemed derogatory to national sovereignty especially when it is a condition advanced from a foreign source. The Paraguayan Government insists on addition of language already proposed.

Regarding the Department's second paragraph the memorandum considers that the reference to planes belonging to, registered in, operating for, or authorized by the United States, excluding mention of any other American country, will suggest to the humblest intelligence that the usufruct of a portion of Paraguayan territory will be in reality conceded to a foreign government and not to a private enterprise. The Paraguayan Government deems best, particularly in view of the provisions of article 18 and of clause 13 of article 76 in the national constitution of August 15, 1940, to accord any concession on such matters to a commercial concern rather than to a government. It regards the terms of article 9 of the projected decree law transmitted by my no. 233 of May 28, 7 p. m. with the modification suggested in my telegram 234, May 29, noon and air mail despatch 125, May 30,⁷ as to cover use of field by American planes, but if this is not acceptable it offers the following in substitution of proposal in second paragraph of Department's instruction under acknowledgment.

"The field may be used by planes belonging to the American Republics which have subscribed to the Declaration of [Lima]. The Paraguayan Government in agreement with the concessionary company will determine in each case the conditions and special privileges in favor of aforesaid countries for said use of the airport, provided that this conforms to reciprocal conditions and privileges granted to the Paraguayan Government in the respective territories and on equal terms."

This proposal is said to be in perfect accord with the letter and spirit of the Rio de Janeiro resolutions.⁸ Privately I am assured they will gladly give us the privileges asked, but do not desire these to figure in the contract.

On the first of the two points Paraguay wishes to insure herself a great national [airport?] for universal use. On the second she has to consider Argentina and preserve the principle that the concession is not from one government to another but from a sovereign government to a private foreign concern. If the terms indicated grants to a foreign concern the negotiations would require completely new examination and the Paraguayan Army would endeavor to have the airport constructed at an interior point.

⁷ Despatch No. 125 not printed.

⁸ For correspondence regarding the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942, see vol. v, pp. 6 ff.

On the first point I have the impression that some compromise might still be reached, such as a proposal that the post-war negotiations should not relate to planes of countries with which Paraguay has broken relations. On the second point any modification seems doubtful.

If the Department decides to renew its attitude on the points there may be anticipated protracted negotiations, and the question of whether Panair should continue as the party in interest will arise. The negotiations might or might not be aided by the withdrawal now of the eight engineers of Panair waiting here for some time past who have become very restive. This withdrawal might cause the impression that Paraguay may really lose the opportunity of having the two airports constructed, particularly as the progress of the war indicates that they are even less likely than formerly to be needed for hemispheric defense. On the other hand since the Government feels very strongly on the matter of its sovereignty and has had difficulty with its army and Argentina on the entire question it would be apt to feel that a strong attitude by us on the points would be both exigent and lacking in comprehension.

FROST

810.20 Defense/2787 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, June 20, 1942—7 p. m.

202. Reference your despatch no. 125, May 30, 1942.⁹ Your telegram no. 258, June 11, 10 p. m. The War Department and this Department do not desire to obtain any special privileges in Paraguay, but wish to assure that at least, for the duration of the emergency, only aircraft owned, operated and effectively controlled by bona fide citizens of the American republics who subscribe to the Declaration of Lima shall have access to the airports constructed in Paraguay wholly or partly with United States Government funds. This Government also desires to assure that any aircraft meeting the above conditions, subject, of course, to the approval of the Paraguayan Government, may use the airport or airports.

The following changes in a draft decree law enclosed with your despatch no. 125 are suggested :

The following paragraph to be added to Article V :

“Pan American Airways, Inc., shall likewise allow full use of the airport by aircraft owned by or operated for the Governments of any of the American republics or operated by any company which is controlled by bona fide citizens of any of the American republics, or owned directly by such bona fide citizens of any of the American re-

⁹ Not printed.

publics, in such special circumstances as the General Aeronautics Administration of the Paraguayan Government may consider it appropriate to grant permission for such use of the airport."

Article IX to be redrafted as follows:

"Article IX. The General Aeronautics Administration is empowered to utilize the airport at any time, for as long a period as may be necessary; it is likewise empowered to grant special permission for the use of the airport by the aircraft specified in Article V of this decree, with due consideration of course for the requirements of the concessionaire company in the operation and maintenance of its regular or special services."

You will observe from the suggested language of Articles V and IX that this Government wishes to exclude from the use of the airport or airports all aircraft owned or controlled by governments, companies or citizens not of the American republics, and that this Government wishes at the same time to avoid an arrangement by which a particular United States carrier has a monopoly for the use of an airport constructed with funds of this Government. As you are aware, the principal consideration which has led this Government to undertake airport construction in Paraguay is the desire to assist Paraguay in a constructive development of public benefit.

HULL

810.20 Defense/2889 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, June 26, 1942—4 p. m.

[Received 7:19 p. m.]

291. Department's 202, June 20, 7 p. m. Cabinet agreed to Department's suggested clauses regarding air field contract June 24 and Council of State of June 25. Final draft is scheduled to be approved by Council June 30 and signed by President. I still have my fingers crossed.

FROST

810.20 Defense/2921.: Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, July 1, 1942—6 p. m.

[Received 11:03 p. m.]

302. Department's 202, June 20, 7 p. m. Concession approved by Council of State June 30 and decree signed by President and Cabinet today July 1 including language as suggested as translated by this Mission.

FROST

834.7962/21 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, November 3, 1942—7 p. m.

358. Your despatch 465, October 10, 1942.¹¹ In view of the difficulties that have arisen the Department is not prepared at this time to assure prompt completion of the Asunción airport in accordance with the original contract, particularly since the engineers assigned to the work have departed and there is a pressing need for their services on other similar and more urgent projects.

Should the Paraguayan Ambassador approach the Department as indicated in your despatch, he will be informed that the Department will reconsider the resumption of work on the airport at such time as all possibility of further difficulties is removed.

As previously indicated, neither the Department nor the War Department consider the Asunción airport a necessary project at this time and its construction was started only to comply with the Paraguayan Government's request. In view of the action by the Paraguayan army which has delayed the work on the airport, the Department does not feel that any obligation exists to resume work immediately. You should refrain from giving the Paraguayan Government any indication that the Department desires to resume construction.

HULL

CREDIT AGREEMENT BETWEEN THE EXPORT-IMPORT BANK OF WASHINGTON AND PARAGUAY, SIGNED AT WASHINGTON, SEPTEMBER 30, 1942¹²

834.50/23 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, April 20, 1942—3 p. m.

[Received April 21—3: 45 a. m.]

157. Referring to my despatch no. 535 of April 10¹³ Foreign Minister¹⁴ on April 17 requested me orally with approval of President Morínigo to invite United States to send an economic survey mission to Paraguay similar to that now functioning in Bolivia. In response to my suggestion he promised to instruct Ambassador Velázquez by

¹¹ Not printed. In August, construction on the airport at Asunción was halted because of action by the Paraguayan cavalry in preventing use of military-reservation land which had been designated as part of the airport. Correspondence regarding this difficulty is not printed.

¹² For previous correspondence pertaining to economic and financial assistance by the United States to Paraguay, see *Foreign Relations*, 1941, vol. VII, pp. 484 ff.

¹³ Not printed.

¹⁴ L. Argaña.

airmail leaving April 19 to deliver same invitation at Washington. Nevertheless Argaña insisted that I convey the request likewise. He promised to address me in writing but I doubt if he will do so until there is some indication from Washington of a favorable attitude toward request. The apprehensiveness and sensitiveness here as to possible rebuffs phenomenal. I earnestly hope that the Department can afford prompt reassurance and acceptance.

Early arrival of economic mission seems especially important because of what we have already done in other countries watched by Paraguay. She feels that her lack of key materials accounts for relative lack of interest of Washington in her problems and that if our friendship is genuine we should be as helpful in a poor country as in one with many resources.

I also hope that some official of the Department can be assigned to assist Velázquez daily and in detail until arrangements for \$900,000 credits and if possible some other immediate project are actually completed and announced. The fear has been expressed to me by Cabinet Ministers and I personally share it that he is not sufficiently practical and aggressive to get prompt results in Washington under present conditions there. Prompt results are urgently desirable for a multitude of political reasons here.

FROST

834.50/23 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, April 27, 1942—9 p. m.

121. From Welles.¹⁵ Your no. 157, April 20, 3 p. m., and despatches and correspondence. The Department is discussing thoroughly with the Paraguayan Ambassador and appropriate Government agencies the working out of a suitable further cooperative program with Paraguay. The Paraguayan Ambassador has requested assistance with respect to agricultural and industrial development, highways and other public works, and health projects.

For your information, considerable progress is being made already in the field of health and sanitation cooperation and the Coordinator of Inter-American Affairs is prepared to enter at once into an arrangement with Paraguay to begin general health and sanitation works¹⁶ and to study the possibility of proceeding with any water and sewage works in the face of the impossibility of obtaining materials for the purpose in the United States at this time. Further conversations on

¹⁵ Sumner Welles, Under Secretary of State.

¹⁶ For agreement between the United States and Paraguay regarding health and sanitation program for Paraguay, see Department of State Executive Agreement Series No. 436, or 58 Stat. (pt. 2) 1495.

this score will take place this week, and it is contemplated that Dr. G. C. Dunham, director of health and sanitation work for the Coordinator's Office will be sent to Asunción about May 10 if the basic agreement can be reached with the Paraguayan Ambassador.

In addition the Ambassador is beginning this week conversations with Mr. Pierson¹⁷ of the Export-Import Bank with respect to the already authorized credits for certain port works at Pilar, Concepción and Encarnación, and possibly further local road work. In addition the appropriate agencies of this Government are considering the possibility of making available to Paraguay the services of one or two agricultural and industrial experts.

The Department will keep you informed of the progress of these discussions. [Welles.]

HULL

834.50/25a : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, May 4, 1942—6 p. m.

129. From the Under Secretary. Ever since my return from the Rio Conference¹⁸ I have been endeavoring to advance the negotiations for economic assistance to Paraguay. It was less than 3 weeks ago, however, that the Ambassador presented his memorandum¹⁹ indicating what Paraguay wanted. Upon entering into the negotiations I found that the Ambassador had no knowledge whatsoever of the existing credits which had been offered to the Paraguayan Government on mandioca processing, port works, and other public works projects.²⁰ This surprised me very much and makes me wonder whether the very real cooperative assistance which this Government has offered Paraguay during the last 6 months is known in Governmental circles to say nothing of to the general public. I confess to a feeling that what we have offered to do has not produced in Paraguay the favorable repercussions that were to be expected.

During the time which I have had the Ambassador's memorandum on economic assistance I had no word from you which would indicate that there was brewing such a potentially serious threat to hemisphere solidarity as now appears to have come to a head. I must ask you, therefore, to keep me fully informed hereafter by telegram of all significant occurrences affecting Paraguay's internal and international situation. Had you informed me immediately of the results of the meeting of the Special Cabinet last Tuesday²¹ it would have been

¹⁷ Warren Lee Pierson, president of the Export-Import Bank.

¹⁸ For correspondence concerning this Conference, see vol. v, pp. 6 ff.

¹⁹ Not printed.

²⁰ See *Foreign Relations*, 1941, vol. vii, pp. 484 ff.

²¹ April 28.

possible to have brought to a conclusion by the middle of last week the decisions here on economic and military assistance which I am now endeavoring to do this afternoon.

I know of the difficulties with which you have had to cope and believe you have made substantial progress in overcoming them but ask that hereafter when a situation is arising that can be assisted by action in Washington you let me know immediately and fully. [Welles.]

HULL

834.50/24 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, May 4, 1942—8 p. m.

131. Your 179, May 3, 5 p. m.²² With regard to the negotiations for economic assistance, the Paraguayan Ambassador has been informed as follows:

(1) The Export-Import Bank is prepared to extend at once a credit of up to \$3,000,000 to the Government of Paraguay for the carrying out of public works, agriculture, and other industrial development projects. Each project will be approved after detailed consideration by the Government of Paraguay and by engineers representing the Export-Import Bank and other appropriate agencies of the United States. The opening of this new line of credit will be supplemental to the existing operating credits of \$500,000 to the Banco de la República and of \$3,000,000 to the Government of Paraguay for the Hebard contract²³ but it supersedes the other individual credits offered by the Export-Import Bank during the past year but never availed of by the Government of Paraguay.

(2) The Coordinator of Inter-American Affairs is prepared to enter into an agreement at once with the Government of Paraguay for the carrying out of a cooperative health and sanitation program. The Coordinator proposes to make available as his contribution to the cooperative program the amount of \$1,000,000. At the request of the Paraguayan Government the Coordinator is prepared to send at least four trained sanitary and medical experts who would, in collaboration with Paraguayan public health authorities, execute plans for the development and improvement of the existing water works and sanitation system of Asunción as well as other projects agreed upon by them and the appropriate authorities of the Paraguayan Government. The Coordinator is prepared to pay the salaries and full expenses of these four technicians. For the duration of the war it will probably be impossible to furnish for the Asunción water works and sanitation system any important amount of material and equipment.

(3) To assist in the preparation of plans for the improvement and development of Paraguayan agricultural resources, the Coordinator of Inter-American Affairs in cooperation with the Department of

²² Not printed.

²³ See *Foreign Relations*, 1941, vol. VII, pp. 484 ff. *passim*.

Agriculture is prepared to make available at once the services of at least four trained agronomists. As in the case of the sanitary technicians the salaries and full expenses of these agronomists will be borne by the Coordinator of Inter-American Affairs.

A note covering these points is being submitted to the Paraguayan Ambassador in Washington tomorrow.

A separate telegram is being sent you on military equipment.²⁴

HULL

834.50/27 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, May 10, 1942—10 a. m.

[Received 3:30 p. m.]

195. For the Under Secretary. In reply your 129, May 4, 6 p. m.; and Department's 131, May 4, 8 p. m. Argaña asks me inform you that Paraguay accepts both the four sanitary and the four agricultural experts. A defense mission to recommend projects would have been more agreeable and the acceptance of the experts is based on hope that they will serve in good part to frame and support Paraguayan plans for more loans. Velázquez telegram published here included statement that 3,000,000 credit was opened "without prejudice to consideration of greater aid in future." I should appreciate your comment on my strong recommendation that loans to Paraguay should be made on a generous discount basis. These people are well aware that their chances of really developing industries and wealth are much worse than Bolivia's and it [apparent omission] them and us. There is nothing signed which they are very doubtful of being able to carry. I hope Department will take as realistic a view as War Department did regarding Lend-Lease agreement.²⁵

My great fear now is that more delays will ensue. . . .

FROST

834.51/395a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, May 14, 1942—8 p. m.

1228. For West²⁶ from Export-Import Bank. In lieu of previous commitments which were not utilized the Bank has agreed to extend up

²⁴ Telegram No. 132, May 4, 9 p. m.; it stated that highly satisfactory arrangements had been made with respect to the furnishing of military matériel to Paraguay under its Lend-Lease allocation (834.24/146d).

²⁵ Signed September 20, 1941; for text, see *Foreign Relations*, 1941, vol. VII, p. 480.

²⁶ Robert K. West, representative of Export-Import Bank.

to \$3,000,000 credit to Paraguay for public works or agricultural projects to be approved by the Bank. In addition the Coordinator's Office will contribute up to \$1,000,000 on public health and sanitation. Dunham and Plunkett representing Coordinator will leave Rio May 16 for Asunción. It is requested that you proceed to Asunción at once to assist in studies precedent to selection of projects to be proposed in immediate future for financing by the Bank. Port works and feeder roads continue to be mentioned but nothing definite has ever been received from Paraguay. Present difficulty in obtaining new equipment must be considered. Mesa²⁷ believes port works can be accomplished for less than \$400,000 without importation equipment from this country. We have discussed with Coordinator possibility of utilization of portion of credit for Asunción waterworks if and when materials available. Please advise date your departure. [Export-Import Bank.]

HULL

834.50/29 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, May 14, 1942—midnight.

146. From the Under Secretary. Your 195, May 10, 10 a. m., and 203, May 11, 10 p. m.²⁸ I have given the most careful attention to your telegrams and wish to leave no doubt in your mind that the entire Paraguayan situation and cooperative program is receiving my most careful personal attention. I have the following comments to make on your messages:

(1) The sanitary and agricultural experts, plus Mr. West of the Export-Import Bank whom you fail to mention, constitute a very sizeable group to consider and recommend projects for health, sanitation, public works, and economic development.

(2) Arrangements are being made at once to send from Rio Drs. Plunkett and Dunham (who will leave Rio on May 16) and Engineer West to begin the sanitation and public works studies. Other experts will leave for Asunción in the immediate future.

(3) The terms of the financial and other assistance being offered Paraguay are most carefully considered in the Department, and you may rest assured that no part of the program is carried out independently by any other agency of this Government without the Department's full approval and, in most cases, urging. The financial terms of the Lend-Lease agreement with Paraguay were worked out, as you know, by the State Department, the War Department having no part in the matter. These financial terms were worked out giving careful

²⁷ A. R. Mesa, American engineer sent to Paraguay by R. W. Hebard Company.

²⁸ Latter not printed.

consideration to the program of economic cooperation. Export-Import Bank loans must be considered what their name implies—loans. I should like also to call to your attention the fact that the Coordinator's contribution of \$1,000,000 is a grant and that a portion of the Export-Import Bank credit, it is contemplated, will take care of Paraguay's share of a joint health program in which the United States puts up at least 50% of the total. It is obviously unfortunate to permit the impression to exist that the terms of one part of the arrangement are more onerous than others. They are all part of a joint program and must be considered as such.

(4) It is my personal conviction that detailed contracts can not be signed at once unless the Paraguayan Government is able to give some instructions to its Ambassador. The best that we have been able to do is to get the Ambassador to transmit memoranda prepared wholly by the United States to Asunción. The Export-Import Bank has for many months been quite prepared to extend certain credits to Paraguay. You yourself, prior to departing for Asunción, sat in at a meeting of the trustees of the Bank at which some credits were voted. Paraguay has never seen fit to utilize any of these credits. It is absolutely essential that you work out with the health, sanitation and agricultural experts and with Mr. West, the representative of the Export-Import Bank, some of whom will be in Paraguay next week, details which can be incorporated into a contract. In the meantime, the Coordinator's Office and the Export-Import Bank will prepare broad and general agreements to hand to the Paraguayan Ambassador during the next few days. All implementation must necessarily come from Asunción, and I rely confidently upon your efforts to obtain rapid action in Paraguay.

The Department will inform you just as soon as draft contracts have been put in the hands of the Paraguayan Ambassador, and it hopes that you will be able during the next 2 weeks to report considerable progress in arranging the details of the productive enterprises to be begun. [Welles.]

HULL

834.51/405a

The Secretary of State to the Ambassador in Paraguay (Frost)

No. 383

WASHINGTON, June 11, 1942.

SIR: There are enclosed for your information copies in English and Spanish of a draft agreement²⁹ between the Export-Import Bank and the Republic of Paraguay which was handed to the Paraguayan Ambassador by Mr. Pierson of the Export-Import Bank on June 3, 1942.

You will note that the contract establishes in favor of the Republic

²⁹ Not printed

of Paraguay a line of credit of \$3,000,000 to be utilized for projects approved by the Export-Import Bank. The type of project which can be financed under the credit is treated in very general terms in the contract in Article One. Any withdrawals under the credit are to bear interest at the rate of four percent per annum, the principal to be repayable in twenty semi-annual installments. No principal payments are to be made for two and one-half years after the date of the issuance of a note by the Republic of Paraguay evidencing a withdrawal under the credit. Principal payments then become due over the next ten years, increasing gradually from a rate of one percent of the face value of the note semi-annually during the first two years to nine percent in the last two years.

There is also enclosed for your information a copy of a memorandum³⁰ which was handed to the Paraguayan Ambassador at the same time as the draft contract, setting forth the procedure which should be followed by the Paraguayan Government in order to execute the contract with the Bank.

The Paraguayan Ambassador is studying the contract and will probably transmit it to his Government for approval. The Department feels that the contract in its present form should be acceptable to the Paraguayan Government.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

834.51/407: Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, June 19, 1942—9 p. m.

[Received June 20—3:07 a. m.]

274. Department's airmail instruction of June 11 enclosing draft agreement between Export-Import Bank and Paraguay was discussed with Argaña who had previously received draft from Ambassador Velázquez. Argaña stated proposal was discussed in Cabinet meeting and referred to Finance Minister³¹ for study. Preliminary opinion is that the conditions are severe in respect to participation of Export-Import Bank and other American experts and technicians. Argaña stated Brazil has signed a contract loaning Paraguay 100,000 contos to be used with absolute freedom.

I brought out by inquiry for information the fact that this sum will be available only in six annual installments. I mentioned that the basic legislation of the Export-Import Bank imposes requisites arising from circumstance which caused creation of bank. The point made in the Department's telegram No. 146 of May 14, noon [*mid-*

³⁰ Not printed.

³¹ Rogelio Espinoza.

night] that our entire program here should be regarded as a whole and that most of its features are generous in the extreme was also fully expounded again.

I have talked subsequently with Finance Minister and he wishes to ascertain whether conditions offered are similar to those accepted by other countries especially as to supervision of projects. He also wishes to study statute creating Export-Import Bank. Probabilities seem to be that proposal will be accepted perhaps with requests for modification, but terms of the Brazilian loan have certainly not contributed to enhance Paraguay's appreciation of our offer. Rumors still persist that Brazilian loan is to be made with funds secured by Brazil through borrowings in the United States.

FROST

834.51/407 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, June 24, 1942—8 p. m.

205. Your 274, June 19, 9 p. m. The Department is sure that you agree that no useful results will come of cooperation with Paraguay unless there is a certain amount of technical assistance to insure the effective carrying out of the projects.

As a matter of fact, the contract proposed by the Export-Import Bank is similar and in some respects more liberal than those in effect with other countries in which the funds are to be utilized not only for the acquisition in the United States of machinery and equipment, but also for local expenditures. It is only with a limited number of countries that the Export-Import Bank has made contracts permitting any local expenditures whatsoever. The provisions included in the draft agreement prepared by the Export-Import Bank are liberal compared with similar provisions in contracts with other countries in which local expenditures are permitted.

All of the contracts which are limited to dollar expenditures in the United States which have been entered into with the larger countries, such as Brazil, are strictly limited in that no material may be purchased for export from the United States without the specific approval of the Export-Import Bank. These contracts are, if anything, more restrictive than the contract with Paraguay.

It is not deemed that a detailed discussion of the Export-Import Bank statute will be productive.

HULL

[The agreement between the Export-Import Bank and the Republic of Paraguay for the establishment of a \$3,000,000 credit in favor of Paraguay was signed at Washington, September 30, 1942, by the Presi-

dent of the Export-Import Bank, Warren Lee Pierson, and the Paraguayan Ambassador, Celso R. Velázquez.]

AGREEMENT BETWEEN THE UNITED STATES AND PARAGUAY REGARDING A HEALTH AND SANITATION PROGRAM FOR PARAGUAY

[For text of agreement effected by exchange of notes signed at Washington, May 18 and 22, 1942, see Department of State Executive Agreement Series No. 436, or 58 Stat. (pt. 2) 1495.]

PERU

ARRANGEMENTS BETWEEN THE UNITED STATES AND PERU REGARDING COOPERATIVE DEFENSE

[For a statement regarding military cooperation between the United States and Peru, see Stetson Conn and Byron Fairchild, *The Framework of Hemisphere Defense*, in the series *United States Army in World War II: The Western Hemisphere* (Washington, Government Printing Office, 1960), page 203.]

AGREEMENT BETWEEN THE UNITED STATES AND PERU REGARDING THE DETAILING OF A MILITARY OFFICER OF THE UNITED STATES TO SERVE AS ASSISTANT ADVISER TO THE REMOUNT SERVICE OF THE PERUVIAN ARMY

[For text of agreement, signed at Washington, March 11, 1942, see Department of State Executive Agreement Series No. 240, or 56 Stat. (pt. 2) 1424.]

COOPERATION BETWEEN THE UNITED STATES AND PERU IN THE MOBILIZATION OF THE ECONOMIC RESOURCES OF PERU; AGREEMENT FOR PURCHASE BY THE RUBBER RESERVE COMPANY OF SURPLUS PERUVIAN RUBBER

811.20 Defense (M) Peru/31 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, February 5, 1942—9 p. m.

107. The office of the Coordinator of Inter-American Affairs has arranged to send a group of mineral experts to Peru in order to study the development of strategic and critical materials. The group is to be financed entirely by this Government since the members will be engaged primarily in work for this Government. It is understood, however, that the group may render appropriate assistance to Peruvian mining authorities if such assistance can be arranged without interference to their primary objective.

The men will be responsible to the Ambassador and subject to the immediate direction of Charles Will Wright, who is now connected with the Coordinator's Office. The Department is informed that Wright has already mailed to Lima detailed instructions for the

group. All reports of the group will be delivered through the Embassy to the Department.

You are requested to give these men appropriate cooperation and assistance and to inform the Peruvian Government of the nature of their visit. If the members of the group should wish to visit areas for which permission is necessary, it is thought that this can be arranged informally when the occasion arises.

The group is expected to arrive in Lima by plane on February 8. It will consist of four members, all of whom are mining engineers. Ethelbert Dowden is the head of the party, and the others are Kenneth Walker, Frank Sistermans, and Carrel B. Larson. It was suggested in your telegram no. 493 of September 3 [23], 1941,¹ that J. A. Woolf be sent as a metallurgist. This was not possible to arrange because the Bureau of Mines could not dispense with Woolf's services.

Instructions for paying the expenses of the group will be transmitted later.

HULL

811.20 Defense (M) Peru/63a : Telegram

The Acting Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, March 18, 1942—1 p. m.

227. Rubber Reserve Company is prepared to enter into commitment with Peruvian Government to purchase entire production of rubber in Peru except for an appropriate amount (to be agreed upon) necessary for domestic consumption, at 30 $\frac{1}{4}$ cents United States currency per pound, f. o. b. ocean carrying vessel at Belem, Brazil, for hard cut fine classified rubber with appropriate differentials for other grades. Purchases would be paid for on basis of cash against shipping documents endorsed "on board" ocean carrying vessel at Belem and such other places as may be deemed advisable by Rubber Reserve and Peru and subject to final price adjustment based on quality inspection and net certified weights determined at port of entry in United States. The term of the agreement shall be to December 31, 1946, unless sooner terminated by mutual consent, price paid being subject to change after expiration of first 2 years if conditions change. The Government of Peru would agree to restrict export licenses to Rubber Reserve Company or its nominees and to restrict expansion of rubber manufacturing facilities and to curtail rubber manufacturing as much as possible. The exportation of manufactured rubber, if any, would be restricted to the United States. Peru would agree to use its best efforts to cause maximum amount of rubber to be produced and made available for sale to Reserve. Local labor would be financed locally for necessities for collecting rubber. Some governmental agency, if desirable, would

¹ Not printed.

be designated as the single buying agency, otherwise sales would be made through usual trade channels now in existence. Price on sales to Rubber Reserve would also be fixed as local sales price.

Foregoing proposal corresponds generally to agreements entered into with Brazilian Government on March 3.²

For your information we understand certain American republics are negotiating to acquire rubber production in some Latin American countries. Please consult immediately proper Peruvian authorities and request their immediate consideration of proposal. If Peruvian authorities agreeable in principle to sale of rubber to United States, Rubber Reserve willing to enter into an agreement immediately to acquire it; upon consummation of purchasing agreement, we are prepared to discuss with Peruvian authorities any useful joint arrangements to increase rubber production.

WELLES

811.20 Defense (M) Peru/64 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, March 21, 1942—midnight.

[Received March 22—8:40 a. m.]

284. Reference Department's 227, March 18, 1 p. m. The Minister of Finance³ was favorably impressed with the proposal of the Rubber Reserve Company. Since he will arrive in Washington during the first days of April he stated that the matter will be discussed in detail with the corresponding authorities there.

His principal observations were to the effect that an over-all agreement with the United States would be preferable to a contract with any of the other American Republics; and that he will want to discuss the subject of establishing a tire factory in Peru which has been contemplated for around 2 years.

Having read the Brazilian agreement in detail Mr. Dasso this morning compared the price difference between the Peruvian offer and the Brazilian contract and expressed the wishes that the American Government study the possibility of offering Peru a contract identical with Brazil's. He remarked further that present plans contemplate considerable shipments from the west coast of Peru and that he would like to have also this point receive consideration prior to his arrival in Washington.

NORWEB

² See bracketed note and telegram No. 640, March 13, 7 p. m., to the Ambassador in Brazil, vol. v, p. 692.

³ David Dasso.

811.20 Defense(M)Peru/64 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, March 25, 1942—11 a. m.

259. Your 284 of March 21. Rubber Reserve informs us that price offered by Rubber Reserve Company for Peruvian rubber is exactly same as price being paid Brazil for same grade. Point can be quickly cleared up when Dasso is here.

Any question of establishing tire factory in Peru is probably out of question as far as this country is concerned.

WELLES

811.20 Defense(M)Peru/69 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, March 31, 1942—7 p. m.

[Received 8:50 p. m.]

316. Reference Department's circular telegram March 28, 9 p. m.⁴ The Finance Minister has already organized a skeleton staff for the Amazonian Corporation and initiated measures to buy up all available rubber. He especially requested that the Department be informed Peru will reserve all rubber production for the United States despite offers from Argentina and Chile.

NORWEB

811.20 Defense(M)Peru/108a

*The Peruvian Minister of Finance and Commerce (Dasso) to the Secretary of State*⁵

WASHINGTON, April 23, 1942.

MY DEAR MR. SECRETARY: I am happy to be able to advise you that the Government of Peru has initiated measures designed to increase the available supplies of Peruvian rubber, and that it suggests to the Government of the United States the following proposal designed to assure to the United States the maximum amounts of raw rubber.

(1) In order to stimulate the development of the raw rubber resources of Peru, Rubber Reserve Company would establish a fund of \$1,125,000 to be available to Peruvian Amazon Corporation for the purpose of increasing the wild rubber production in Peru as approved by Rubber Reserve Company. It is estimated that the expenditure of this sum should result in increasing the export of Peruvian rubber to the United States to an annual total of not less than 6,000 long tons.

⁴ *Ante*, p. 172.

⁵ David Dasso was in the United States on an official mission during April and part of May.

(2) Peruvian Amazon Corporation, or some other Peruvian governmental department or agency, would become the sole ultimate purchaser of rubber, both for export and for domestic consumption except that Rubber Reserve Company may buy rubber for its own account provided Peru after consultation in each instance makes no objection to such action. The Government of Peru would maintain internal and export quotas with the view to making available to the United States the maximum amounts of raw rubber.

It is understood that the Government of the United States will collaborate with the Government of Peru with the view of assuring to the Government of Peru an equitable distribution of the supplies of rubber products available to the United States and to Peru on the basis of relative needs and of the present emergency, and that the Government of Peru will limit the consumption of crude rubber and the use of rubber products to the extent necessary to permit its maximum contribution to the defense of the Hemisphere. It is contemplated by the Government of Peru that, on this basis, its internal consumption of rubber will not exceed 468 long tons per annum.

(3) Rubber Reserve Company would enter into a five-year agreement with the Government of Peru for the purchase of rubber produced in Peru.

(4) The Government of Peru and the Government of the United States would collaborate fully for the purpose of increasing the output of Peruvian raw rubber.

(5) In furtherance of Resolution XXX adopted at the Rio de Janeiro conference of Foreign Ministers,⁶ the Government of the United States would extend to development work in the Amazon Valley and adjacent regions the good offices of the Health and Sanitation Division established by the Office of the Coordinator of Inter-American Affairs to carry out a program of improving health and sanitation conditions in cooperation with governmental agencies of the other American republics.

I believe that the foregoing proposal will substantially further the effectiveness of Resolution II of the Rio de Janeiro Conference⁷ wherein the Government of Peru undertook to collaborate with the other American republics to the fullest degree possible in the mobilization of its economic resources with the special objective of increasing the production of those strategic materials essential for the defense of the Hemisphere against armed aggression and for the maintenance of the economies of Peru and the other American republics.

On behalf of the Government of Peru and in accordance with the conversations which I have had with officials of the Government of the United States, I request that the Government of the United States give consideration to the above proposals.

I avail myself [etc.]

DAVID DASSO

⁶ For correspondence on this Conference, held January 15-28, 1942, see vol. v, pp. 6 ff.; for text of Resolution XXX, see Department of State *Bulletin*, February 7, 1942, p. 137.

⁷ For text of Resolution II, see *ibid.*, p. 119.

811.20 Defense (M) Peru/108a

*The Secretary of State to the Peruvian Minister of Finance and
Commerce (Dasso)*

WASHINGTON, April 23, 1942.

EXCELLENCY: I acknowledge the receipt of your note of April 23, 1942 outlining a program for the development of the production of rubber in Peru as a project for economic cooperation between the United States and Peru in furtherance of Resolution II of the Third Meeting of the Ministers of Foreign Affairs of the American Republics at Rio de Janeiro.

I am pleased to inform you that the appropriate agencies of the Government of the United States have considered this proposal and are prepared to undertake this development in accordance with the specific proposals with respect thereto mentioned in your note.

I believe that this program will be a substantial step forward in developing mutually advantageous economic relations between our two countries as contemplated by the Resolution adopted at the conference at Rio de Janeiro.

Accept [etc.]

CORDELL HULL

083.2311/57

*The Peruvian Minister of Finance and Commerce (Dasso) to the
Secretary of State*

WASHINGTON, April 23, 1942.

MR. SECRETARY: I wish to express my sincere appreciation for the courtesies which have been extended to me and to my companions during our visit to Your Excellency's country. During my stay, I have had the opportunity to discuss with officials of a number of agencies of Your Excellency's Government a program of close collaboration to attain many of the objectives of the Resolutions of the Third Meeting of the Ministers of Foreign Affairs of the American Republics at Rio de Janeiro, and a series of important decisions have been reached on several points of this program.

In order to carry out its undertaking in accordance with Resolution II on the Production of Strategic Materials, the Government of Peru is establishing a Peruvian Amazon Corporation to develop the production and encourage the collection of wild rubber and other tropical products. Moreover, I have today transmitted to Your Excellency a note containing a proposal of the Government of Peru, in furtherance of the provisions relating to the production of strategic materials in Resolution II of the Third Meeting of the Ministers of Foreign Affairs of the American Republics at Rio de Janeiro, for developing the production of rubber in Peru and for making available to the United States all rubber produced in Peru other than a specified amount

required for essential uses in Peru. This proposal provides for the purchase of such rubber by Rubber Reserve Company over a five-year period. The proposal also contemplates the establishment of a fund of \$1,125,000 to be made available to Peru for the purpose of increasing the production of wild rubber in Peru.

I have taken up with the Export-Import Bank of Washington the question of obtaining an appropriate credit to assist in financing purchases in the United States of materials and equipment required in connection with the construction and development in Peru of useful public works and of agricultural, mining and industrial projects.⁸

In order to provide the fullest technical facilities and cooperation necessary to the successful development in Peru of production of rubber and other important and strategic tropical products, discussions were begun with members of the United States Delegation at the Rio de Janeiro Meeting looking towards the establishment of an agricultural experiment station in the Amazon region of Peru. These discussions have culminated in an agreement with the Secretary of Agriculture of the United States, a copy of which is enclosed,⁹ for the immediate establishment of such an experiment station at Tingo María. During my visit to Washington I have also taken up with appropriate officials of Your Excellency's Government the desire of the Government of Peru to obtain the services of experts in highway engineering, erosion control, coal mining, and tea processing.

Discussions have also taken place with the Secretary of Agriculture and officials of the Commodity Credit Corporation regarding proposals for the purchase through the latter Corporation, for the duration of the war, of that portion of the Peruvian cotton production which is in excess of sales for Peruvian consumption and for export to other purchasers. These discussions have resulted in the conclusion with the Secretary of Agriculture of an agreement, a copy of which is attached,¹⁰ which should contribute in large measure to the maintenance of the Peruvian agricultural economy and the orderly handling of cotton crops in the face of dislocations of trade occasioned by the war.

As Your Excellency is aware, the Government of Peru has just adopted measures implementing further the recommendations contained in Resolution V on Severance of Commercial and Financial Relations adopted at the Third Meeting of the Ministers of Foreign Affairs at Rio de Janeiro.¹¹ By these measures the Government of Peru will control the commercial and financial operations of firms

⁸ The Export-Import Bank established a credit of \$25,000,000 in favor of Banco Central de Reserva del Peru for this purpose.

⁹ Not printed; it was signed April 21, 1942.

¹⁰ Not printed; this agreement was signed April 22, 1942.

¹¹ For text of Resolution V, see Department of State *Bulletin*, February 7, 1942, p. 124.

and persons whose activities are deemed inimical to the security of the hemisphere. In this connection, the Government of Peru will consult with the Government of the United States regarding any measures which may be necessary to prevent such persons and firms from benefiting from the agreements which have been reached between our two Governments.

The Peruvian Government wishes to inform Your Excellency's Government that it has entered into discussions with the Foreign Bondholders Protective Council, Incorporated, looking toward the early resumption of payments on the Peruvian dollar debt. These discussions with regard to the scale and amount of payments will be continued after my return to Lima and subsequent announcement will be made by my Government.

In conclusion I wish to express to Your Excellency my firm conviction that the program of further collaboration between our Governments developed during my visit will contribute greatly to the realization of our common aim of hemisphere security.

I avail myself [etc.]

DAVID DASSO

823.00/1527

The Secretary of State to the Peruvian Minister of Finance and Commerce (Dasso)

WASHINGTON, April 23, 1942.

EXCELLENCY: I have received with deep gratification Your Excellency's cordial note of April 23, 1942 with reference to the matters which I and other officials of the Government of the United States have had the privilege of discussing with you during your visit to Washington. I need not assure you of the personal satisfaction which it has been for me to collaborate with you in the establishment of a program to attain certain of the objectives of the Resolutions of the Third Meeting of Ministers of Foreign Affairs of the American Republics at Rio de Janeiro, and I am convinced that the decisions taken will contribute in important degree to the security of the hemisphere.

My Government is pleased to note that, in furtherance of Resolution II on the Production of Strategic Materials, Your Excellency's Government is creating a Peruvian Amazon Corporation to undertake and stimulate the production of strategic tropical products. In this connection I have today transmitted to Your Excellency a note accepting the proposal of the Government of Peru with respect to the acquisition by the Rubber Reserve Company over a period of five years of all rubber produced in Peru other than the specified amount required for essential uses in Peru. This agreement marks an important step in the carrying out of the broad program for the mobiliza-

tion of strategic material resources for the security of the hemisphere which was undertaken at the recent Rio de Janeiro Meeting.

I am informed by the Secretary of Commerce that the Export-Import Bank finds itself heartily in sympathy with the objectives of the program of the Government of Peru and is prepared to establish a credit in favor of Banco Central de Reserva del Peru in the sum of \$25,000,000 to assist in financing purchases in the United States of materials and equipment required in connection with the construction and development in Peru of useful public works, and of agricultural, mining and industrial projects. It is recognized that the United States cannot undertake to furnish machinery and equipment in short supply due to the exigencies of war, and that priorities necessary to acquire such items in the United States will be granted only after careful study and determination that the establishment of the industry for which they are needed will contribute directly in important measure to the war effort of the United States and the security of the hemisphere.

I have noted with satisfaction and interest the agreements entered into by Your Excellency with the Secretary of Agriculture for the establishment of an agricultural experiment station at Tingo María and for the purchase through the Commodity Credit Corporation of that portion of the Peruvian cotton production which is in excess of sales for Peruvian consumption and for export to other purchasers. I also take pleasure in informing you that my Government has found it possible to arrange to make available to Your Excellency's Government the services of competent experts in highway engineering, erosion control, coal mining, and tea processing.

My Government has noted with great satisfaction the measures adopted by the Peruvian Government to control the commercial and financial operations of persons whose activities are deemed inimical to the security of the hemisphere, which are referred to in Your Excellency's note, as well as Your Excellency's statement that the Government of Peru will consult with the Government of the United States regarding any measures which may be necessary to prevent such persons from benefiting from the agreements reached between our two Governments. It is understood that the two Governments will consult particularly with respect to the policies and procedures to be adopted for dealing with cotton which may be produced by persons or firms on the United States Proclaimed List of Certain Blocked Nationals.

I likewise welcome the information that the Government of Peru is carrying on discussions with the Foreign Bondholders Protective Council, Incorporated, looking towards an early resumption of payments on the Peruvian dollar debt.

Accept [etc.]

CORDELL HULL

811.20 Defense (M) Peru/92a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, April 24, 1942—midnight.

1077. For Allen.¹² Notes and agreement with Peru signed here today substantially like Brazilian arrangements,¹³ except that Peru agrees to limit consumption to fixed amount and to export crude and manufactured rubber only to the United States. Development work will be done by Peruvian Amazon Corporation in cooperation with Rubber Reserve. Peruvian Amazon Corporation has been set up by Minister Dasso, who is very interested in whole rubber program and indicates he will press it vigorously. He would like to meet you. He plans to leave Miami May 6. The Peruvian attitude has been very gratifying throughout the negotiations and calls for the closest cooperation between our two Governments in formulation of the rubber program in Peru.

A copy of the documents is being sent to the Embassy for your and its confidential information.

HULL

[Agreements, not printed, were also entered into by United States agencies with Peru regarding the production and export of rotenone root and powdered rotenone, of flax and of cinchona bark.]

**LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND PERU,
SIGNED MARCH 11, 1942**

[The Lend-Lease Agreement between the United States and the Republic of Peru, signed at Washington March 11, 1942 (not printed), provided that Peru was to repay 41.38 percent of the scheduled cost (about \$29,000,000) of armaments and munitions transferred by the United States to Peru, in installments for a total of not more than \$2,000,000 before March 1, 1943; \$4,000,000 before March 1, 1944; \$6,000,000 before March 1, 1945; \$8,000,000 before March 1, 1946; \$10,000,000 before March 1, 1947; or \$12,000,000 before March 1, 1948. The agreement, otherwise, is substantially the same as the draft of the basic agreement printed in *Foreign Relations*, 1941, volume VI, page 139.]

¹² Douglas H. Allen of the Rubber Reserve Company.

¹³ Agreement with Peru signed April 23; not printed. For negotiations regarding agreement with Brazil, see vol. v, pp. 691 ff.

NEGOTIATIONS LEADING TO THE SIGNING OF A RECIPROCAL TRADE
AGREEMENT BETWEEN THE UNITED STATES AND PERU, MAY 7,
1942¹⁴

611.2331/254

Memorandum of Conversation, by Mr. H. Gerald Smith of the Division of Commercial Policy and Agreements

[WASHINGTON,] January 13, 1942.

Participants: Señor Juan Chavez, Commercial Counselor of the
Peruvian Embassy
Mr. Hawkins¹⁵
Mr. Smith

Señor Chavez called at his request to discuss several questions in connection with the proposed trade agreement.

With respect to cotton, Señor Chavez mentioned the difficulties now facing Peru particularly as a result of the closing of the Japanese market which had provided the largest outlet for Peruvian cotton during the past year. It was essential, therefore, Señor Chavez said, that the proposed trade agreement include as liberal a concession as possible on this commodity. Mr. Hawkins indicated to Señor Chavez that the question of a concession on cotton was receiving thorough and active consideration and although the Department of State was entirely sympathetic toward the request of the Peruvian Government, it was anticipated that considerable difficulties would be encountered from certain of the agencies in the Department of Agriculture.

Replies were given to Señor Chavez on a number of questions which he raised concerning the information to be presented in the form of written briefs and at the public hearings.

Señor Chavez was informed that we hoped to be able to give him a revised draft of general provisions no later than January 14 and hoped to be able to place in his hands a preliminary and tentative Schedule I list by the end of the present week.

Señor Chavez stated that the desire had been expressed by certain of the Peruvian officials that the trade agreement negotiations be conducted in Lima. Mr. Hawkins stated that this was a question on which a definite answer could not be given immediately.

¹⁴ For previous correspondence, see *Foreign Relations*, 1941, vol. VII, pp. 535 ff.

¹⁵ Harry C. Hawkins, Chief of the Division of Commercial Policy and Agreements.

611.2331/242

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Commercial Policy and Agreements*

[WASHINGTON,] January 15, 1942.

Señor Chavez called to receive an *aide-mémoire*¹⁶ covering a revised draft of general provisions for the proposed trade agreement with Peru. The changes incorporated in the new text, which were largely matters of style, were gone over with Señor Chavez in detail and the new draft compared with the earlier draft text handed the Peruvian Embassy on June 4, 1941.¹⁷

Señor Chavez indicated that he did not think any of the changes which had been made in the draft text would cause any difficulty with his Government . . .

Señor Chavez raised two points during the discussion of the new text:

1) In Article XI, paragraph 2, he suggested that the composition of the mixed commission might be covered in more specific language, that is, the number of members to represent each Government, etc., although Señor Chavez was willing to accept the draft in the form presented, which merely provided for the establishment of a mixed commission.

2) In Article XV, paragraph 3, Señor Chavez advanced the suggestion, in order to centralize consideration of all questions arising between the two Governments in connection with the operation of the agreement, that the mixed commission provided for under Article XI might consider various technical questions arising in connection with sanitary matters, etc., instead of appointing a committee of technical experts to consider each such question as it arose. Señor Chavez felt that the mixed commission would in any case have to call in technical experts on practically all questions which might arise under the operation of the agreement and matters of a sanitary, etc., character might be handled by the mixed commission in the same manner as more general questions.

I told Señor Chavez that I would pass his two suggestions on to the appropriate officers for consideration.

¹⁶ Not printed.

¹⁷ See *aide-mémoire* to the Peruvian Embassy, June 4, 1941, *Foreign Relations*, 1941, vol. VII, p. 543.

611.2331/251

*Memorandum of Telephone Conversation, by Mr. H. Gerald Smith
of the Division of Commercial Policy and Agreements*

[WASHINGTON,] January 17, 1942.

Dr. Bernhardt¹⁸ telephoned regarding the call which I had made at his office on January 15, concerning a possible concession on sugar in the proposed trade agreement with Peru.

On the question of the attitude of the Department of Agriculture concerning the possibility, if a request were received from the Peruvian Government, of giving some form of commitment regarding the maintenance of Peru's position as a supplier of sugar for the United States market as compared with its position under the Sugar Act of 1937,¹⁹ Dr. Bernhardt stated that as a matter of policy he felt that his Department would be opposed to offering any commitment which might appear to be an infringement by the Executive on the powers of the Congress. As a practical matter, however, Dr. Bernhardt felt that any request which might come from the Peruvian Government for a commitment of the nature indicated could fairly easily be discouraged if it were pointed out that for the duration of the war we would be desirous of securing as much sugar as possible from Peru and therefore the quota system would not stand in the way of enabling Peru to market sugar in this country. Dr. Bernhardt thought also that the additional argument might be used with the Peruvians that it would be very difficult for us at this time to make any commitments concerning a situation which depended so much upon developments in the Far East.

I assured Dr. Bernhardt that we would of course do nothing to encourage a Peruvian request for a commitment, but merely wished to learn the views of Agriculture in case such a request were received.

611.2331/241b

*The Department of State to the Peruvian Embassy*²⁰

AIDE-MÉMOIRE

With further reference to the proposed reciprocal trade agreement between the United States and Peru, there is attached a tentative list of the tariff concessions²¹ desired by the Government of the United States upon products exported from the United States to Peru. This list must be considered as preliminary, subject to modification by the

¹⁸ Joshua Bernhardt, Chief of the Sugar Division, Department of Agriculture.

¹⁹ 50 Stat. 903.

²⁰ Handed to the Commercial Counselor of the Peruvian Embassy on January 19, 1942.

²¹ Not printed.

addition of further items or changes in the attached list, in the light of information received by the Government of the United States from interested persons through the submission of written briefs or by statements at the public hearings. The attached list is submitted at this time, rather than waiting until a definitive list can be submitted, in order that the preliminary discussions may be advanced as far as possible in the near future. It would be appreciated if the Government of Peru could indicate at an early date its views with regard to the list now presented.

The present list of items covers products of which imports into Peru in 1940 were valued at approximately 33,750,000 soles, or about 20 percent of total Peruvian imports from the United States of 169,-261,000 soles in that year. Requests for improved tariff treatment cover products in the attached list which accounted for imports from the United States in 1940 of about 15,800,000 soles, or 9 percent of total Peruvian imports from the United States, while in the case of these items on which the concession requested is for a consolidation of existing tariff treatment, the affected products represented approximately 17,950,000 soles or about 11 percent of total imports into Peru from the United States.

WASHINGTON, January [19?], 1942.

611.2331/245

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Commercial Policy and Agreements*

[WASHINGTON,] January 19, 1942.

Señor Chavez called by request to receive a tentative list of concessions ²² which the United States desired in the proposed trade agreement with Peru, and some time was spent in going over the individual items in the list.

The chief comment by Señor Chavez was that his Government would consider that all the items in the list represented requests for reductions in duty, in as much as the rates used by the United States as a basis for both reductions and bindings had recently been increased by 20 percent and, therefore, the proposed bindings actually represented reductions in duty rather than a consolidation of existing rates. I pointed out to Señor Chavez that while as he had stated, the principal reason for the increased rates of duty was to compensate for the depreciation in the value of the sol nevertheless it would probably appear to exporters in this country that Peruvian rates of duty had been increased more or less during the period of the negotiations and that bindings of the new, higher rates of duty would not in effect be bind-

²² Not printed, but see *supra*.

ings. I also mentioned to Señor Chavez that Peru would, of course, have the benefit of the increased rates of duty on all imports from the United States other than those which finally appeared in Schedule I, as well as upon imports from other countries.

Señor Chavez said that he would transmit the list today by air mail to his Government, in order that studies might be begun in Lima as soon as possible.

611.2331/266

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Commercial Policy and Agreements*

[WASHINGTON,] February 10, 1942.

Señor Chavez called at his request to leave a translation of a memorandum²³ which he had received from the Ministry of Foreign Affairs, Lima, regarding the requests by the United States for concessions in the proposed trade agreement on products imported into Peru from the United States. This memorandum pointed out that the increase of 20 percent in basic Peruvian customs duties of December 22, 1941, was already in effect when the Department of State issued its public announcement on December 29²⁴ of intention to negotiate with Peru. For this reason, as well as the fact that the increase in duties was merely for the purpose of compensating for depreciation in the sol, it was hoped that the United States would not insist on using the tariff rates in effect prior to December 22, 1941 as a basis for the concessions requested of the Peruvian Government.

I did not attempt to go into the question in any detail with Señor Chavez. I told him that we hoped that by the end of the current week to place in his hands our final request list, which would involve the addition of a few items to the list already given to the Peruvian Government, and I thought that we would probably make our requests on the same basis as the preliminary list. We could then, when we had arrived at the actual stage of the negotiations, consider the memorandum from the Peruvian Government in relation to our entire request list. I added that it might be confusing if we presented additional items on a different basis than the preliminary requests which had been made earlier.

Señor Chavez said that he had received yesterday a telegram from his Government requesting him to come to Lima by plane in the immediate future in order to be available for consultation regarding certain problems raised by the concessions requested by the United States, particularly those involving preferences by Peru to Chile.

²³ Not printed.

²⁴ Department of State *Bulletin*, January 3, 1942, p. 22.

Señor Chavez indicated that he would probably delay his departure for a few days until he had received our final request list.

611.2331/285

*Memorandum of Telephone Conversation, by Mr. H. Gerald Smith
of the Division of Commercial Policy and Agreements*

[WASHINGTON,] February 21, 1942.

I telephoned Señor Chavez at his home where he has been confined for several days, to inquire if he had received any new information from his Government concerning the trade agreement.

He said that he had had a telephone conversation on February 18 with the Peruvian Finance Minister²⁵ and with Señor Beltran,²⁶ and that the conversation had been devoted chiefly to the question of cotton. Señor Chavez said that it had been agreed that for the present the Peruvian Government would withhold any further expression of its interest in any plan for the purchase of Peruvian cotton by the Government of the United States. I mentioned to Señor Chavez in this connection that it appeared to be the understanding in the Department of Agriculture that the Peruvian Government had much more interest in a cotton purchase plan than in the trade agreement. Señor Chavez said that he had been trying to see Mr. Wheeler²⁷ to convey to him the information received from Lima as to the attitude of the Peruvian Government on the purchase proposal but had been informed that Mr. Wheeler was out of town and would not return until February 23. Señor Chavez expressed an interest in discussing the cotton question with Mr. Hawkins prior to seeing Mr. Wheeler and I said that I would try to arrange an appointment for February 23 or 24.

Señor Chavez referred to an article appearing in *La Prensa* of New York on February 20 stating that the matter of quotas on Peruvian cotton was under discussion in the Department of Agriculture and there was a wide divergence of views in that Department on the matter. I told Señor Chavez that I had not seen the article but that I had learned that some information had leaked out on the cotton matter to the press and also that a concerted campaign appeared to be getting under way to prevent any action to liberalize the present cotton quotas. Without indicating any details I mentioned to Señor Chavez that the outlook at present for action on the quotas favorable to Peru did not appear encouraging.

²⁵ David Dasso.

²⁶ Pedro Beltran was concurrently Commercial Delegate of Peru to the United Kingdom, France, and the United States and member of the International Financial and Economic Advisory Committee, Washington (1940-43).

²⁷ Leslie A. Wheeler, Director of Foreign Agricultural Relations, Department of Agriculture.

I asked Señor Chavez if he had any information whether Señor Beltran was planning to return to Washington in the near future and he said that as far as he knew Señor Beltran had no plans along that line. Señor Chavez also said that he planned to leave for Lima on February 28 by plane.

Señor Chavez said that he had received no indication from his Government as yet regarding its attitude on our proposals on the general provisions of the proposed agreement but said that he had written to Lima about a week ago urging that consideration be given to this matter in order that this part of the negotiations might be advanced as rapidly as possible.

611.2331/275

The Peruvian Ambassador (Freyre) to the Acting Secretary of State

WASHINGTON, 27 February 1942.

YOUR EXCELLENCY: Great efforts have lately been made by the Governments of Peru and the United States to promote trade between the two countries, to facilitate the importation of United States goods to Peru, to create markets in the United States for Peruvian products, and to foster the development of Peruvian products needed in the United States. Financial and technical aid has been granted by the United States to Peruvian agriculture and industry; in short, the United States Government has realized the importance United States markets have acquired for South American products, now that war conditions have closed European markets, and in a spirit of continental cooperation apparently wishes to render these markets available to South American products not competing with domestic products. In conformity with this policy, general trade agreements have been signed during the past few years between the United States and Latin American countries; and at the present time a trade agreement is being negotiated between Peru and the United States.

Long staple cotton, one of Peru's main products, has for many years been barred from the United States by a 7¢ per pound duty; a reduction of this duty is being considered in the present negotiations. But a quota system established by the United States in September, 1939, as the result of a subsidy to the export of United States cotton—and maintained even after the said subsidy was suspended—constitutes another barrier to the importation of Peruvian cotton to the United States. Any reduction that Peru, through a trade agreement, could obtain on the import duties of cotton, would be useless if quota restrictions were not removed.

Your Excellency, no doubt, is well aware of the situation; and I am fully cognizant of the efforts made to improve it. Nevertheless, I beg leave to insist on one point.

Long staple cotton is not produced on a large scale in the United States; it has always been imported from abroad. Orders issued for the conservation of wool and woollen fabrics, in view of possible future shortages of the basic raw material, make long staple cotton a much needed product at present; so that its importation from Peru would seem an obvious recourse. Consequently, one would have been led to believe that quota restrictions would be removed in order that long staple Peruvian cotton could be introduced in this country, as the best suited for admixture with wool in the manufactory of hosiery and other fabrics. Unfortunately, such has not been the case. I am informed that the Department of Agriculture is offering United States farmers who are willing to produce long staple cotton a higher subsidy than the one presently established for short staple cotton. When long staple cotton needed by this country is obtainable in Peru and could easily be imported, it has been thought preferable to induce United States farmers to grow that product, excluding thereby the similar Peruvian one.

I sincerely trust that Your Excellency will feel justified in bringing, once more if necessary, the whole situation, as briefly sketched herein, to the attention of the appropriate authorities, so that, if new subsidies are offered to the United States cotton growers in addition to the import duties which already protect them, and to the previous subsidies they enjoy in virtue of the Agricultural Adjustment Act,²⁸ quota regulations for the importation of long staple cotton may be at least withheld.

Please accept [etc.]

M. DE FREYRE Y S.

611.2331/293 : Telegram

The Acting Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, March 24, 1942—5 p. m.

256. Trade agreement negotiations. The Peruvian Embassy has inquired repeatedly regarding Schedule II proposals to be transmitted to Peruvian Government through you. However, our position regarding cotton has not yet been worked out and it may be several days before it can be. Since the list cannot reach you before departure of Dasso and Beltran, it will be presented here following their arrival.

WELLES

²⁸ Approved May 12, 1933; 48 Stat. 31.

611.2331/334b

The Acting Secretary of State to President Roosevelt

WASHINGTON, March 28, 1942.

MY DEAR MR. PRESIDENT: On June 2, 1941 the Secretary wrote to you²⁹ concerning our desire to proceed with trade-agreement negotiations with Peru and set forth the principal bases on which it was tentatively proposed to conduct such negotiations. Your approval having been given, public notice of intention to negotiate was issued on December 29, and public hearings were held on February 2 and 3. The views of interested persons having been received and studied, the trade-agreements organization has now submitted unanimous recommendations on all products, with the exception of long-staple cotton, which were to come under consideration for the possible granting of concessions to Peru. I concur in these recommendations.

The most important products, other than cotton, on which it is recommended that duty reductions be offered are sugar; alpaca, llama and vicuña hair; and certain tropical cabinet woods. It is proposed to offer the maximum permitted reductions to Peru on these products and it is believed that this can be done without any material injury to domestic interests.

It is also proposed to offer reductions in duty on a number of other less important items of interest to Peru, most of which are not produced in this country in significant amounts; to offer to bind certain rates of duty reduced in previous trade agreements; and to bind a number of noncompetitive items on the free list. For your information I enclose a list of the concessions³⁰ which it is now proposed to offer to Peru.

With respect to cotton, unanimous agreement has not yet been reached by the interdepartmental organization regarding the granting of a concession on this product, of major interest to Peru, and a recommendation is therefore not being made at this time. Pending settlement of this question it is proposed to advance the negotiations as far as possible with the Peruvian officials on the basis of the proposals outlined above, and I should appreciate being informed whether these meet with your approval.³¹

Faithfully yours,

SUMNER WELLES

²⁹ See *Foreign Relations*, 1941, vol. VII, p. 542.

³⁰ Not printed.

³¹ President Roosevelt returned the original of this letter with the notation "SW OK FDR."

611.2331/303

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Commercial Policy and Agreements*

[WASHINGTON,] April 3, 1942.

Señor Chavez called at the Department to receive the list of the products on which this Government was prepared to offer concessions in the proposed trade agreement with Peru. The absence of long-staple cotton from the list was, of course, noted by Señor Chavez and he was informed that a final decision had not yet been reached whether it would be possible to include a concession on this product in the agreement. There was a brief discussion of the relation of a possible concession on cotton in the trade agreement to the negotiations now being carried on for the purchase by an agency of this Government of the Peruvian cotton surplus, and it was agreed that further discussions regarding cotton in the trade agreement would await outcome of the negotiations for the purchase. In the meantime it was decided that we could proceed as far as possible with the negotiations on other questions in the agreement, including Schedule I and the General Provisions. Regarding Schedule I Señor Chavez said that he was awaiting receipt of information from his Government. He said that in the discussions which he had had while he was in Lima, there were a few specific commodities in which difficulties would probably be encountered, particularly those where Peruvian concessions to Chile were involved or where certain domestic industries were affected, but on the whole he did not think that too great difficulty would be encountered in reaching a satisfactory agreement. Señor Chavez mentioned also, of course, the general question of the 20 percent increase in basic Peruvian import duties, which would have to be settled to arrive at the basis upon which duty reductions or bindings on specific commodities would be calculated. On the General Provisions, Señor Chavez said that he had only just received a Spanish translation of our proposals, but as there was no indication whether this meant that our proposals as presented were acceptable to the Peruvian Government, he had immediately written to Lima for clarification on this point.

611.2331/306

*Memorandum of Telephone Conversation, by Mr. H. Gerald Smith
of the Division of Commercial Policy and Agreements*

[WASHINGTON,] April 8, 1942.

Señor Chavez telephoned and said that he had just had a chance to examine in detail the list of our definitive Schedule II offers

which had been handed to him on April 2. He had several questions about the list.

Concerning alpaca and other hair, he wondered why the 50 percent reduction had not been offered on all the items under paragraph 1102(b). I explained the reason for this indicating the desirability of maintaining the absolute spread between the duties on these products in the various forms in which they were imported. In response to another question, I indicated that the offers shown under paragraph 1001 on flax, were bindings of duties already reduced to the maximum extent possible, and not bindings of Tariff Act rates.

Concerning the absence of panama hats, I indicated to Señor Chavez that certain questions had arisen concerning the trade agreement with Ecuador which made it seem desirable, temporarily at least, to withhold offering to Peru a binding of the rate reduced in the trade agreement with Ecuador. I said, however, that if the Peruvian Government were very much interested in this item we would, of course, be glad to reconsider the possibility of including in Schedule II, a binding of the rate reduced to Ecuador.

Regarding the absence of tungsten, I mentioned to Señor Chavez that this product had been included in the list accompanying the public announcement of intention to negotiate with Bolivia, which had been issued on April 4, and whether or not it might be possible to include a concession on tungsten in the trade agreement with Peru would depend in large measure on what was done in the case of the proposed agreement with Bolivia. Señor Chavez recognized that Peru was a minor supplier of tungsten as compared with Bolivia.

611.2331/314

*Memorandum of Conversation, by the Chief of the Division of
Commercial Policy and Agreements (Hawkins)*

[WASHINGTON,] April 9, 1942.

Participants: The Honorable David Dasso, Minister of Finance of
Peru,
Señor Hector Boza, Adviser to the Minister of Mining,
Señor P. G. Beltran,
Señor Don Juan Chavez, Commercial Counselor of the
Peruvian Embassy,
Mr. Hawkins

The Finance Minister accompanied by the other gentlemen above mentioned called to discuss certain matters connected with the proposed trade agreement with Peru. The Minister was principally concerned with the question of a concession in the trade agreement on long-staple cotton. The concession he had in mind was a reduction

in duty and a lifting of the quota. He felt that failure to include a suitable concession on as important a product as long-staple cotton would be very hard to defend in Peru. He said he could not understand how we could deny such a concession consistently with the principles of commercial policy which we have advocated and proclaimed for a number of years. He said that that policy would require that instead of putting quotas and high duties on the product, Peru should be given the chance and encouraged to supply our needs. Instead of this, he finds that in addition to the most restrictive kinds of import barriers erected against the Peruvian product, we are now subsidizing our growers heavily in order to induce them to grow more of it and thereby to displace what might be obtained from Peru to the advantage of both countries.

Referring further to the political implications of leaving a cotton concession out of the trade agreement, the Minister went on to say that the Peruvian public cannot be expected to analyze the situation so closely as to appreciate whatever considerations there may be against the granting of such a concession; that the public is likely to view the situation superficially and to remember that, irrespective of circumstances and motives, the fact is that a while ago their cotton problem was largely solved by heavy purchases from Japan.

With respect to the remainder of the agreement, the Minister felt that no serious difficulties are likely to be presented. He felt that in general Peru could satisfy our requests for concessions by that country and that other concessions offered by the United States were satisfactory.

The Minister said that he expected to bring up the matter of the trade agreement next week with a view to pushing the negotiations to a conclusion before he leaves this country. He hoped that this could be done within a week or ten days and felt that this would be possible if the question of the cotton concession could be disposed of satisfactorily.

611.2331/324

Memorandum of Conversation, by Mr. H. Gerald Smith of the Division of Commercial Policy and Agreements

[WASHINGTON,] April 22, 1942.

Señor Chavez called to discuss the general provisions of the proposed agreement, bringing with him a Spanish draft which had been approved by Señor David Dasso, Peruvian Finance Minister now in Washington. It became apparent, after examining a few of the articles, that the Peruvian officials in Lima had made a translation into Spanish of the Department's draft general provisions of June 1941

rather than the revised draft of January 1942. Señor Chavez therefore made changes from time to time to bring the style of the draft in Spanish into line with the revised English draft.

There were no questions of substance raised by the Peruvians on the Preamble nor on Articles I, II, III, IV and V. Señor Chavez mentioned, incidentally, that the Finance Minister had vetoed a proposal from Lima that the provision for national treatment on internal taxes in Article II be eliminated.

In Article VI Señor Chavez said that it was the desire of the Finance Minister, under the second paragraph, that the provision be dropped for thirty days advance notice on changes by administrative ruling. I explained to Señor Chavez that we regarded this as a matter of some importance, it was of value to both countries, its inclusion prevented the working of hardships on traders as a result of sudden tariff changes and we therefore hoped that the Finance Minister would consider the possibility of including the thirty-day provision, which had appeared in trade agreements with most other countries. Señor Chavez said that he would bring this to the attention of the Finance Minister.

With respect to Article VII, Señor Chavez stated that the Finance Minister wished the draft amended so that the Peruvian Government, if it were faced with a difficult situation as a result of loss of customs revenues from currency depreciation or other causes, would be enabled to increase the rates of duty or surcharges on imported articles included in Schedule I. Señor Chavez referred particularly to the recent situation as a result of which the Peruvian Government had found it necessary to impose a flat 20 percent surcharge on basic customs duties in order to compensate for depreciation of the sol. I told Señor Chavez that in formulating our requests for concessions we had endeavored to be modest in our requests; in fact, including both requests for reductions in duty and bindings of existing rates, our requests covered only 20 percent of total Peruvian imports from the United States in 1940. Therefore, if the Peruvian Government at some future time found it necessary to take the action contemplated, there would be 80 percent or more of imports from United States which would not be affected by the provisions of Article VII binding basic rates of duty and supplementary charges on Schedule I products. I also told Señor Chavez that it would probably be difficult to explain to exporters in this country why, when we had received concessions on 20 percent or less of our shipments to Peru, even that 20 percent could not be guaranteed against less favorable customs treatment in the future. Señor Chavez seemed to appreciate these points and said that he would pass them on to the Finance Minister. However, as he still had some doubts as to whether the Finance Minister would accept these arguments, I pointed out to Señor Chavez

that, leaving Articles VII and VIII as proposed by this Government, if the Peruvian Government at some time in the future should find itself in an extremely difficult financial position and should need the additional revenues from an increase in customs duties on scheduled products, I was sure that this Government would give sympathetic consideration to any proposals which the Peruvian Government might make looking toward the relief of their financial situation. I told Señor Chavez that this was precisely one of the things that could be considered by the Mixed Commission which was provided for under the second paragraph of Article XI.

I told Señor Chavez that during the next few days we might possibly want to advance a proposal regarding the binding of export duties and taxes on scheduled articles. I told him that I did not have a definitive proposal on this but I merely wanted to let him know that we might wish to bring it up a little later.

At this point Señor Chavez had to leave to keep another appointment and it was agreed that the discussion would be continued the next day.

611.2331/313

The Ambassador in Peru (Norweb) to the Secretary of State

No. 3450

LIMA, April 22, 1942.

[Received April 28.]

SIR: I have the honor to acknowledge receipt of the Department's confidential instruction No. 1104 of April 7, 1942, enclosing a memorandum of conversation with the Peruvian Commercial Counselor on April 3²² regarding the trade agreement negotiations.

I have just been informed by Dr. Francisco Tudela that the American list is acceptable to the Peruvian government and that the Peruvian Embassy in Washington today is being advised to that effect.

With reference to the cotton quota, Dr. Tudela stated that the Peruvians realize the political difficulties encountered in the United States and that if it is impossible eventually to remove the quota an alternative measure is being suggested that some provision be included which would permit the redistribution of quotas, along the lines adopted in past years with reference to the redistribution of the sugar quota.

The only additional comment I have to make at the present time is with reference to the 20% increase in the basic Peruvian import duties. If adequate adjustments are not made, it is quite possible that nations which enjoy most favored nation treatment with Peru

²² Instruction No. 1104 not printed; for memorandum of April 3, see p. 683.

on the basis of the old duties will have a competitive advantage over the United States.

Respectfully yours,

R. HENRY NORWEG

611.2331/339

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Commercial Policy and Agreements*

[WASHINGTON,] April 27, 1942.

Señor Chavez called to continue the discussion of April 22 regarding the general provisions. He indicated that the Peruvian Government had no changes to suggest in any of the provisions from Article IX to Article XV, inclusive, which covered everything with the exception of the final article relating to entry into force, duration and termination. We then prepared a draft of this article in accordance with the procedure followed in this country and that which Señor Chavez said would be in line with the procedural requirements in Peru for bringing the agreement into force. This draft appears in substantially the same form in the final draft of the agreement. It was agreed that the initial period of the agreement should be three years rather than two. This was the desire of the Peruvian Government, and I told Señor Chavez that there probably would be no objection to it here.

Señor Chavez indicated at the meeting today that the Peruvian Government had accepted all our proposals on Schedule II with the exception of course that they could not sign the agreement unless the reduction of 50 percent in the duty on long-staple cotton were included. I told Señor Chavez that his Government's views on the question of the cotton would of course be brought up again before the Trade Agreements Committee.

611.2331/340

The Peruvian Embassy to the Department of State

AIDE-MÉMOIRE

[WASHINGTON,] April 27, 1942.

The following modifications are offered to the Preliminary Lists that have been handed to the Peruvian Embassy the 19th of January and 18th of February 1942,³³ of products on which the Government of the United States is desirous of securing improved tariff treatment or consolidation of existing tariff treatment:

³³ Neither printed.

1. The present Peruvian tariff should be taken as a basis and not the rate of duty in effect before December 21, 1941 so that the reductions which the Government of the United States is requesting, when accepted by the Peruvian Government, should be deducted from the actual rate and the binding which the United States Government request, when accepted by the Peruvian Government, should be on the basis of the present rate.

2. The reduction or elimination of additional duties and taxes requested by the United States cannot in any case be contemplated because they all represent charges of internal character established by special laws with special ends and they apply not only to imported articles but to those of the same character of domestic origin.

3. Some of the reductions requested cannot be granted because of the effect they would have on our Trade Agreement with Chile. As it is well known, this Trade Agreement stipulates that any concession granted to Chile if extended to another country, would compel the Peruvian Government to grant to Chile new concessions in compensation of that extension.

4. Some other concessions requested by the Government of the United States cannot be granted because they would affect domestic industries presently established or to be established in the very near future.

5. As a résumé of these considerations following are the concessions that could be granted by the Peruvian Government to the Government of the United States in the case that all the concessions offered to Perú in the *Aide-Mémoire* of the Department of State of April 1st³⁴ are granted to Perú plus those on cotton specifically mentioned in the *Aide-Mémoire* of the Department of State of June 4th, 1941:³⁵

[Here follows list of tariff concessions.]

611.2331/340

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Commercial Policy and Agreements*

[WASHINGTON,] April 28, 1942.

Señor Chavez and Señor Beltran called to present the Peruvian counterproposals on Schedule I of the proposed trade agreement. After reviewing the counterproposals, a copy of which is attached,³⁶ I told the Peruvian officials that I believed they would be considered entirely unsatisfactory by the Trade Agreements Committee. We therefore went over the various items in the list and after a lengthy

³⁴ Not printed.

³⁵ *Foreign Relations*, 1941, vol. VII, p. 543.

³⁶ *Supra*.

discussion, Señor Beltran agreed to recommend to Finance Minister Dasso the acceptance of our requests for improved treatment in accordance with the second list, a copy of which is attached.⁸⁷

The differences between the "compromise" column in the second list attached hereto and the final list which appeared in the agreement were the result of further recommendations by the Peruvian Country Committee and the Committee on Trade Agreements, and subsequent discussions and final agreements by telephone with the Peruvian officials in Washington and with Finance Minister Dasso in New York during the early days of May [*April*].

611.2331/324b

The Secretary of State to President Roosevelt

WASHINGTON, April 28, 1942.

MY DEAR MR. PRESIDENT: On March 28 Mr. Welles wrote to you concerning the conclusion of the proposed trade agreement with Peru, indicating that full accord had not yet been reached in the trade-agreements organization on the question of the action to be taken on long-staple cotton.

The negotiations on all other points have virtually been concluded. However, the Peruvian officials, including the Finance Minister now visiting here, have taken the position that a trade agreement between Peru and the United States, with its long-range implications, which did not include any concession at all on as vitally important a Peruvian export commodity as long-staple cotton, would be very difficult to defend in Peru. In short, the Peruvian officials are unwilling to sign an agreement not including long-staple cotton.

In order to provide a concession of any great value to Peru, it would be necessary not only to reduce the duty but also to increase or remove the quota at present imposed pursuant to Section 22 of the Agricultural Adjustment Act, which limits imports from Peru to about 4,000 bales annually. We propose merely a reduction of 50 percent in duty in the agreement, with the right reserved to impose quotas under the Agricultural Adjustment Act, and separate and subsequent action to consolidate the present individual country quotas into a global amount equal to the individual quotas. This would allow Peru to compete with other countries for the entire amount of whatever imports are permitted under quota. This would be useful because of the present and impending shortage of long-staple cotton in connection with the war effort, and should hardly cause concern to domestic growers who are now being encouraged, by means of guaran-

⁸⁷ Not printed.

teed premiums and otherwise, to produce as much long-staple cotton as possible.

Secretary Wickard,³⁸ who has indicated opposition at this time to any change whatever in either the import duty or the import quota, will be absent from the city all of this week and we have been informed that he cannot be reached. However, it is highly desirable that the agreement with Peru be concluded before the return to Lima of the Finance Minister, which may be in the next few days.

I should appreciate being advised whether the foregoing proposal, which will be accepted by the Peruvians and will enable us to conclude rapidly a generally satisfactory and valuable agreement, meets with your approval.³⁹

As you know, I have always sought to act in close consultation and cooperation with the Secretary of Agriculture in these matters and should like to have consulted him further on the subject now under consideration, with particular reference to the moderate proposal outlined above. However, the presence in this country of the Peruvian Minister of Finance furnishes a highly favorable opportunity to bring these negotiations to a successful conclusion, and we are confronted with the danger of losing this opportunity if we postpone action until Mr. Wickard returns. However, this is a matter for you to pass on.

Faithfully yours,

CORDELL HULL

611.2331/338

The Ambassador in Peru (Norweb) to the Secretary of State

No. 3563

LIMA, May 2, 1942.

SIR: I have the honor to inform the Department that the delegation of cotton technicians composed of Messrs. Norris, Moffat and Cook arrived in Lima on April 29. They were met at the airport by numerous representatives of the Cotton Chamber, the Agrarian Society and the Finance Ministry. After exchanging visits with members of the foregoing organizations as well as with a special committee designated by the acting Finance Minister to assist them in their work, they paid an official call upon the Finance Minister a.i. Moreyra on the afternoon of April 30.

Some uncertainty has been expressed in cotton trade circles during the last few days with reference to the time or period in which the

³⁸ Claude R. Wickard, Secretary of Agriculture.

³⁹ No record of a reply from President Roosevelt has been found in the Department files. Approval was apparently given, however, as the agreement was made on this basis. See memorandum by Mr. H. Gerald Smith, May 6, p. 693.

purchase of cotton will actually take place. Those at interest have called attention to the fact that the lack of income through sales of cotton futures is adversely affecting certain growers to some extent. All of this talk, of course, had as its principal purpose the encouragement of actual purchases at the earliest possible moment. After consulting with various authorities on the subject, I am inclined to attribute no special importance to those views. The absence of sales of futures this year differs little from the conditions which prevailed during the preceding two years. Moreover, the Agrarian Bank is offering to the cotton growers such financial assistance as they may need.

In any event, the arrival of the delegation and the information which they have already conveyed to the principal personalities have been sufficient to produce satisfaction.

The understanding which has been reached by the United States and Peruvian governments constitutes one of the most far-reaching economic and political developments which has taken place in Peru in recent years. As is well known, the cotton interests represent probably the strongest political influences in the nation, and the fact that cotton production and marketing problems have been settled for this and succeeding years has already created an attitude of confidence and cooperation whose consequences will be of immense value in maintaining the stability of the incumbent administration, and in more rapidly and effectively achieving a number of our anti-Axis objectives in Peru. The Department will be interested in learning that President Prado, himself, yesterday made very favorable comments upon the rapidity with which the cotton problem had been solved. The arrival of the delegation within one week of the signing of the understanding impressed upon him the determination of the American government to discharge its part of the cooperative program with precision.

The members of the delegation are fully aware of the importance of their assignment and from the moment of their arrival directed their activities in the direction of the Government's general policy in Peru. During their conversation with the Finance Minister a.i. on April 30, they placed special emphasis on the spirit of cooperation and made it clear that the Japanese and other Axis elements interested in cotton either directly or indirectly may not derive benefit. The Minister as well as the representatives of the Cotton Chamber and the Agrarian Society expressed complete approval of this part of the understanding and assured the delegates that they had been familiar with this phase of the question for some time and are disposed to cooperate.

Respectfully yours,

R. HENRY NORWEB

611.2331/343

Memorandum by Mr. H. Gerald Smith of the Division of Commercial Policy and Agreements

[WASHINGTON,] May 6, 1942.

EXCHANGES OF NOTES ACCOMPANYING PROPOSED TRADE AGREEMENT
WITH PERU

The trade agreement with Peru which is about to be signed is accompanied by two exchanges of notes:

1. An exchange of notes regarding exclusive preferences extended by Peru to contiguous countries. In this case the draft of notes follows closely the formula which was used in the trade agreement with Argentina in October 1941. The substance of this note had been agreed upon some months ago with the Peruvian negotiators as part of the basis for going ahead with the trade agreement negotiations and does not seem to require any further comment.

2. The second note expresses the understanding worked out by officers of the Department with the Peruvian negotiators regarding what could be done in the matter of the present import quota on Peruvian long-staple cotton. The Peruvian officials were informed that the proposal which was embodied in the notes is the maximum which can be offered at this time and they expressed a willingness to accept it, in as much as it had been found impossible, owing to opposition by the Department of Agriculture, to secure the complete removal of import quotas at present. The understanding developed therefore that the Department, following conclusion of the agreement, which would contain a reduction in the duty on long-staple cotton, would request the Tariff Commission to institute an investigation under Section 22 of the Agricultural Adjustment Act of 1933, as amended, with a view to consolidating the present individual country quotas into a global quota equal to the sum of the existing individual quotas. In view of present and probable shipping difficulties, it was possible that under such an arrangement Peru would have an opportunity of supplying that portion of the individual quota at present allocated to Egypt, which could not be supplied by the latter country. Then, at the beginning of the next quota year, Peru would be enabled to compete equally with Egypt for the full amount of the global quota of about 45 million pounds. It was further agreed that if the Tariff Commission made a finding of fact in a recommendation to the President regarding the consolidation of the present quotas, the President would then issue a proclamation giving effect to such recommendation, and thereafter the President of Peru would issue his proclamation of the trade agreement. On the latter point the Peruvians stated that they must be assured that the matter of the quota arrangement

would be settled satisfactorily before proclaiming the agreement on their side, otherwise they would be placed in what they considered the indefensible position in Peru of having signed and put into effect an agreement including a reduction in duty on long-staple cotton which was of absolutely no value to them because of the existence of quotas which, under present conditions, would prevent the importation into the United States of a single pound of cotton for commercial purposes until the opening of the next quota year in September.

611.2331/324a : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, May 7, 1942—8 p. m.

398. Trade agreement signed at noon today, including 50 percent reductions in duty on long-staple cotton and sugar. In a separate exchange of notes it is agreed that the Tariff Commission will be requested to investigate possibility of consolidating present individual country quotas on long-staple cotton into a global quota equal to the sum of the individual quotas, thus permitting Peru to share in supplying any otherwise unfilled portions of permitted imports. Upon a favorable finding by the Tariff Commission, the President would then issue a proclamation in the above sense.

Dasso signed for Peru. Copy of text by air mail.

HULL

[For text of trade agreement, see Department of State Executive Agreement Series No. 256, or 56 Stat. (pt. 2) 1509. For analysis of text of agreement, see Department of State *Bulletin*, May 9, 1942, page 410.]

**AGREEMENT BETWEEN THE UNITED STATES AND PERU REGARDING
THE INSTITUTION OF EDUCATIONAL PROGRAM FOR FURTHERING
TECHNICAL TRAINING IN THE UNITED STATES OF ADVANCED STU-
DENTS FROM PERU**

[For text of agreement effected by exchange of notes signed at Washington, August 4 and 24, 1942, see Department of State Executive Agreement Series No. 298, or 56 Stat. (pt. 2) 1859.]

**AGREEMENT BETWEEN THE UNITED STATES AND PERU REGARDING
A HEALTH AND SANITATION PROGRAM FOR PERU**

[For text of agreement effected by exchange of notes signed at Washington, May 9 and 11, 1942, see Department of State Executive Agreement Series No. 441, or 58 Stat. (pt. 2) 1543.]

URUGUAY

AGREEMENT BETWEEN THE UNITED STATES AND URUGUAY REGARDING PURCHASE BY THE UNITED STATES OF URUGUAYAN WOOL, EFFECTED BY EXCHANGE OF NOTES, NOVEMBER 23, 1942¹

811.20 Defense (Wool)/568

The Uruguayan Ambassador (Blanco) to the Secretary of State

[Translation]

No. 450/42
C. 12/942

WASHINGTON, July 17, 1942.

MR. SECRETARY OF STATE: I have the honor to address Your Excellency in connection with the note of June 15 last, which the Uruguayan Commission for Inter-American Development addressed to the Minister of Foreign Relations of my country, in which the problem created for the Uruguayan producers and merchants, by reason of the scarcity of warehouses, was dealt with.

It is stated in the said note that, on May 15 last, there were fifteen thousand bales of wool sold and ready for shipment. The quantity in question had a value of approximately ten million pesos. Those ten million pesos have already been paid to the producers, without anything having been collected as yet from the buyers in the interior, since the financing of these purchases is on the basis of "payment against shipping documents."

As the present state of war causes a general delay of several months in the shipment of wool, the bank credits which support the operations fall due in the interim, thus creating a difficult situation for the exporters.

In normal times, there is no difficulty in financing the operations on the basis already mentioned, but at this time, the problem which has been outlined causes serious disturbances for which it is necessary to find a solution.

The Uruguayan Commission for Inter-American Development, complying with a request of the Chamber of Commerce for Domestic Products ("Cámara Mercantil de Productos del País"), suggests a formula which takes into consideration the interests of our economy and those of the importers in the United States:

That the sale of wool be made on the basis of "payment against documents showing warehousing in private sheds, to the satisfaction

¹ For previous correspondence, see *Foreign Relations*, 1941, vol. VII, pp. 590 ff.

of the bank concerned in the operation, or in fiscal warehouses" and that this condition be made effective in cases in which shipments cannot be made within ninety days of the sale. If shipment is made before the ninety days are up, payments would be made as they have been till now, that is to say: "against shipping documents".

A settlement of this kind with the United States would constitute a solution in the case of one of the preoccupations of major importance to Uruguayan domestic commerce and banking.

That is why I submit the problem in question to Your Excellency's sympathetic consideration, assuring you of my highest consideration.

J. C. BLANCO

811.20 Defense (Wool)/579a : Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*

WASHINGTON, August 3, 1942—8 p. m.

471. From Board of Economic Warfare.

"Your 539 June 29,² wool surplus referred to not regarded as an abnormal carry-over at this period of the season. Wools finer than 44's are exempted from M-63 until August 16. As a result, private purchases have been stimulated and presumably unsold balances of such grades have been reduced.

We are not desirous of acquiring Uruguayan wools at this time, but to assist the situation are prepared to consider the purchase of a substantial part of the exportable surplus from the current clip comprising 64's down to 46's qualities, good combing fleeces, skirted, of standard packing acceptable to United States wool trade at 10 percent below current prices. This conforms with our Agreement with the British Wool Control, under which we have obtained substantial supplies Australian wools at lower base prices less a similar discount. It is proposed to buy up to 10,000 bales of the existing exportable surplus on the above basis through Boston representatives of Uruguayan shippers. This is not to be construed as an intention on the part of the United States to make a similar arrangement for next season's clip, and such an interpretation is to be discouraged.

It is firmly believed by our commodity authorities that all carry-over of this class of wool will be absorbed through usual United States trade channels in due course if Uruguayan holders prefer to wait such a development.

Your views on the above-mentioned proposals will be appreciated."

WELLES

² Not printed.

811.20 Defense (Wool)/584: Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, August 15, 1942—noon.

[Received 1:24 p. m.]

683. Department's telegram No. 471, August 3, 8 p. m. Present wool surplus is estimated between 35,000 and 38,000 bales which is considered large and is causing concern. An undetermined but probably considerable portion of this wool is in the hands of brokers who took an over-optimistic view of market and will take heavy losses if compelled to sell at current United States prices. Largely as a result of this situation pressure is being brought on the Uruguayan Government to induce us to take the wool at prices which will insure a profit.

We cannot be expected to assume the speculative losses with which brokers are threatened. However, to show our willingness to take Uruguayan wool we consider it advisable that Boston houses offer to buy substantial quantities on the basis and in the manner proposed in the Department's telegram. If indications are that prices will rise and that Uruguayan holders stand to gain by awaiting developments, this should be pointed out by the Boston houses in making their offers. Otherwise we incur the risk of being accused of having squeezed the Uruguayan trade.

DAWSON

811.20 Defense (Wool)/584: Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*

WASHINGTON, September 1, 1942—5 p. m.

529. Following receipt of your no. 683, August 15, noon, interested Government agencies have held a succession of meetings to discuss most appropriate action to take. Consensus now definitely favors some action regarding carryover and new clip as well, but all are agreed with your comment regarding speculative holdings. Uruguayan wool market is out of line with world prices and there is definite feeling here that correction of this inconsistency would be in Uruguayan interest.

It is suggested that the Uruguayan Government appoint someone here in Washington to begin conversations and with power to take action.

It is highly desirable that it be made clear in Montevideo that we have no interest at existing prices. Should the Montevideo market approximate the world price range which is substantially lower it is possible that some means might be worked out to move the carryover in spite of fact that Army and Navy have recently specified 100

percent domestic wools and commercial demand is limited by conservation order M-73, a copy of which is being despatched by air mail. Department is confident that if Montevideo prices can be adjusted to world levels, other agencies may be induced to place Uruguayan wool in government stockpile. If this adjustment of prices should occur promptly, it would then be possible to move Uruguayan wool with the present plethora of shipping now available in the Plate which may not be so free at a later date.

The situation is complicated by negotiations for the Australian clip but we are ready to begin conversations regarding Uruguayan carry-over immediately to aid movement of stocks.

WELLES

811.20 Defense (Wool)/601 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, September 14, 1942.

[Received September 14—5:20 p. m.]

799. Department's telegram 529 September 1. For wool conversations in Washington, Uruguayan Government will send commission composed of Francisco Podesta Milans and Jean Verhulst representing wool interests and an official of Ministry of Stock Raising yet to be designated. Request priority for all three first available plane leaving Buenos Aires after September 21.

DAWSON

811.20 Defense (Wool)/568

The Secretary of State to the Uruguayan Ambassador (Blanco)

WASHINGTON, September 17, 1942.

EXCELLENCY: I have the honor to refer to Your Excellency's note of July 17, 1942, with respect to the difficulty, due to the inadequacy of shipping in Montevideo, of financing wool sold and ready for shipment.

This Government has been making a special effort to supply shipping space for additional quantities of Uruguayan wool. With the shipping that has been and is now available in the Plate, no difficulty should exist in regard to financing wool, sold and ready for shipment, on the basis of payment against shipping documents.

The Department of State and other interested Government agencies have on numerous occasions during the past month discussed the situation regarding the current Uruguayan wool market. There has been general recognition of the importance of wool in the Uruguayan economy and it may now be said that there is a definite intention to provide an assured market through purchase by a United States Govern-

ment agency, or otherwise. However, there is a belief that Uruguayan interests will be best served if the Montevideo market is aligned more closely to world markets.

Conversations among the several Government agencies in regard to this matter are still in an exploratory stage, as are those relating to the possibility of negotiating purchase agreements for Uruguayan products other than wool. However, when these conversations have progressed to more specific terms, the Department will advise Your Excellency.

Accept [etc.]

For the Secretary of State:
DEAN ACHESON

811.20 Defense (Wool)/568

*Memorandum of Conversation, by the Assistant Secretary of State
(Acheson)*

[WASHINGTON,] October 19, 1942.

Participants: Uruguayan Ambassador, Dr. Blanco
Five Members of the Commission on Wool Negotiations
Mr. Dean Acheson

The Uruguayan Ambassador called at his request. He brought with him five members of the Commission. The Commission, the Ambassador explained, had encountered difficulties in its negotiations with officers of the Department but that before reporting the difficulties to Uruguay, the Ambassador wished to discuss them with me to see whether they might be cleared up. The difficulties appeared to be as follows:

In our note to the Ambassador of September 17 we stated that there had been general recognition of the importance of wool in the Uruguayan economy and that there was a definite intention to provide an assured market through purchase by a United States Government agency or otherwise. The note then added: "However, there is a belief that Uruguayan interests will be best served if the Montevideo market is aligned more closely to world markets". A similar statement was contained in a note delivered by the American Ambassador to the Uruguayan Foreign Office.

Apparently the Uruguayans had given much study to this sentence and had concluded that it meant that they were going to be paid the current market price in Argentina for their wool. This seemed to their minds to eliminate a negotiated price based upon the large purchase contemplated and the provision of an assured market.

However, the draftsman of the note (although this is not known by the Uruguayan Ambassador) had in mind that the implication of

the sentence was that certain Uruguayan interests which had been speculating in wool would have to be satisfied with a lower price than they were then asking.

I asked the Uruguayan Ambassador what the difference was in figures between his position and that of the Department. He stated that it was his impression that the comparable market price in Argentina would be 37 to 39 cents whereas he had been offered 33 cents.

I said to the Ambassador that I was not prepared to discuss the question on its merits at the present time, but that I would discuss it with the officers of the Department concerned and would get in touch with him later on.

DEAN ACHESON

811.20 Defense (Wool)/665a

The Secretary of State to the Uruguayan Ambassador (Blanco)

WASHINGTON, November 23, 1942.

EXCELLENCY: I have the honor to refer to the recent conversations held by the representatives of your Government and of the Government of the United States of America concerning the unsold portion of the Uruguayan wool clip of the 1941-1942 season and the Uruguayan wool clip of the 1942-1943 season. The Defense Supplies Corporation, an agency of this Government, has agreed to purchase Uruguayan wool of these two clips on the terms and conditions set forth in the attached memorandum of understanding³ reached as a result of the conversations referred to.

It is my hope that this agreement will aid in the stabilization of the economy of Uruguay and will decrease the dislocations to its economy caused by the war demand.

It has been agreed between the two Governments that they will from time to time consult with the joint objective of limiting exports of wool from Uruguay in such manner that Uruguayan wool required by the United States of America for the conduct of the War is made available for that purpose and in such manner that it does not become available, directly or indirectly, for purposes disadvantageous to the conduct of the War.

I believe that the agreement which has been reached between our Governments substantially furthers the effectiveness of the Resolutions adopted at the Third Meeting of Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro⁴ and is a step forward in

³Not printed; for conditions of agreement, see telegram No. 713, November 23, 10 p. m., to the Ambassador in Uruguay, p. 702.

⁴For correspondence pertaining to this Conference, see vol. v, pp. 6 ff.

the development of mutually advantageous economic relations between our two countries.

Accept [etc.]

CORDELL HULL

811.20 Defense (Wool)/669

The Uruguayan Ambassador (Blanco) to the Secretary of State

[Translation] ^{4a}

No. 724/42
C. 59/942

WASHINGTON, November 23, 1942.

MR. SECRETARY OF STATE: I have the honor to acknowledge receipt of Your Excellency's note of today in which you refer to the conversations recently held between the representatives of the Government of the United States of America and my Government relative to the unsold part of the 1941-1942 crop of Uruguayan wool and of the 1942-1943 crop of Uruguayan wool.

At the same time Your Excellency informs me that an agency of your Government, the Defense Supplies Corporation, has agreed to buy Uruguayan wool of these two crops on the terms and conditions established in the annexed memorandum of the understanding reached as a result of the conversations mentioned.

Your Excellency indicates, further, that this agreement will contribute to the stabilization of the economy of Uruguay and will reduce the disturbances in its economy caused by the demands of the war.

Reference is also made in Your Excellency's note to the agreement of both Governments with respect to consultations from time to time with the double purpose of limiting the wool exports of Uruguay in such manner that the Uruguayan wool required by the United States of America for conducting the war may be obtainable for this purpose and may not be obtainable, directly or indirectly, for purposes detrimental to the conduct of the war.

Taking note of these declarations, I have the pleasure to express that the Government of the Republic of Uruguay shares in the statements made and that it believes that the agreement which has been reached between our Governments substantially broadens the efficacy of the Resolutions adopted at the Third Meeting of Ministers of Foreign Relations of the American Republics, held at Rio de Janeiro, and that it is a forward step in the development of mutually advantageous economic relations between the United States of America and the Republic of Uruguay.

I remain [etc.]

J. C. BLANCO

^{4a} Translation supplied by the editors.

811.20 Defense (Wool)/672a : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, November 23, 1942—10 p. m.

713. In an exchange of diplomatic notes today, United States Government agreed to purchase not exceeding 30,000 bales of 1941-42 wool carry-over and to underwrite 37,500 bales of 1942-43 clip.

The agreement provides for purchase of 1941-42 carry-over of acceptable grades and types of Super and Bonne Belle at an over-all average price of 37 cents per pound in grease c. and f. for Uruguayan Supers from estimates heretofore delivered by Uruguayan Commission. All grades of Bonne Belle are at 2 cents per pound less than the corresponding grades of Super style. Terms of payment cash against shipping documents or, if shipping space not available, payment against warehouse receipts 60 days after wool is ready for shipment with appropriate deductions.

1942-43 Clip. The United States underwrites 37,500 bales of Super and Bonne Belle styles and grades acceptable at an overall average price of 35 cents per pound in the grease c. and f. for Super style. Bonne Belle corresponding grades 2 cents per pound less. Actual underwriting prices for each grade are stipulated in agreement. No wool of 1942-43 clip shall be offered prior to June 1, 1943. Any time after June 1, 1943 either government may terminate underwriting feature by giving 90 days notice.⁵ Terms of payment same as for 1941-42 carryover.

General provisions applicable to both clips. Both governments recognize that all available shipping space be used and agree to lend best efforts to accelerate movement of wool. At least 25 percent of each shipment shall be 1941-42 carryover wools and if 1942-43 clip wool unavailable, all available space will be used for carryover. Contracts for 1942-43 clip entered into before November 1, 1942 will be honored in making shipping allocations.

Both governments agree to consult with joint objective of limiting exports of Uruguayan wool in manner that wool required by United States for war purposes is made available and exports are not permitted in such manner that it becomes available, directly or indirectly, for purposes disadvantageous to the conduct of the war.

Handling of wools is now being worked out in detail but will be handled in so far as possible through regular trade channels with all necessary measures taken to insure classifications in accordance with established grade, type and packing standards.

Copies of the notes are being forwarded by airmail.

HULL

⁵ Notice of cancellation of the agreement by the United States was given on July 13, 1943, effective in 90 days.

**LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND
URUGUAY, SIGNED JANUARY 13, 1942^o**

[The Lend-Lease Agreement between the United States and the Republic of Uruguay signed at Washington January 13, 1942 (not printed), provided that Uruguay was to repay \$7,800,000 of the scheduled cost (about \$17,000,000) of the armaments and munitions transferred by the United States to Uruguay, in installments of not more than \$1,300,000 before January 1, 1943; \$2,600,000 before January 1, 1944; \$3,900,000 before January 1, 1945; \$5,200,000 before January 1, 1946; \$6,500,000 before January 1, 1947; or \$7,800,000 before January 1, 1948. The agreement, otherwise, is substantially the same as the draft of the basic agreement printed in *Foreign Relations*, 1941, volume VI, page 139.]

**DISCUSSIONS WITH THE URUGUAYAN GOVERNMENT REGARDING
UTILIZATION OF GERMAN SHIPS REQUISITIONED BY URUGUAY**

800.8830/1602a : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, May 27, 1942—7 p. m.

303. The Department realizes from your many recent telegrams that the Uruguayan Government is greatly preoccupied by the increasing difficulties in shipping. The Government and exporters and importers have made abundantly clear to you that they believe Uruguay is not receiving as favorable treatment as other countries, particularly Argentina, in space allocated on vessels in trade between the United States and Uruguay.

The Department and the War Shipping Administration have reviewed this situation and in recent telegrams have brought about readjustments which go a substantial distance toward relieving the complaints which have been brought to your attention.

It is clear, however, that for some time to come there will be an extreme shortage of shipping. It therefore becomes extremely urgent that the four Uruguayan ships⁷ be placed immediately into efficient operation. The operation of these ships would make possible the carriage of greater quantities of Uruguayan exports and imports.

There appear to be two aspects of the problem of placing the Uruguayan vessels into service. One of these is fears of submarine danger. The United States is now supplying petroleum to Uruguay and most of Brazil by sending tankers around the west coast of

^o For correspondence regarding the negotiation of the agreement, see *Foreign Relations*, 1941, vol. VII, pp. 549 ff.

⁷ Ships of Axis Powers requisitioned by Uruguay.

South America and through the Straits of Magellan. It would be possible in terms of the national interest of Uruguay, if not in strictly commercial shipping terms, to send Uruguayan vessels via the west coast to California or Gulf ports. This less efficient utilization of ships would still be vastly more helpful than their continued immobilization in Uruguayan ports.

The other question is that of efficiency of operation. The Department is advised that Mr. A. V. Moore of Moore-McCormack has presented to the Uruguayan Government, through the Uruguayan Ambassador⁸ and his Naval Attaché,⁹ a proposal for chartering these ships. Mr. Moore states that the Uruguayan Embassy here has endorsed the proposal and sent it to Montevideo.

Although the Department recalls the objections previously raised by the Uruguayan Government to the operation of these ships by Moore-McCormack, it desires you to have a friendly but frank talk with the Foreign Minister¹⁰ and, if it seems desirable, with the President¹¹ to discuss the matter. In this conversation you should point out that there is and will be an insufficiency of tonnage, that the efficient operation of these ships would make it possible for Uruguay to increase its exports and to improve its imports, and that it would have a very encouraging and heartening effect on our shipping authorities here who feel that Uruguay is not doing as much as it could or should to help itself as long as these ships remain idle or are not utilized to the maximum efficiency. You may recall that this Government has not heretofore urged that these ships be operated in any particular way but has merely stood on the broad policy that they should be put into service. The shipping situation has become so critical, however, that the Department believes the Uruguayan Government in its own interest must immediately come to some conclusion as to the way in which these ships would be operated. The Department believes the proposal presented by Moore-McCormack through the Ambassador here a fair one, recognizing the Uruguayan desire for a merchant marine operated under its own flag. Opportunity would be afforded for training officers and seamen. You should however emphasize that our interest is in seeing the ships placed into effective service promptly.

Please report in detail by telegram the results of your interview.

HULL

⁸ Juan Carlos Blanco.

⁹ Comdr. Mario Collazo Pittaluga.

¹⁰ Alberto Guani.

¹¹ Alfredo Baldomir.

800.8830/1590 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, May 29, 1942—5 p. m.

[Received 6:30 p. m.]

433. Department's 303, May 27, 7 p. m. As duly reported by Naval Attaché,¹² *Colonia* and *Presidente Terra* sailed for United States Atlantic ports May 24. *Maldonado* is still undergoing repairs and should be ready in 2 weeks to a month. Nothing has been done with *Tacoma* and I understand that port authorities are awaiting instructions from Guani before proceeding to place her in service.

From a recent remark made to me by Guani and from other reports I understand that the President and Rodriguez Luis¹³ are not well disposed towards Moore-McCormack and feel that the company has tried to exert pressure in various ways in order to obtain the vessels. I shall discuss situation with Guani early next week along lines of your telegram when I receive text of latest Moore-McCormack proposal which Clarendon is bringing me on Monday.¹⁴

DAWSON

800.8830/1592 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, May 30, 1942—1 p. m.

[Received 1:47 p. m.]

436. Department's 303, May 27, 7 p. m. and my 433 May 29, 5 p. m. I believe that Guani in particular has from the outset been concerned over the eventual postwar difficulties with the owners of the requisitioned vessels and their Governments. It occurs to me that our efforts to induce the Uruguayan Government to transfer the vessels to American operation might be materially facilitated, if by so doing Uruguay were to be relieved of all responsibility as respects eventual claims. I believe that it would be particularly helpful if we offered to assume in Uruguay's stead all responsibilities respect eventual claims based not only on its action in transferring the vessels to United States but also on its original action in requisitioning the vessels. Naturally such an offer would refer only to vessels transferred to American operation.

I should appreciate an early reply.

DAWSON

¹² Comdr. Frank Loftin.

¹³ Adm. Rodriguez Luis of the Uruguayan Navy.

¹⁴ June 1.

800.8830/1598 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, June 3, 1942—8 p. m.

[Received 10:47 p. m.]

454. My telegram 433, May 29, 5 p. m. I discussed the utilization of the Uruguayan vessels with Guani yesterday acquainting him with the Department's views as expressed in its telegram 303, May 27, 7 p. m.

Guani told me very frankly that there is no present likelihood that the Government will change its policy of direct operation of the vessels. He said that it would be inadvisable to press the matter and that Moore-McCormack should remain quiet for the time being.

I feel that for the present we should confine ourselves to efforts to induce the Uruguayans to operate the vessels as efficiently and expeditiously as possible. The Naval Attaché and I will continue to urge them to cooperate in this manner and I shall take advantage of the first suitable opportunity to discuss this phase of the question with the President.

DAWSON

800.8830/1592 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, June 4, 1942—10 p. m.

324. Your 436, May 30, 1 p. m., and 433, May 29, 5 p. m. Following from the War Shipping Administration:

"The United States through the War Shipping Administration offers to charter or purchase Uruguayan ocean going vessels upon mutually satisfactory terms and conditions.

In connection with such charter or purchase, the United States offers to provide satisfactory assurances or guarantees that, in the event the United States charters such vessels and the Oriental Republic of Uruguay is held liable to the owners thereof for charter hire for the period during which the vessels are chartered to the United States in an amount in excess of that paid by the United States, the United States will pay to the Oriental Republic of Uruguay the difference between the charter hire paid by the United States and the charter hire for which the Oriental Republic of Uruguay is held liable. Correspondingly, should the United States acquire title to the vessels, the United States will pay to the Oriental Republic of Uruguay the difference between the purchase price paid by the United States and the purchase price for which the Oriental Republic of Uruguay is held liable.

It is understood that any such liability will be determined by post-war arbitrations or other international determination established in accordance with proceedings mutually satisfactory to the United

States and the Oriental Republic of Uruguay. If the foregoing is a satisfactory basis for negotiation, the United States will make prompt offer for charter or purchase of the vessels."

HULL

800.8830/1644

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 1185

MONTEVIDEO, June 23, 1942.

[Received July 3.]

SIR: I have the honor to refer to recent correspondence concerning the utilization and operation of Uruguayan ships and in particular to the Department's telegram No. 303 of May 27 and my telegram No. 454 of June 3.

As reported in my telegram No. 454, I discussed the matter on June 2 with Dr. Guani in the sense of the Department's instructions. He told me frankly and categorically that the Government was not disposed for the time being to make any change in its policy of operating the vessels itself through the National Port Administration. As stated in my telegram No. 433 of May 29, he had given me to understand a few days previously that the President and Admiral Rodriguez Luis were annoyed and felt that Moore-McCormack had sought to bring pressure on the Government in various ways in order to obtain the Uruguayan vessels. In our conversation of June 2, Dr. Guani reverted to our earlier talk in terms which made it very plain that the Government is in no frame of mind to give favorable consideration to any proposal from Moore-McCormack whom it blames in good part for the circumstance that for a time so many American vessels were sailing from Buenos Aires without stopping at Montevideo for cargo. His final comment was that Moore-McCormack should not press the matter further and that the best thing the firm could do would be to "remain quiet". He said that he would so inform the Uruguayan Embassy in Washington through which the firm's latest proposal had been transmitted. (In this connection, I may state that Moore-McCormack have recently opened their own office in Montevideo under an American manager, a move which, it is hoped, will tend gradually to improve their position here.)

In view of my conversation with Dr. Guani, I considered it distinctly inadvisable to pursue further the question of the Moore-McCormack proposal or even to suggest for the time being the possibility of an offer for charter or purchase of the vessels by the United States on the basis set forth in the Department's telegram No. 324 of June 4. I am satisfied that for the moment nothing would be accomplished and useless irritation might be caused by further efforts to obtain the vessels, in the absence of some indication that the Gov-

ernment may be prepared to reconsider its determination to operate the ships itself. I am the more convinced of the present inadvisability of such efforts in view of what the Naval Attaché tells me of his conversations with naval officers and officials of the Port Administration. He has the distinct impression that they are very "touchy" on the subject of the vessels and strongly in favor of continued Uruguayan operation.

This does not, however, preclude suitable efforts on our part to induce the Uruguayans to operate the ships expeditiously and efficiently. I have talked with Dr. Guani along these lines and on June 11 I took advantage of an opportunity to impress on Admiral Rodriguez Luis the seriousness of the shipping situation and the great importance of more effective utilization of Uruguay's tonnage. The Naval Attaché is assisting me in endeavoring to obtain the cooperation of the Uruguayan authorities in this manner.

Present Situation as regards Uruguayan Vessels.

As was duly reported by the Naval Attaché and noted in my telegram No. 433 of May 29, two of the Uruguayan vessels, the *Colonia* and the *Presidente Terra* finally sailed for United States east coast ports on May 24.

Repairs on the *Maldonado* (which is reported to have been in bad shape) were recently completed. The vessel has made a successful trial run, is to begin loading tomorrow, and is scheduled to sail for the United States about July 2.

After considerable delay (which appears to have been due largely to hesitation or procrastination on the part of Dr. Guani), the *Tacoma* is now being turned over by the Navy to the National Port Administration with orders to proceed to place it in operation. The Naval Attaché informs me that no inspection has been made thus far to determine the condition of the vessel with particular reference to damage which may have been done by the former German crew. The Naval Attaché has repeatedly urged that such an inspection be made promptly. He now understands that it will be made within a few days as soon as the National Port Administration takes the vessel over from the Navy.

A further vessel, the *Punta del Este* (the former Dutch *Vredenburg*), will shortly be put into service. This is not one of the immobilized vessels taken over by the Uruguayan Government but a ship which went on the rocks off Punta del Este in 1939, was salvaged by the National Port Administration, and has been repaired in the Uruguayan Naval Dockyard. Incidentally, American experts agree that the Uruguayan Navy has done a remarkably good job in repairing what appeared to be little more than a useless hulk.

Respectfully yours,

WILLIAM DAWSON

NEGOTIATIONS RELATING TO THE RECIPROCAL TRADE AGREEMENT
BETWEEN THE UNITED STATES AND URUGUAY, SIGNED AT MONTE-
VIDEO ON JULY 21, 1942¹⁵

611.3331/450 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, April 16, 1942—7 p. m.

[Received 8:55 p. m.]

289. Department's telegram No. 390, December 31, 1941, 7 p. m.¹⁶ With reference to the last phrase of paragraph 2, please confirm our presumption that a paragraph worded exactly as paragraph 3 of the Argentine Final Minutes,¹⁷ with appropriate changes to include Paraguay and Bolivia, would be acceptable to the Department. It is further presumed that the final minutes accompanying the draft text of the trade agreement transmitted with Department's instruction No. 295 of May 28, 1941,¹⁸ together with the additional paragraph mentioned above, would constitute the definitive text of the final minutes. In conversation held today with officials of the Foreign Office assurances were given that consideration of Embassy's note based on Department's instruction No. 327 March 2¹⁹ would be expedited and that a meeting to discuss with Embassy schedule I items pending agreement would be called on or about April 28. Delay attributed to pressure of work in preparation for the conference of the Emergency Advisory Committee on Political Defense now in session.

DAWSON

611.3331/451 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, May 9, 1942—1 p. m.

[Received 3:06 p. m.]

355. Department's circular [?] instruction 235, January 14, 1942, 236, January 14, 1942; 185, December 15, 1941; 468, April 24, 1942.²⁰ At a meeting held in the Foreign Office yesterday afternoon Inter-Ministerial Commission definitely agreed to accept proposed English text of general provisions, related notes and final minutes transmitted with the Department's instructions referred to above.

¹⁵ For previous correspondence, see *Foreign Relations*, 1941, vol. VII, pp. 558 ff.

¹⁶ *Ibid.*, p. 589.

¹⁷ Signed October 14, 1941; for text, see *ibid.*, vol. VI, section under Argentina entitled "Reciprocal trade agreement between the United States and Argentina, signed October 14, 1941."

¹⁸ *Ibid.*, vol. VII, p. 566; enclosures not printed.

¹⁹ Not printed.

²⁰ None printed.

With reference to paragraph 1 of the Department's telegram No. 390 December 31, 1941,²¹ Uruguayans handed Embassy a draft note reading in translation as follows:

"I have the honor to refer to the discussions during the course of the negotiation of the trade agreement between the Oriental Republic of Uruguay and the United States of America, during which it was understood that the Government of the United States would agree to the deletion of paragraph 1 of article XVI relating to customs penalties for errors in documentation, subject to the condition that assurances be given by the Uruguayan Government that sympathetic consideration will be given to claims of North American exporters resulting from the imposition of customs penalties.

In the course of the discussions it was pointed out that the basic customs laws of Uruguay do not permit the consideration of good faith where errors in documentation have occurred, but Uruguayan customs legislation authorizes the correction of errors in documentation within given periods before the consular authorities of the port of embarkation as well as before the customs authorities of the port of destination. Moreover my Government assures Your Excellency's Government that sympathetic consideration will be given to cases where North American exporters might be prejudiced through unintentional errors in the original documents which accompany the merchandise shipped."

If the foregoing note is acceptable please furnish Embassy with proposed reply note.

As regards draft schedule I transmitted with the Department's instruction 327, March 2,²² the Commission accepts the Department's counter proposal with the following exceptions.²³

Hardware 85 (files or furniture of iron or steel): Uruguayans adamant in their refusal to grant concessions other than binding with respect to this item on the grounds that long established local industry supplying the very large bulk of requirements would be seriously prejudiced by a reduction in duty.

Electrical 34 (radio receiving sets): the same arguments are advanced in refusing to grant any concession other than binding on this item.

Section 10 position 426 item 3036 (hygienic paper): Uruguayans offer to remove gold payment provision but insist on retaining *aforo* of 35 centavos. Resulting duty is 18.20 instead of 7.80. Imports of this item are insignificant.

Section 4 position 143 item 715 (concentrated grape juice): Uruguayans offer liquidated duty of 142 pesos per 100 net kilograms. Present duty is 141.85 pesos plus 29.79% ad valorem instead of that previously reported. New offer substantially meets Department's request for exemption of gold payment provision and is based on official *aforo* of 2 pesos per kilo.

²¹ *Foreign Relations*, 1941, vol. VII, p. 589.

²² Not printed.

²³ By telegram No. 273, May 16, 11 p. m., the Ambassador was authorized to accept the Uruguayan proposals referred to below (611.3331/453).

There remains for consideration at a meeting Monday electrical 129 (radio tubes) and section 17 position 893 item 50 to 80 inclusive (automobile parts). Partial concessions are expected in both cases.

Definitive text of general provisions related notes final minutes and schedules I and II will be transmitted to you by air mail immediately upon receipt of formal note to Guani²⁴ confirming agreement reached yesterday with Inter-Ministerial Commission.

DAWSON

611.3331/457

Memorandum of Telephone Conversation, by Mr. Vernon L. Phelps of the Division of Commercial Policy and Agreements

[WASHINGTON,] May 12, 1942.

Participants: Mr. Horton Henry, Second Secretary, American Embassy, Buenos Aires
 Mr. Hawkins²⁵
 Mr. Fowler²⁶
 Mr. Phelps
 Mr. White²⁷

Mr. Henry telephoned from Buenos Aires to report further regarding the present status of our trade agreement negotiations with Uruguay in which he has been participating in Montevideo.

As regards Schedule I, Mr. Henry said that the Uruguayans had met all of our requests excepting (1) filing cabinets and radio receivers on which bindings of the present duties were offered and (2) automobile parts on which reductions covering about 60 percent of the total, by value, were offered. Mr. Henry was informed that these offers would have to be cleared with the Committee on Trade Agreements but that we believed they would be acceptable.

Mr. Henry was reminded of the fact that the Embassy should check with the Uruguayan authorities to ensure that in the signed agreement Part B of Schedule I includes only "item numbers of the unrevised sections of the Uruguayan tariff in force on the day of the signature of the agreement" as provided for in the headnote thereto.

In response to an inquiry, Mr. Henry stated that the Uruguayan Government desired that the note regarding customs penalties, transmitted to the Department in telegram no. 355 of May 9, 1942 from the Embassy at Montevideo, not be published. It was suggested in that event that the substance of the note be embodied in another paragraph

²⁴ Alberto Guani, Uruguayan Minister for Foreign Affairs.

²⁵ Harry C. Hawkins, Chief of the Division of Commercial Policy and Agreements.

²⁶ William A. Fowler, Assistant Chief of the Division of Commercial Policy and Agreements.

²⁷ C. Thayer White, Division of Commercial Policy and Agreements.

of the Final Minutes, since we preferred not to have any unpublished exchanges of notes in connection with the agreement.

He was informed that while we preferred a Final Minute, he was authorized, if necessary, to accept the Uruguayan proposal of an unpublished exchange of notes.

He stated that the Embassy at Montevideo was preparing a definitive text for transmission to the Department within a few days and that it was hoped that signature of the agreement would be possible within about two weeks.

611.3331/451 : Telegram

The Secretary of State to the Chargé in Uruguay (Dawson)

WASHINGTON, May 14, 1942—9 p. m.

270. Embassy's telegram no. 355, May 9, 1 p. m., Section 1. It is our understanding from a telephone conversation May 13 with Horton Henry that the Uruguayan Government is unwilling to publish its proposed note regarding customs penalties.

Henry was informed that we would in this event prefer that the substance of the note be embodied in another paragraph of the Final Minutes, which would be subject to the last paragraph thereof, but would, if necessary, accept the assurances in the form of an unpublished exchange of notes, in which case the text of the reply note would not have to be submitted to the Department for approval.

However, on further consideration, we would prefer to drop the matter rather than record an understanding in an unpublished exchange of notes; trusting that the Uruguayans would consider sympathetically within the limits imposed by law any particular cases.

HULL

611.3331/455 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, May 15, 1942—6 p. m.

[Received 7:42 p. m.]

381. Department's No. 270, May 14. In accordance with paragraph 1 Department's telegram No. 390, December 31,²⁸ it was pointed out to the Uruguayan officials during the negotiations that the exchange of notes regarding customs penalties need not be made public. It was agreed that the text would not be published but the Uruguayan officials expressed no particular preference.

²⁸ *Foreign Relations*, 1941, vol. VII, p. 589.

Acting on Horton Henry's report of his telephone conversation with the Department it was suggested to the Uruguayan officials that the inclusion of the substance of the note in a paragraph in the final minutes would be preferred. Confirmation of their acceptance was received today. The English translation of the text agreed upon follows:

"4. With reference to article XVI it was understood that the basic customs law of Uruguay does not permit the consideration of good faith when errors in documentation have occurred, but that Uruguayan customs legislation authorizes the correction of errors in documentation within given periods before the consular authorities of the port of embarkation as well as before the customs authorities of the port of destination. Moreover, it was agreed that the Government of Uruguay will give sympathetic consideration to cases where North American exporters might be prejudiced through unintentional errors in the original documents which accompany the merchandise shipped."

DAWSON

611.3331/466

The Secretary of State to President Roosevelt

WASHINGTON, June 6, 1942.

MY DEAR MR. PRESIDENT: Public notice of intention to negotiate a trade agreement with Uruguay was issued on May 13, 1941 and public hearings were held on June 23, 24, and 25 concurrently with those in connection with the trade agreement with Argentina because of the similarity of products on which concessions might be granted to the two countries.

Agreement has now been reached with the Uruguayan Government on all substantive points in connection with the proposed agreement.

Improved tariff treatment is provided for in Schedule I of the agreement on 147 Uruguayan tariff items covering about 25 percent by value of total United States exports to Uruguay in 1940.

With the exception of the binding on the free list of unmanufactured agates, all of the concessions to be granted Uruguay in Schedule II are also included in the existing trade agreement with Argentina. The principal products are casein, tallow, canned meat, flaxseed, coarse wools, and cattle hides. The concessions cover products which in 1940 accounted for about 32 percent by value of total United States imports from Uruguay.

The general provisions, related notes, and final minutes are similar to those contained in the trade agreement with Argentina. As in the case of Argentina, two related notes provide that the terms of the agreement providing for nondiscriminatory treatment will not be invoked in respect of certain special exchange treatment accorded

temporarily by Uruguay to the sterling area or in respect of certain special advantages accorded by Uruguay to specified neighboring countries. In the case of Argentina these neighboring countries are countries contiguous to Argentina and Peru; in the case of Uruguay they include contiguous countries, Bolivia, and Paraguay.

I should appreciate being informed whether you approve the conclusion of this agreement as outlined above.²⁹

Faithfully yours,

CORDELL HULL

611.3331/479 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, July 16, 1942—6 p. m.

[Received July 16—5:25 p. m.]

595. Guani and I have arranged tentatively to sign the trade agreement on Tuesday, July 21. I shall undoubtedly be asked to make some statement for the press and should appreciate receiving by Sunday any instructions or suggestions which the Department may wish to send me.

DAWSON

611.3331/479 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, July 18, 1942—4 p. m.

442. Reference Embassy's 595, July 16.

1. We have no specific suggestions as to outline or text of the general statement you may be called upon to make. You will naturally avoid any statement suggesting that the agreement will make any significant change in trade during the emergency, when such factors as shortage of shipping and supplies dominate the situation, and will put emphasis on general significance of the agreement as further concrete evidence of the ability of the American republics to work out mutually beneficial solutions of common problems and as a foundation for improved trade relations, particularly after the United Nations have won a decisive victory over the Axis powers and, together with other like-minded peoples, have taken further steps to attain the objectives set forth in the Atlantic Charter.³⁰

2. The signature texts of the agreement should be assembled in the following order: general provisions, schedule I, and schedule II,

²⁹ Original of this letter returned by President Roosevelt with notation, "CH OK FDR."

³⁰ Joint statement by President Roosevelt and British Prime Minister Winston S. Churchill on August 14, 1941, *Foreign Relations, 1941*, vol. 1, p. 367.

followed by the two notes regarding preferences. Please telegraph the order in which these notes will appear. The final minutes should of course be kept separate from the other documents since the text thereof will not be proclaimed or published.

HULL

611.3331/481 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, July 19, 1942—4 p. m.

[Received 4:56 p. m.]

606. Reference Department's 442, July 18, 4 p. m., second paragraph. The understanding with the Uruguayans is that the general provisions, schedule I and II will be bound together in the order named and that the related notes will be signed and exchanged separately at the same time as the signature of the agreement, as was done in the case of the Argentine agreement. The Final Minutes will also be kept separate. In giving the texts to the press for publication, it is intended that the Uruguayan note relating to preferences to the United Kingdom and the reply thereto will precede that regarding preferences to contiguous countries and our reply.

If the foregoing is not satisfactory to the Department, it will be necessary to discuss this point with the Foreign Office and to obtain its approval for binding new signature texts of the related notes and replies thereto with the agreement.

Please clarify immediately the Department's wishes with respect to the foregoing.

DAWSON

611.3331/483 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, July 21, 1942.

[Received July 21—5:01 p. m.]

612. Trade Agreement was signed at Foreign Office at 5 p. m. today. Foreign Office had arranged appropriate ceremony attended by considerable number of Uruguayan officials, Embassy staff and American business men. Guani and I made brief remarks both stressing importance of unconditional most favored nation clause as means of assuring improved trade relations in better future world. Guani paid tribute to our trade agreement policy.

DAWSON

[For text of trade agreement, see Department of State Executive Agreement Series No. 276, or 56 Stat. (pt. 2) 1624; for analysis of agreement, see Department of State *Bulletin*, July 25, 1942, supplement, page 654c.]

**NEGOTIATION OF AGREEMENT BETWEEN THE EXPORT-IMPORT BANK
AND URUGUAY FOR A LOAN FOR A PUBLIC WORKS PROGRAM IN
URUGUAY**

833.51/984 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, April 9, 1942—5 p. m.

[Received 5:23 p. m.]

270. The Uruguayan Government is considering a program of public works as a means of solving in part the unemployment problem which will become serious as increasing numbers of laborers are thrown out of work because of shortage of essential materials. The financing of such public works will be difficult in view of the fiscal situation. According to reports believed reliable 1941 closed with a deficit of from 12 to 15 million pesos and a still larger deficit is anticipated for 1942.

In order to maintain political stability it is most important that work be found for the unemployed and I believe that the Government will be compelled to resort to public works and particularly such works as road building which do not require imported materials. In view of our desire to assist Uruguay and our inability to supply it with enough raw materials to prevent serious unemployment, it occurs to me that we might be prepared to offer the Government financial assistance for public works. To be effective such assistance should be of a very generous nature as respects terms.

I should appreciate early advices from the Department as to whether our Government could consider lending appropriate assistance and in this event whether I am authorized to discuss the matter with Guani³² and/or the President.³³ I believe that this would be an appropriate time for a spontaneous gesture on our part along these lines.

DAWSON

³² Alberto Guani, Uruguayan Minister for Foreign Affairs.

³³ Alfredo Baldomir.

833.51/984 : Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*

WASHINGTON, April 13, 1942—3 p. m.

195. Your 270, April 9, 5 p. m. The Government of the United States is always prepared to consider and discuss any measures of cooperation suggested to it by the Government of Uruguay. Some time ago at the request of the then Uruguayan Minister there were opened credit lines by the Export-Import Bank to the Government of Uruguay and to the Banco de la República. Uruguay has never made any attempt to utilize these.

The credit standing of Uruguay is good and the Department is prepared to recommend and the Export-Import Bank to consider any reasonable program of financing. The priority situation would make it very difficult to supply Uruguay with materials needed for any extensive public works program, but your telegram indicates that public works to be carried out would not require imported materials.

WELLES

833.51/986 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, May 13, 1942—3 p. m.

[Received 4:07 p. m.]

364. From Spaeth³⁴ for the Under Secretary. The intimate relations between the economic situation here in Uruguay and the political objectives which we are seeking to accomplish in cooperation with Doctor Guani induces this special reference to economic matters. Almost every day the Foreign Minister renders some significant assistance to the work of the Committee and we will, of course, be increasingly dependent upon him and the Government of Uruguay. This aid in political matters would seem to justify the viewpoint that special efforts should be made to guard against unemployment and economic unrest. The Ambassador and his staff are properly concerned about the economic problems which are developing as a result of inadequate shipping facilities, the iron and steel allocation and the lack of [apparent omission]. These problems are, of course, common to the hemisphere, but I am satisfied that Uruguay is in a particularly vulnerable position at a time when we badly need her political assistance and when it is particularly important that Uruguay appears to receive substantially better treatment than Argentina.

³⁴ Carl B. Spaeth, member of the Emergency Advisory Committee for Political Defense.

With regard to shipping, special care should be taken to insure that boats over which we have control take more or at least as much cargo from Montevideo as they take from Buenos Aires. Even better shipping treatment might be justified for Uruguay in view of the substantial number of Argentine ships which are able to sail safely without convoy.

With regard to the fuel supply it is important to stress that unlike other South American countries Uruguay has no domestic fuel resources whatsoever. It has no coal, no petroleum and no natural forests. Recent quotations on Argentine wood for fuel purposes go as high as 48 pesos a ton.

With regard to iron and steel the Embassy advises me that on a comparative basis with Argentina, Uruguay's very small allocation for the second quarter indicates that it is not being given the preferential treatment which her political leadership on our behalf would seem to justify. It is true that most of the iron and steel is for construction, but our Government is well aware of the importance of the building industry to the economy of the country, and is also aware of the absence of any alternative employment for the thousands of workers employed in that industry. It should be emphasized also that the amount required to bring Uruguay's allocation to the minimum recommended in the Embassy's survey would be insignificant in comparison with the political damage that will ensue from the present drastic curtailment. In order to be certain that we are effectively implementing our policy as to Argentina by giving Uruguay preferential treatment and in order that the assistance of Uruguay in political matters may be given its appropriate recognition, I strongly urge an overall reexamination of the economic assistance projected for Uruguay during the next 6 months. [Spaeth.]

DAWSON

833.51/986 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, May 20, 1942—8 p. m.

283. Your 364, May 13, 3 p.m. For Spaeth from the Under Secretary. I am grateful for your frank expression of views and agree heartily in general with them. I realize that Guani and the Uruguayan Government have taken a strong position of leadership and are of important assistance to us every day. I also know that the proximity of Argentina makes for constant comparison of treatment accorded the two countries.

You realize, of course, that the existence of the Argentine merchant marine which is able to sail without danger while the few Uruguayan

vessels³⁵ have been tied up has imposed a great burden on United States controlled shipping to take care of Uruguay. Also it is a fact that there is a greater proportion of strategic materials to be lifted at Buenos Aires than at Montevideo. Finally the Argentine Central Bank has done an excellent piece of work in justifying its material requirements, while the reports and information of the Uruguayan Government has frequently been deficient in ways which have led the War Production Board to question them. Moreover, the existence of a very large number of outstanding export licenses has hampered the inauguration of the effects of the special Argentine export control measures with which you are very familiar. This last problem is now partially being overcome by the reexamination by BEW³⁶ of the old licenses in view of the shipping situation.

The actions being taken or contemplated with respect to Uruguay's economic situation include:

1. Definite arrangements with War Shipping Administration so that each United States controlled vessel will bring important cargo to Uruguay and lift a reasonable tonnage of strategic and critical items. You have been extensively informed about the plans. The Department hopes that at least as much will be lifted from Montevideo as Buenos Aires in spite of the relative proportions and importance of the available cargoes, and expects that large inroads will be made in present accumulations. It must, of course, be emphasized that the broad shipping picture is very grave and security problems are real. The Department will send you full instructions regarding the shipping situation in the near future.

2. Every attention is being paid to the proportions of allocations. For example, the recent exchange of telegrams regarding tin plate was due entirely to a desire to justify as large an allocation as possible in the face of the really direct war requirements of Argentina. The day of justifying allocations on purely political grounds is over, as Army, Navy, and WPB³⁷ are faced with ever tightening material situations.

3. We have established working relations with the British and Canadians whereby our political and economic policies with respect to export controls and allocations are jointly considered. In particular, we have requested the diversion of important amounts of British coal from Buenos Aires to Montevideo.

4. In connection with the plans for deliveries of petroleum for general consumption and for bunkers we are proposing to maintain a large proportion of Uruguay's usual requirements, whereas virtually no United States controlled tankers will be dispatched to Argentina in view of Argentine local production and tankers. Moreover, we are now dispatching two tankers to Montevideo via the West Coast

³⁵ For correspondence regarding the Axis ships requisitioned and immobilized by Uruguay, see pp. 703 ff.

³⁶ Board of Economic Warfare.

³⁷ War Production Board.

in order to build up bunker stocks to high proportions relative to those of Buenos Aires.

5. We have recently completed the very important Rione project³⁸ agreements, making available very tight equipment at a time when our productive capacity for electrical apparatus is extremely over-taxed.

6. We have indicated that we are prepared to give immediate consideration to any reasonable projects for Export-Import Bank credits—the only limiting factor being the supply of critical equipment and materials. Also we are prepared to give any necessary financial assistance in connection with the elimination or reorganization of pro-Axis firms.

7. In purchases of strategic materials—especially those such as hides and certain oilseeds which it will probably not be able to ship from the Plate in the amounts available—emphasis is being placed on purchases of all the Uruguayan stocks in preference to Argentine supplies. In this connection, this Government is pressing the British consistently to follow parallel policies.

[Welles]
HULL

833.51/988

The Secretary of State to the Ambassador in Uruguay (Dawson)

No. 617

WASHINGTON, June 12, 1942.

SIR: With reference to your despatch No. 1008 of May 20, 1942³⁹ reporting that the Uruguayan Government is seeking funds for deficit financing you state that you will endeavor to keep the Department informed of the situation and that a thorough study of the Uruguayan Government's fiscal position is to be prepared in the near future.

While it is evident from reports on file that the fiscal position of Uruguay has deteriorated somewhat during the past two years, it is not readily apparent why the Uruguayan Government should no longer be in a position to raise funds for deficit financing locally with the assistance of the Banco de la República, or why additional dollar credits should be required at a time when the Uruguayan exchange position is unusually strong. According to recent advice, money is plentiful in Uruguay.

It is requested that in addition to setting forth the nature and causes of the present crisis, you indicate in your report the trend of government finances in the light of current shipping developments and furnish further details regarding the program of public works mentioned in the Embassy's telegram No. 270 of April 9, 1942 and any other measures under consideration by the Uruguayan Gov-

³⁸ Rio Negro Hydroelectric project. For correspondence regarding this project, see pp. 731 ff.

³⁹ Not printed.

ernment designed to relieve the economic situation. The financial position of the autonomous State enterprises should be indicated in so far as it may have a bearing on the Government's fiscal problem. The Department also desires to know the identity of the Argentine banking group or groups with whom the Uruguayan Government has been conducting negotiations.

As previously stated, the Department would be glad to take under consideration any measures of cooperation suggested by the Uruguayan Government.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

833.51/991 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, July 11, 1942—1 p. m.
[Received 2 p. m.]

575. President Baldomir sent for me yesterday and together with Minister of Finance stated that Government wished to explore possibility of obtaining from Export-Import Bank or other source a loan of \$30,000,000 for financing public works. He said that loan would be applicable to new projects, chiefly roads, for which Council of State has just approved a new bond issue of 33,000,000 pesos and in addition to Carrasco Airport and other public works previously authorized, he stressed need for public works to relieve unemployment and prevent social unrest. He stated that loans to cover budget deficits will be floated locally but that domestic market is unable to furnish the additional funds required for public works. Further details, together with reply to Department's instruction 617 of June 12th by next courier.

DAWSON

833.51/991 : Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*

WASHINGTON, July 13, 1942—6 p. m.

432. Your 575, July 11, 1 p. m. The Department will wait for further details which you mention before taking the matter up with the Export-Import Bank. The Department's preliminary general views are as follows:

(1) It would be disposed to recommend any reasonable credit proposal, and has confidence that Uruguay will request and utilize only such credits as would be directly productive or necessary to maintain

the economic and political stability of the country. The willingness of the United States to extend appropriate credits to Uruguay has been evidenced on several occasions over the last few years, and the conservative policy of Uruguay with respect to utilizing credits has been evidenced by the fact that none of the credits extended by the Export-Import Bank have ever been used.

(2) The amount of \$30,000,000 seems quite large, especially for public works.

(3) The real limitation on the construction of public works will be the question of materials and equipment necessary to carry out the projects. The military program has recently been greatly augmented and all of the past difficulties of obtaining supplies in the United States will be correspondingly increased. Financing of public works is thus definitely secondary to the obtaining of material for their completion. If your despatch does not already do so, please inform the Department in detail as to the amounts of materials which it would be anticipated will have to be imported from the United States to carry out the President's program.

WELLES

833.51/998a : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, September 17, 1942—midnight.

569. Reference is made to your despatches and reports regarding the contemplated request of the Uruguayan Government for a loan from the Export-Import Bank for public works. Department has discussed this matter fully with Export-Import Bank and War Production Board and has reached the conclusion that it will be impossible to secure the materials (especially the iron and steel) required for the program as set out in your reports.⁴⁰ Both the Department and the Export-Import Bank would be pleased to discuss with Uruguayan officials the revision of outstanding credits to Uruguay totalling \$19,500,000 which have not as yet been utilized or the granting of additional credits. However, it should be made clear to Uruguayan officials that these conversations will have to be based upon the understanding that projects of the type contained in your report calling for large amounts of iron and steel from this country cannot be undertaken at this time due to the requirements of the war effort.

You should endeavor, if possible, to have the Uruguayans plan a public works program utilizing much less iron and steel and other

⁴⁰ Reports giving details of program not printed.

scarce materials and have them request aid in financing such program formally through official channels.

The Department feels that little would be gained by sending a representative of the Bank to Uruguay as Uruguay has able engineers who could make any necessary reports and that sending someone would raise false hopes.

Please discuss this matter with appropriate Uruguayan officials and report to the Department.

HULL

833.51/1001 : Airgram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, September 26, 1942—noon.

[Received October 5—12:30 p. m.]

A-81. Department's telegram 569, September 17, 1942, and previous correspondence concerning desire of Uruguayan Government to obtain a dollar loan for public works.

(1) Contents of Department's telegram were communicated on September 24 to President Baldomir whose reaction may be summarized as follows:

(a) Government's public works program is provisional and highly flexible and will be adjusted to availability of materials and funds and necessity of providing employment in particular areas. President will have memorandum prepared explaining this.

(b) President states that no scarce materials other than iron and steel will be required; that a substantial part of program (particularly highway construction and work on Carrasco Airport) can be undertaken with little or no imported materials; and that, as respects entire program, Government will "cut its coat according to its cloth."

(c) It is apparent that Government is not linking up proposed loan with any commitment to make materials available.

(d) Instead of 30,000,000 dollars originally mentioned, President is now thinking in terms of a dollar loan to yield 10,000,000 pesos desired promptly in order to stimulate and strengthen local bond market on which Government expects to count for great bulk of deficit and public works financing.

(2) In view of President's statements and in order to assist Uruguay in maintaining its economic and political stability, Embassy considers it desirable that loan discussions proceed without reference to material requirements but on the basis that no commitment is given or implied to supply materials for any projects to be financed from loan; that iron and steel requirements must be taken by Government from over-all allocations to Uruguay; and that, since allocations will necessarily be below requirements, it will not be possible to undertake projects requiring any considerable amounts of iron or steel.

(3) In view of purposes of loan, flexible nature of program, and manner in which projects would have to be undertaken, any loan arrangement should give the Uruguayan Government great latitude to use the funds when and where needed.

(4) Before recommending that request for loan be presented through official channels, I should appreciate instructions as to whether Department prefers that matter be taken up by Uruguayan Government through its Embassy in Washington.

(5) Further details by airmail pouch.

DAWSON

833.51/1001 : Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*

WASHINGTON, October 10, 1942—1 p. m.

610. Your A-81, September 26, noon. Department prefers that matter be taken up by Uruguayan Government through its Embassy in Washington.

WELLES

833.51/1004

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 1807

MONTEVIDEO, November 11, 1942.

[Received November 19.]

SIR: I have the honor to refer to my airgram A-81 and my despatch no. 1642 both of September 26, 1942,⁴¹ and to previous correspondence concerning the desire of the Uruguayan Government to obtain a loan for financing public works.

Reference is made also to the Department's telegram no. 610 of October 10 stating, in reply to my query, that it prefers that the official request for a loan be taken up in Washington through the Uruguayan Ambassador.

As explained in the closing paragraph of my despatch no. 1642, this point had been left in abeyance in the memorandum which I handed President Baldomir on September 24.

Following the receipt of the Department's telegram no. 610, I prepared a supplementary memorandum recalling the suggestion that the Uruguayan Government prepare a program requiring very much smaller quantities of iron and steel and adding that, as respects

⁴¹ Latter not printed.

financial assistance desired in carrying out this program, the Department of State suggested that appropriate official negotiations be initiated in Washington through the Uruguayan Embassy. (A copy and an English translation of this memorandum are enclosed for the Department's files.⁴²)

This supplementary memorandum (together with a copy of the memorandum of September 24) was handed to Dr. Guani, who had been absent in Chile at the time of my interview with the President. I requested Dr. Guani to bring the matter to the President's attention.

A few days ago, the Director of Public Credit, Sr. Juan Ferrando, telephoned me on another matter and mentioned incidentally that a memorandum was being prepared by direction of the President regarding a revised public works program and would be sent me shortly. I took occasion to inform him that the memorandum should be transmitted to the Uruguayan Ambassador in Washington through whom the official request for aid in financing was to be made. (A copy of the memorandum will, however, be sent me for my information.)

Yesterday, I had an opportunity to see the President and I took advantage of the interview to make it very clear that the next step in the loan discussions should be taken in Washington.

The President gave me to understand that appropriate instructions would be sent to Ambassador Blanco⁴³ in due course. He referred again to the flexibility of the Government's public works program and the consequent possibility of adjusting the work in large measure to the materials which may be available at the particular time. He stressed the need for assistance with a view to stimulating and strengthening the local bond market which is being called upon to take considerable quantities of Government securities. The Government will rely on Uruguayan sources for the great bulk of its financing but desires some assistance from us in order to prevent any undue depression of the domestic market.

As already stated in my despatch no. 1642, I feel strongly that, in view of the circumstances surrounding the proposed loan and the purpose for which it is desired, any contract between the Uruguayan Government and the Export-Import Bank should give the Government sufficient latitude to use the funds when and where needed.

Respectfully yours,

WILLIAM DAWSON

⁴² Not printed.

⁴³ Juan Carlos Blanco, Uruguayan Ambassador in the United States.

833.51/1010

The Ambassador in Uruguay (Dawson) to the Adviser on Political Relations (Duggan)

MONTEVIDEO, November 14, 1942.

DEAR LARRY: With reference to my despatch no. 1807 of November 11, 1942, and my letter to you of the same date,⁴⁴ regarding the proposed loan to Uruguay for public works:

As you no doubt know, Dr. Guani expects to visit Washington in January. Naturally, he wants to bring back something tangible and it has occurred to me that the proposed loan would be most indicated. I discussed the matter with him yesterday and he was of course very pleased with the suggestion.

We agreed that in the circumstances he will not send any instructions to Ambassador Blanco to take the matter up with the Department. I pointed out, however, that, in order to pave the way for his own negotiations, it would be most helpful if he would let me have as soon as possible the memorandum desired by the Department with respect to the public works planned and the quantities of iron and steel required.

I shall follow this up and endeavor to obtain and transmit the memorandum to you as soon as practicable.

I trust that the course proposed will meet with your approval and that matters may be so arranged as to enable Dr. Guani to obtain the loan while in Washington.

An alternative course would have been to have Ambassador Blanco initiate the negotiations and let Dr. Guani conclude them. I seriously question, however, whether in that case Dr. Guani would be assured the credit which we would like to see him have.

With cordial personal regards,
Sincerely yours,

WILLIAM DAWSON

833.51/1007

The Adviser on Political Relations (Duggan) to the Ambassador in Uruguay (Dawson)

WASHINGTON, November 30, 1942.

MY DEAR BILL: I write with reference to your letters of November 11 and November 14, 1942⁴⁵ regarding the proposed Export-Import Bank loan to Uruguay for public works. I quite agree with your suggestion that it would be desirable to have the loan agreement concluded by Dr. Guani on the occasion of his visit to Washington next January.

⁴⁴ Letter not printed.⁴⁵ Letter of November 11 not printed.

As soon as the memorandum promised by the Uruguayan Government with respect to the public works program is received here, it will be submitted to the Export-Import Bank with the request that the Bank draw up a draft of an agreement. This can then be sent to you for presentation to President Baldomir and Dr. Guani, and if it meets with their approval, can be prepared for formal signing by Dr. Guani in this country.

With cordial, personal regards,

LAURENCE DUGGAN

833.51/1008

The Ambassador in Uruguay (Dawson) to the Adviser on Political Relations (Duggan)

MONTevideo, December 11, 1942.

DEAR LARRY: With reference to your letter of November 30 in reply to mine of November 14 regarding the proposed Export-Import Bank loan to Uruguay for public works:

The memorandum which President Baldomir was to have had prepared regarding the revised program and the quantities of iron and steel required has at length been received from Dr. Guani. It proved to be very disappointing and illustrates again our extreme difficulties in obtaining a well-documented proposition from the Uruguayans. The trouble lies partly in the lack of coordination among the various government offices concerned. . . .

In view of the character of this memorandum, I fear that in the time that remains before Dr. Guani's arrival in the United States it will be impossible to present to the Export-Import Bank a detailed program to be approved in advance of granting the loan. I am nevertheless transmitting a copy of the original Spanish text, together with a translation, for what the information may be worth—and also for the files, in case reference were to be made to the memorandum subsequently. In an effort to supply some of the missing information, Dr. Gilmore⁴⁶ of my staff has prepared a supplementary and much more useful memorandum which I also enclose.⁴⁷ He concludes that while the program as now described in the Uruguayan memorandum does not clearly involve the substantial reduction in iron and steel requirements which was requested, it is still of such a flexible character that, given financial assistance, the Uruguayan Government can proceed without much reference to materials shortages. As I have stated in previous letters and despatches it seems entirely possible and desirable to omit the question of imported materials from consideration.

⁴⁶ Eugene A. Gilmore, Senior Economic Analyst.

⁴⁷ Neither memorandum printed.

Since the presentation of a detailed program for approval in advance appears out of the question within the time available, I would like to inquire whether, as I understand from Dr. Spaeth was done in the case of Venezuela, it would be possible for the Export-Import Bank to open a blanket credit for public works—if necessary with the provision that the funds would be made available upon subsequent approval of the projects involved.

Some arrangement of this sort appears to offer the most promising possibility of concluding a loan during Dr. Guani's visit, and also of giving the Uruguayan Government something tangible upon which to base its calculations for the ensuing fiscal year. Whether or not it would be acceptable to the Uruguayans would probably depend largely upon the extent to which the Export-Import Bank insists upon detailed supervision of the subsequent expenditures. As I have previously stated, a considerable amount of liberty of action will have to be left to the Uruguayan Government in expending the funds. A method of control requiring detailed prior surveys of projects to be financed would, I believe, prove impracticable. Some form of certification that the funds have been expended for the intended purpose would probably be as far as it would be possible to go. I would greatly appreciate knowing as soon as possible (1) whether a blanket credit of this type could be granted, and (2) the nature of the minimum control procedures which the Export-Import Bank would require.

I am of course continuing my efforts to obtain from the Uruguayans a more adequate presentation of their loan application. It would probably be helpful if I might have samples of documents presented to the Export-Import Bank in connection with previous loan applications of a similar character.

I may add that Dr. Guani suggested the other day that the matter could be handled more easily if, instead of lending Uruguay funds for public works, we would acquire some of Uruguay's bond issues which have not been marketed and are still in the hands of the Government or Government institutions. He said that this would achieve the desired result of reducing the pressure on the local bond market. I told him that I did not consider this practicable. (As I understand it, the Export-Import Bank could not or would not consider an operation of this sort, and according to our information it is quite unlikely than any commercial bank would be interested.)

For the record, the Uruguayan memorandum and Dr. Gilmore's memorandum are being transmitted under cover of a despatch (no. 1930 of December 11⁴⁸). An extra copy of the despatch is attached to this letter—and the original and usual copies are being sent in an

⁴⁸ Not printed.

envelope addressed to you in order that you may arrange for such action as you consider expedient.

With cordial personal remembrances,
Sincerely yours,

WILLIAM DAWSON

833.51/1005a

*The Under Secretary of State (Welles) to the President of the
Export-Import Bank (Pierson)*

WASHINGTON, December 21, 1942.

MY DEAR MR. PIERSON: Reference is made to discussions between officers of the Department and officers of the Export-Import Bank regarding the desire of the Government of Uruguay to obtain a loan of \$7,500,000 from the Export-Import Bank.

As you remember, the initial informal request of the Government of Uruguay called for a loan of \$30,000,000 for a public works program, requiring large amounts of iron and steel and other materials in short supply in the United States. The Department informed the Government of Uruguay that it would be impossible to supply the necessary materials from the United States due to the exigencies of the war effort. The Government of Uruguay agreed to revise the public works program reducing the amount of the credit requested to \$7,500,000 and stating that any requests for iron and steel or other scarce materials would be taken out of the over-all allocations of such products made to Uruguay.

The Department informed the Government of Uruguay that the Export-Import Bank would be pleased to consider such a request if formally submitted by the Government of Uruguay. Word has been received from Ambassador Dawson that the Foreign Minister of Uruguay will arrive in the United States about January 18 and that he has expressed a desire to conclude negotiations for this credit during his visit here, which will be of approximately five days duration.

In view of the leadership which the Uruguayan Government has displayed in connection with hemisphere matters and the great assistance which that country has rendered to the United States, the Department recommends that the Export-Import Bank be prepared to conclude an agreement with the Government of Uruguay for the extension of a credit of \$7,500,000 during the Foreign Minister's visit to this country. The Department feels that this agreement should give the Uruguayan Government sufficient latitude to use the funds for public works or other projects deemed desirable by that Government.

Sincerely yours,

SUMNER WELLES

833.51/1009

The Adviser on Political Relations (Duggan) to the Ambassador in Uruguay (Dawson)

WASHINGTON, January 2, 1943.

DEAR BILL: I write with reference to your letter of December 11, 1942 which enclosed the memorandum submitted to you by the Uruguayan Government.

The Department has transmitted copies of the memorandum to the Export-Import Bank and has addressed a letter to Mr. Pierson requesting the Bank to draw up a contract which would be ready for Dr. Guani to sign during his stay in this country. I am confident that the contract will be satisfactory to the Uruguayans, and I therefore feel that the negotiations can be speedily concluded while Dr. Guani is here. I do not believe that there will be time to send a copy of the proposed contract to Uruguay before Dr. Guani's trip, but I am certain that the two questions which you pose on the second page of your letter can be provided for satisfactorily. Dr. Guani should bring with him certified copies of laws or decrees empowering the executive to contract a foreign loan and his authorization to sign the proposed contract for \$7,500,000.

I do not believe that it will be necessary to obtain from the Uruguayans any additional memoranda as the Department and the Bank know in general the purposes of the credit, and the question of materials to be imported from the United States has already been made clear to the Uruguayan Government.

With cordial personal regards,

LAURENCE DUGGAN

833.51/1011 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, January 9, 1943—5 p. m.

[Received January 10—1:06 p. m.]

38. For Duggan. Coincidentally with the receipt of your letter of January 2, Guani mentioned to Spaeth and to me a tentative proposal under which he would take up in Washington the question of a 50 million dollar loan for a 5-year public works program.

On being apprised of the contents of your letter and our doubts concerning a 50 million project, he said that he would not present the 50 million proposal but would like to discuss in Washington the possibility of obtaining later as needed a complementary loan or loans.

Guani recognized gracefully that the sum of 7½ millions is even somewhat in excess of the 10 million pesos which President Baldomir

suggested to me as necessary. He said however that the President had underestimated the country's needs and had considered the matter from the viewpoint of the outgoing rather than the incoming administration. He said that he would discuss the situation with President-elect Amezaga.

This morning Guani told me that Amezaga appreciates our willingness to assist and understands fully that the figure of 7½ million is in accordance with Baldomir's suggestion but that he feels that it is inadequate and hopes that considerably more can be obtained. Guani mentioned 25 millions which might be made available in two installments.

Spaeth and I both feel that in order to maintain Uruguay's fiscal and economic situation and also for the domestic and international political effect, the loan contract to be signed by Guani in Washington should be for a larger sum. We recommend that the amount of the loan to be granted immediately be substantially increased and that in addition some formula be worked out which, without involving us in a firm commitment, will indicate our willingness to give due consideration to Uruguay's future needs up to some specific sum. Spaeth suggests something along the lines of the arrangement which he understands was made with Bolivia.⁴⁹

Guani tells me that he will bring with him an authorization to sign a loan contract *ad referendum* to be submitted for approval to the Council of State when it meets in February.

DAWSON

[An agreement was signed on February 4, 1943, between the Government of Uruguay and the Export-Import Bank under which the latter opened a credit of \$20,000,000 in favor of the former.]

AGREEMENT BETWEEN THE UNITED STATES AND URUGUAY REGARDING COMPLETION OF HYDROELECTRIC PROJECT ON RIO NEGRO⁵⁰

833.6463/71a

The Secretary of State to the Ambassador in Uruguay (Dawson)

No. 219

WASHINGTON, January 7, 1942.

The Secretary of State refers to the Department's instruction no. 121, November 4, 1941,⁵¹ concerning proposed arrangements by which the Government of the United States would assist the Government of

⁴⁹ See memorandum agreement between the United States and Bolivia, January 27, 1942, vol. v, p. 593.

⁵⁰ For previous correspondence respecting the Rio Negro project, see *Foreign Relations*, 1941, vol. VII, pp. 594 ff.

⁵¹ Not printed.

Uruguay in obtaining materials for the Rio Negro hydroelectric project and would provide certain other assistance with respect to the project.

After further discussion with the Uruguayan Ambassador⁵² and Señor Luis Giorgi, representative of the Rione, the Department has agreed tentatively to certain modifications in the proposed arrangements as set forth in a new draft of a memorandum of agreement, a copy of which is enclosed, with a copy of the covering note⁵³ with which the Department expects to transmit the memorandum to the Uruguayan Ambassador. There is also enclosed a translation of a communication of December 3, 1941⁵⁴ addressed by the Rione to the German consortium which is at present working on the Rione project, notifying the consortium that the Rione expects totally to rescind its contract with the consortium if it has not delivered in Uruguay before June 1, 1942 all the machinery, equipment and materials that are now lacking for total compliance with the contract.

The status of the enclosed tentative memorandum of agreement and of the arrangements which it contemplates is as follows: The Department agreed with the Uruguayan Ambassador and General Giorgi to accept the wording of the enclosed memorandum, and Señor Giorgi has obtained the approval of the Rione for this purpose. This wording has also now been accepted tentatively by Mr. D. M. Simmons of the General Cable Corporation, representing the consortium of manufacturers in the United States that would provide equipment to the Rione, subject to the approval of a meeting of representatives of all the companies comprising the consortium, which is scheduled for January 6, 1942. The Department has entered into discussions with the Office of Production Management and the Board of Economic Warfare with a view to obtaining a definite confirmation, under the changed circumstances resulting from the involvement of the United States in war, of the priority rating tentatively obtained on behalf of the consortium of United States manufacturers and the Rione in August 1941.

Señor Giorgi has entered tentatively into discussions with the Export-Import Bank with a view to obtaining credits for the works definitely provided for in the proposed memorandum of agreement, and he is also entering into tentative discussions with the consortium of United States manufacturers with a view to the conclusion of a contract with them at an appropriate time after conclusion of the memorandum of agreement with this Government.

Señor Giorgi mentioned, in preliminary discussions with the Export-Import Bank, that it was expected that the works definitely contemplated by the proposed memorandum of agreement would cost

⁵² Juan Carlos Blanco.

⁵³ Neither printed.

⁵⁴ Not printed.

between \$4,000,000 and \$5,000,000 and that approximately twenty percent of this amount would be for local expenditures in Uruguay. Mr. Warren L. Pierson, President of the Export-Import Bank, commented with respect to this information that it is a policy of the Export-Import Bank to avoid wherever possible the extension of credits for expenditures in local currencies. Señor Giorgi replied that he would take up with the Rione the possibility of obtaining credits in Uruguay for the local expenditures.

833.6463/86

Memorandum of Agreement Initialed by the Under Secretary of State (Welles) and the Uruguayan Ambassador (Blanco)

I

1) The Government of the United States is prepared to cooperate with the Government of Uruguay by providing all possible assistance reasonably consonant with the functions of Government to United States manufacturers to enable them to manufacture and export for the Rione project material consisting of one turbine and generator unit, one transmission line, and all other equipment necessary for their practical operation, within a period of two years from the date of the signature of the contract or contracts between the manufacturers and the Rione, necessarily subject, however, to the emergency needs of the national defense of the Government of the United States and of the other countries which are actually fighting aggression.

2) The Government of the United States is prepared to give consideration through the Export-Import Bank to the extension of appropriate credit facilities for materials and services to be furnished by the United States manufacturers, in the event that such facilities should be desired by the Uruguayan Government.

3) The United States Government is prepared to assign an appropriately qualified technical expert as a representative of this Government and particularly of the Export-Import Bank to facilitate the carrying out of the project.

II

In return for the assistance described under I;

1) The Uruguayan Government agrees to remove the present German consortium from all connection with the project at the site of the project not later than the time of arrival at the Rincón del Bonete Dam of the first shipment of material to be supplied by the United States manufacturers and, in any event, not later than July 1, 1942. The Uruguayan Government further guarantees that under no circumstances will German and United States personnel work on the project at the same time except for preliminary engineering studies.

2) With regard to the three remaining turbine and generator units and the second transmission line and other necessary related equipment, the Uruguayan Government agrees to grant to the United States manufacturers an option valid from June 1, 1942 to September 1, 1942 to agree to complete this additional work in the event the German consortium does not deliver in Uruguay prior to June 1, 1942 all of the machinery, equipment and supplies necessary for the total completion of the project. In this event, and in the event the United States manufacturers are disposed and are able to complete the entire project, the contract with the German consortium will be totally rescinded. If the United States manufacturers should not undertake to exercise this option, the Uruguayan Government will not permit any foreign group to engage in any construction in connection with the project at the site of the project until the United States manufactures have completed the installation of the first generating unit and transmission line.

S[UMNER] W[ELLES]

J[UAN] C B[LANCO]

WASHINGTON, April 21, 1942.

VENEZUELA

AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA GRANTING THE UNITED STATES EXCLUSIVE PURCHASING RIGHT TO ALL OF VENEZUELA'S EXPORTABLE RUBBER

[For text of agreement effected by exchange of notes signed at Caracas October 13, 1942, and exchanges of notes of October 11, 1943, and October 13, 1944, extending the agreement, and of September 27, 1944, amending the agreement, see Department of State Executive Agreement Series No. 446, or 58 Stat. (pt. 2) 1572.]

LEND-LEASE AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA, SIGNED MARCH 18, 1942¹

831.24/105a : Telegram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, February 10, 1942—9 p. m.

98. You are authorized to approach either President Medina or the Foreign Minister² and state that this Government, having given earnest consideration to the requirements of Venezuelan coast defense, is willing to make the following offer to the Venezuelan Government provided a request in writing is received stating that that Government has learned of the availability of the material specified below and of its utility for coast defense purposes:

(1) At an early date there will be despatched to Venezuela one complete battery consisting of four 155 mm. mobile coast defense guns with 300 rounds of ammunition per gun, the necessary fire control equipment, miscellaneous transportation and supplies. The personnel of this battery consisting of 11 officers and 268 enlisted men will accompany the guns. The efficient handling of these guns requires an integrated military setup including battery headquarters, gun and ammunition squads, searchlight platoon, medical detachment, fire control detail including isolated observation posts, communication and maintenance squads, et cetera. The salaries and other expenses of these troops will be met by the War Department.

(2) The personnel mentioned above will remain in Venezuela for a period of at least 4 months for the purpose of training Venezuelan personnel and of caring for the equipment. At the end of that period

¹ For previous correspondence on discussions with Venezuelan Government regarding Lend-Lease Agreement, see *Foreign Relations*, 1941, vol. VII, pp. 609 ff.

² Caracciolo Parra Perez.

it will be withdrawn if, in the opinion of the Venezuelan Government, the Venezuelan personnel is ready to take over the operation and maintenance of the guns. In addition to the 300 rounds of ammunition per gun specified above, there will be provided sufficient ammunition for the training of Venezuelan detachments.

(3) At the end of the training period the equipment will be turned over to the Venezuelan Government under Lease-Lend arrangements if an agreement has been signed.

(4) The Venezuelan Government will be expected to commit itself to assemble a detachment or unit of appropriate size and qualifications for training purposes to be available during the 4-months' period mentioned above. The United States and Venezuelan military personnel will use the weapons and equipment jointly during the 4-months' period of instruction. The necessary arrangements will be agreed to by the senior United States and Venezuelan officers officially delegated for the purpose.

(5) The following points should be also agreed upon :

(a) Any indemnities or damages occasioned by the installation, movement, or use in Venezuela of this equipment will be for the account of the Venezuelan Government.

(b) Customs duties or fees or charges will not be applicable to articles of any description brought into Venezuela for use under this plan.

(c) The United States Army personnel arriving or departing from Venezuela under this plan will be exempt from customs and immigration formalities.

(d) Jurisdiction and administrative command over United States military personnel entering Venezuela under this plan will be exercised by the senior United States Army officer present.

(e) The Venezuelan Government will take all other necessary steps to facilitate the operation of the plan; they will provide all requisite facilities for protection, housing, unloading, transportation, installation, movement and storage.

(6) While the Government of Venezuela will, of course, wish to make the final decision as to the most appropriate location of this equipment the suggestion is advanced that at least, initially, two of the guns be placed at Puerto la Cruz and the other two at Las Piedras. Final decision on this point should be reached immediately if the offer is to be accepted in order to facilitate despatch of equipment.

Please place this matter personally and confidentially before either President Medina or the Foreign Minister. If you receive an affirmative reply as to the program, you will state that the early signing of the basic lend-lease agreement by the Venezuelan Government would greatly facilitate the delivery of the material, should the Venezuelan Government desire to acquire it under the provisions of the Lend-Lease Act.³ Otherwise it would be necessary to follow a less convenient procedure and one which would be less advantageous from the Venezuelan point of view.

³ Approved March 11, 1941; 55 Stat. 31.

In handling this matter the emphasis should be on secrecy and speed.

HULL

831.24/105a : Telegram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, February 17, 1942—8 p. m.

121. The Department's 98, February 10, 9 p. m. Please report progress. It will be possible to effect the installation of this equipment in the relatively near future if the Venezuelan Government wishes to receive it. It is obviously highly desirable that a prompt favorable decision be reached.

HULL

831.24/107 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, February 17, 1942—5 p. m.

[Received 10:10 p. m.]

111. Department's 98, February 10, 9 p. m. Foreign Minister has just handed me a memorandum in reply stating that material and personnel offered is suitable and in accordance with spirit of January staff conversations. Memorandum emphasizes that before bringing the unit offered, the chief thereof with small auxiliary personnel should come to Venezuela with authority to enter into definite arrangements concerning quartering installation, etc. Memorandum suggests that as many officers and personnel as possible have speaking knowledge of Spanish but declared it indispensable that the chief have this knowledge to obtain useful efficiency and harmonious understanding.

Copy and translation by air mail pouch.⁴

CORRIGAN

831.24/114 : Telegram

The Acting Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, February 21, 1942—9 p. m.

143. The Venezuelan Ambassador⁵ has informed the Department that the Venezuelan Government is under the impression that a condition precedent to the shipment to Venezuela of the guns and planes

⁴ Despatch No. 1711, February 18, and enclosures, not printed.

⁵ Diógenes Escalante.

which have been the subject of recent telegrams is the signing of a Lend-Lease Agreement. The Venezuelan Government apparently fears that this may result in delays in making available to Venezuela much needed military equipment. The Ambassador was told that while the transfer to Venezuela of title to this material would be greatly facilitated by the signature of the Agreement in question, its shipment to Venezuela was being expedited without reference to the signature of the Agreement. Please make this clear to the appropriate authorities.

WELLES

831.24/137

Memorandum of Conversation, by the Liaison Officer (Wilson)

[WASHINGTON,] March 3, 1942.

The Venezuelan Ambassador called this morning at my request. I discussed with him the question of military and naval assistance for his country which formed the subject of his conversation with Assistant Secretary Berle on February 24.⁶

I stated to him that the battery of 155 mm. guns was due at Venezuela in about 10 days and that the four AT-6 advanced training planes should arrive very soon since his Government had now indicated the field at which these planes should alight.⁷ In pursuance of a conversation with Captain Schuirmann⁸ this morning, I told the Ambassador that the Navy is taking intensive measures to patrol the coast of Venezuela and the surrounding waters both with Army and Navy planes and with ships of the United States and of other Allied nations. In order to render this patrol more effective, a high ranking officer, Rear Admiral Oldendorf, has been sent to Curaçao. I added that the Navy was also investigating the possibility of arranging for calls to be made by some of these planes at Venezuelan airfields.

The Ambassador inquired whether the Military Attaché at Caracas could not be instructed to discuss defense measures directly with the Venezuelan Minister of War. I replied that the War Department would be pleased to issue such instructions to the Military Attaché but pointed out that the latter might not possess complete information on all subjects, and that for this reason the Army considered it pre-

⁶ Memorandum of conversation not printed.

⁷ For establishment of the battery, see Stetson Conn and Byron Fairchild, *The Framework of Hemisphere Defense*, in the series *United States Army in World War II: The Western Hemisphere* (Washington, Government Printing Office, 1960), pp. 203-204.

⁸ Capt. Roscoe Schuirmann of the Office of Naval Operations.

erable for a high ranking Venezuelan officer to be stationed at Panama for direct consultation with General Andrews.⁹ I told the Ambassador that this suggestion had already been submitted to his Government, to which he replied that he had heard nothing about it.

At the end of the conversation I told the Ambassador of the importance of the Gulf of Paria and that this area was being given very close attention by our military and naval authorities.

In response to my inquiry concerning Patos Island, the Ambassador replied that he had heard that this island had been definitely placed under Venezuelan sovereignty. He added that it was only a small rock and apparently did not realize its importance for military purposes.

The Ambassador told me that he had received from the Venezuelan Consul at Cayenne information indicating that the French officials in that city are extremely pro-Nazi and that German submarines had been refueling at the small town of Mana on the border of Surinam.

831.24/3-1842

Agreement Between the United States and Venezuela Regarding Principles Applying to Mutual Aid in the Prosecution of the War, Signed at Washington March 18, 1942

WHEREAS: The President of the United States of America, authorized by the Act of the Congress of the United States of America, approved March 11, 1941, as thereafter amended; and

The President of the United States of Venezuela, exercising the special powers which are conferred on the Federal Executive by articles 79 and 212 of the Organic Law of the National Treasury:

Considering that, in accordance with the Lima Declaration of December 24, 1938¹⁰ and Declaration XV approved July 30, 1940 at the Second Meeting of the Ministers of Foreign Affairs of the American Republics held at Habana,¹¹ the two States have a common interest in cooperating in the defense and maintenance of the peace, security and integrity of the American Continent against any act of aggression which is directed or which it is sought to direct against any of the American Republics, and having determined that the defense of each of the American Republics is vital to the defense of all of them,

Have decided to conclude the present Agreement which contains the bases for financial cooperation relative to the acquisition of defense articles and the communication of military defense information;

⁹ Lt. Gen. F. M. Andrews, Commanding General, Caribbean Defense Command.

¹⁰ For text, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189; for correspondence on this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.

¹¹ For text, see Department of State *Bulletin*, August 24, 1940, p. 136; for correspondence on this Meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.

The undersigned Plenipotentiaries, being duly authorized for that purpose, have agreed as follows:

ARTICLE I

The Government of the United States of Venezuela shall notify the Government of the United States of America of the nature, amount and quality of the defensive war material which it is desirable to purchase in conformity with its necessities and its possibilities of payment; and the Government of the United States of America shall furnish it, on the conditions set forth in this Agreement, with defense articles and defense information, up to a scheduled cost which shall not exceed a total of \$15,000,000, of which \$12,000,000 shall be for the use of the Venezuelan Army and \$3,000,000 for the use of the Venezuelan Navy. The resulting financial obligations of the Government of the United States of Venezuela shall not draw interest.

ARTICLE II

The Government of the United States of America reserves the right to suspend, defer or stop deliveries at any time when, in the opinion of the President of the United States of America, further deliveries are not consistent with the needs of the defense of the United States of America or of the Western Hemisphere. Every effort will be made to insure that deliveries of defense articles are made in such manner that, on the suspension of any of them, those which may already have been made shall not be incomplete.

ARTICLE III

A commission of officers from the Army, Navy and Air Corps of Venezuela shall confer with officers authorized by the Government of the United States of America on the nature, quantity, quality and scheduled cost of the defense articles to which the present Agreement refers.

ARTICLE IV

Records shall be kept of all defense articles transferred under this Agreement, and not less than every ninety days schedules of such defense articles shall be exchanged and reviewed.

The Government of the United States of America agrees to accord to the Government of the United States of Venezuela a reduction of fifty-five percent in the scheduled cost of the materials that will be delivered in compliance with the stipulations of the present Agreement; and the Government of the United States of Venezuela promises to pay in dollars into the Treasury of the United States of America forty-five percent of the scheduled cost of the materials delivered. The Government of the United States of Venezuela shall not be required to pay

more than a total of \$1,000,000 before July 1, 1942,
more than a total of \$2,250,000 before July 1, 1943,
more than a total of \$3,375,000 before July 1, 1944,
more than a total of \$4,500,000 before July 1, 1945,
more than a total of \$5,625,000 before July 1, 1946, or
more than a total of \$6,750,000 before July 1, 1947.

ARTICLE V

For the same purposes and under terms to be agreed upon, the Government of the United States of Venezuela shall furnish the Government of the United States of America with such information and material as the High Contracting Parties may consider necessary or advisable for their common defense or the defense of the Continent and which the Government of Venezuela is in a position and finds it possible to supply.

ARTICLE VI

The information furnished and the material acquired by the Government of the United States of Venezuela may be used only for the defense of the United States of Venezuela or for the purpose of cooperating with the other American Republics in the defense of the peace, security and integrity of them against any aggression which may be directed or which it may be sought to direct against them. The Government of the United States of Venezuela undertakes that it will not, without the consent of the President of the United States of America, transfer title to or possession of any defense article or defense information received under this Agreement, or permit its use by anyone not an officer, employee, or agent of the Government of the United States of Venezuela.

Similarly, the Government of the United States of America undertakes that it will not, without the consent of the President of the United States of Venezuela, transfer title to or possession of any defense article or defense information received in accordance with Article V of this Agreement, or permit its use by anyone not an officer, employee, or agent of the Government of the United States of America.

ARTICLE VII

The Governments of the United States of America and of the United States of Venezuela agree to cooperate for the conclusion of just and equitable agreements in conformity with Resolution XXV on Economic and Financial Cooperation¹² approved at the Second Meeting of the Ministers of Foreign Affairs of the American Republics held at Habana in July 1940 and to cooperate in so far as possible within the limit of the available resources of the Contracting Parties to alleviate the sufferings caused by the war wherever, and as soon as,

¹² For text of Resolution XXV, see Department of State *Bulletin*, August 24, 1940, p. 141.

such relief will be succor to the oppressed and will not aid the aggressor.

ARTICLE VIII

If, as a result of the transfer to the Government of the United States of Venezuela of any defense article or defense information, it is necessary for the Government of the United States of Venezuela to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the United States of Venezuela will do so, when so requested by the President of the United States of America.

Similarly, if, as a result of the transfer to the Government of the United States of America of any defense article or defense information, it is necessary for the Government of the United States of America to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of Venezuela who has patent rights in and to any such defense article or information, the Government of the United States of America will do so, when so requested by the President of the United States of Venezuela.

ARTICLE IX

All differences between the High Contracting Parties relative to the interpretation or execution of this Agreement shall be decided by the pacific means recognized in international law.

ARTICLE X

The provisions of this Agreement, in so far as such provisions have relation to the furnishing by the Government of the United States of America to the Government of the United States of Venezuela of defense articles and defense information of a total scheduled cost of not more than \$2,222,222.22, and the payment by the Government of the United States of Venezuela into the Treasury of the United States of America of not more than \$1,000,000.00, shall enter into full force and effect upon the date on which this Agreement is signed, and shall continue in force until a date agreed upon by the two Governments, subject to the provisions of Article II and to all other provisions of this Agreement in so far as they relate to the carrying out of the purposes stated in this paragraph.

The provisions of this Agreement, in so far as such provisions have relation to the furnishing by the Government of the United States of America to the Government of the United States of Venezuela of defense articles and defense information of a total scheduled cost in excess of \$2,222,222.22, and the payment by the Government of the United States of Venezuela into the Treasury of the United States of America of more than \$1,000,000.00, shall enter into force upon the

date on which this Agreement is ratified by the Public Powers of the United States of Venezuela in conformity with the constitutional procedures of the United States of Venezuela and shall continue in force from such date until a date agreed upon between the two Governments.

In faith whereof, the respective Plenipotentiaries of the two Governments have signed and sealed this Agreement in the English and Spanish languages in duplicate at Washington, this eighteenth day of March, 1942.

For the United States of America :

SUMNER WELLES

*Acting Secretary of State of the
United States of America*

For the United States of Venezuela :

DIÓGENES ESCALANTE

*Ambassador Extraordinary and
Plenipotentiary of the United
States of Venezuela at Washington*

DISCUSSIONS BETWEEN THE UNITED STATES AND VENEZUELA REGARDING PROPOSED LEGISLATION FOR CONTROL OF PETROLEUM INDUSTRY IN VENEZUELA

831.6363/1276

Memorandum of Conversation, by Mr. Livingston Satterthwaite of the Division of the American Republics

[WASHINGTON,] March 26, 1942.

Participants: Dr. Manrique Pacanins, Venezuelan Attorney General
Mr. Bonsal¹³
Mr. Walmsley¹⁴
Mr. Satterthwaite

Dr. Manrique Pacanins called at Mr. Bonsal's invitation. He said that he was here for reasons of health and not officially, but that he was taking advantage of his stay here to renew acquaintances with various members of the Government and to meet others.

Dr. Manrique Pacanins said that it had been for sometime the desire of the Venezuelan Government to establish closer and sounder relationships with the oil companies which would give the Venezuelan Government a greater participation in the profits of the industry, at the same time establishing a set of operating and tax conditions which

¹³ Philip W. Bonsal, Chief of the Division of the American Republics.

¹⁴ Walter N. Walmsley, Jr., Assistant Chief of the Division of the American Republics.

would be just and fair to the industry. He said that such negotiations were proceeding on an informal basis between him and the representatives of the various companies for some time but that no solution had yet been reached. The concessions under which the companies operate have been obtained over a period of years and on the basis of various petroleum laws. They vary greatly from each other. Royalty and tax rates are not uniform nor are exonerations from import duties on materials needed. Dr. Manrique Pacanins has been endeavoring to secure the agreement of the companies to a new basic petroleum law, and new contracts for the companies, which would establish as far as possible uniform legal and fiscal conditions for all of the companies and for all of the concessions which they hold. In some cases, the new contracts would be less favorable than the old contracts and in some cases, more favorable. Dr. Manrique Pacanins said, however, that the companies, while being extremely affable and full of protestations of a desire to cooperate, continue to insist on taking a legalistic approach rather than a broad approach to the problem. For example, Mr. Lineham [*Linam?*], representing the Standard Oil of New Jersey, agreed to suspend court actions on important matters pending the outcome of the negotiations and Dr. Manrique Pacanins had so advised the President.¹⁵ He learned subsequently, however, that the Standard Oil Company had presented an important case to the Supreme Court for decision without mentioning this fact to him.

The essential reason why the negotiations have not met with success has been that the companies do not wish to give up any of the so-called rights which they have acquired in the past, particularly under the Gómez¹⁶ regime. Dr. Manrique Pacanins believes that some of the rights the companies enjoyed would not stand a test in the courts—he referred in this instance to one or two cases in which the oil companies had been required to pay large sums of back taxes. . . . The Government believes that under proper relationships the oil companies can benefit the country greatly, and the country the oil companies, but that a satisfactory agreement can only be worked out in a friendly atmosphere based on a clear understanding of and sympathy for each other's problems. If the companies do not recognize their social and economic responsibilities and take a broad view of the problem, informal negotiations lead nowhere and then court action is the only alternative.

Mr. Bonsal said that while this is a problem between the Government of Venezuela and the companies, he would be untruthful if he said this Government had no interest in it.

¹⁵ Isaias Medina Angarita.

¹⁶ Juan Vicente Gómez served during the period 1909–1935 as either President or Chief of Army.

831.6363/1308

Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)

[WASHINGTON,] July 28, 1942.

Mr. Pratt¹⁷ came in at my request. I expressed to him the very great concern with which the Department viewed the current relations between the Government and the oil companies operating in Venezuela. I made it very clear that, of course, the matter was not one in which the Department desired to take an active part so far as specific details are involved.

I went over in a general way the history of these relations in the past few years. I pointed out that the majority of the concessions and contracts under which the companies were operating were obtained in the Gómez era. This was a period during which the relationship between government and business in Venezuela failed to develop along the lines followed in other parts of the world. As a result, Venezuelan public opinion since the death of Gómez has been increasingly desirous of placing these relations upon a more modern basis. I said that it seemed to me a great tribute, both to the good sense and tolerance of the Venezuelan people and to the statesmanship of their leaders that the liquidation of the Gómez regime had been accomplished without serious disturbance or upheaval. I concluded, however, that this tolerance and good sense and this statesmanship did not indicate a lack of either desire on the part of the people or determination on the part of their leaders to make certain fundamental changes in certain situations which had been created in the days of Gómez.

I then turned specifically to the question of the relations between the oil companies and various officials of the Venezuelan Government during the past two or three years. I did not go into details concerning controversial points. . . .

. . . I told Mr. Pratt that I was speaking to him at the instruction of the Under Secretary¹⁸ and that our conversations with Dr. Parra Perez¹⁹ and other officials who visited the United States recently led us to believe that the situation was one calling for prompt and constructive action by the companies.

Mr. Pratt expressed some surprise and said that he had not realized the situation was as serious as I had described it. He stated that his company was most anxious to stay in business in Venezuela and that it could only do so by taking into consideration the interests of the Venezuelan Government and people. He said that he would think over what I had told him and that he would probably instruct the

¹⁷ Wallace Pratt, vice president, Standard Oil Company of New Jersey.

¹⁸ Sumner Welles.

¹⁹ Venezuelan Minister for Foreign Affairs.

manager in Venezuela (Mr. Linam) to approach President Medina and ascertain his wishes as to the best way in which thorough-going fundamental conversations might be initiated. . . .

In conclusion I emphasized to Mr. Pratt the national interest involved in the maintenance of a flow of oil from Venezuela and said that in my opinion this objective could best be obtained through continued operation by United States companies.

831.6363/13014

The President of Venezuela (Medina) to President Roosevelt

[Translation]

MIRAFLORES, August 3, 1942.

EXCELLENCY: This letter is for the purpose of introducing to Your Excellency Dr. Gustavo Manrique Pacanins, Attorney General of Venezuela, who in addition to his regular functions, comes before the kind attention of Your Excellency to carry out an important confidential mission that I have believed wise to entrust to his patriotism and qualifications.

The mission which I have entrusted to Dr. Manrique Pacanins, and for the happy conclusion of which I count on the generous reception that Your Excellency will give to him, concerns a revision of the petroleum policy followed by Venezuela, a revision which the Government over which I have the honor to preside, is now initiating.

Dr. Manrique Pacanins will explain to you, if your Excellency will permit him, the solid basis of justice supporting this plan of my Government, a plan which is shared by the entire Venezuelan nation, and by which, recognizing and respecting at all times the rights legitimately acquired within the scope of our laws, it is proposed to rectify illegitimate, illicit or distressing conditions in order that Venezuela may receive a truly just share in the exploitation of the riches of its sub-soil.

It is not the sole purpose of this revision to seek an increase in our petroleum royalties although necessarily this will be one of its consequences: the Government seeks a more stable position for the industry, since the companies having concessions, holding fast to what they defend as their rights—many of which the Government believes are not such—have continued systematically to oppose the Government through passive resistance. The Government has wanted to make them realize that for their own good, a better legal basis should be found for certain situations, by no means clear, that Venezuela is anxious to clarify. This is the revision the Government over

which I preside is disposed to bring to a conclusion with the greatest firmness, and although this will be undertaken under the laws of Venezuela and under the general principles of justice and equity, I have not wished to initiate it without first informing Your Excellency, as head of the Government of the great nation whose friendship Venezuela esteems so highly, a friendship which is intensified more every day by the international events uniting us at this moment and making us realize keenly that the future of both of our nations is intimately tied together.

In expressing to Your Excellency my personal gratitude for the reception which you may have the kindness to show my confidential envoy, I am particularly pleased to reiterate to you the sincere sentiments of my most cordial friendship and admiration.

ISAIAS MEDINA A.

831.6363/1811

*Memorandum of Conversation, by the Under Secretary of State
(Welles)*

[WASHINGTON,] August 20, 1942.

Participants: Venezuelan Ambassador, Sr. Dr. Don Diógenes Escalante;
Venezuelan Attorney General, Dr. Gustavo Manrique Pacanins;
Under Secretary, Mr. Welles

The Ambassador of Venezuela called to see me this morning, accompanied by Dr. Gustavo Manrique Pacanins, Attorney General of Venezuela.

The Ambassador took no part in the conversation and Dr. Pacanins made the following statement:

He stated that he had been sent to the United States with a personal letter from the President of Venezuela addressed to the President of the United States which he hoped he would be afforded the opportunity of handing the President. I told him that I would of course be glad to request that these arrangements be made at the White House.

The purpose of the visit of Dr. Pacanins to Washington and the reason for sending this personal and confidential message to the President of the United States on the part of the President of Venezuela were as follows. The three major oil companies doing business in Venezuela were the Shell, Gulf, and Standard Oil Company of New Jersey. For many years past, the government of President López Contreras and the present government of President Medina have been making every effort to reach an equitable and legal agree-

ment with these companies whereunder the companies would comply with the obligations imposed upon them through the concessions which they had obtained in Venezuela, whereby the grossly unjust concessions and privileges obtained through corruption and fraud by the companies would be abrogated and negotiated on a new, legal and fair basis, and whereby the companies would be willing to enter into new agreements, in certain instances, with the Venezuelan Government as a result of which anachronistic privileges (such as exemption from customs duties for their commissaries) obtained in the earliest days of the concessions, some 30 or more years ago, would be abandoned.

Dr. Pacanins said that all of the efforts of the two Venezuelan governments above referred to had been fruitless. He stated that as a last resort just a year ago he had been sent to New York by the Government of Venezuela to attempt to reach a satisfactory understanding with the companies at their home offices. He stated that he had requested the companies to present him with a project covering what they believed to be fair and reasonable in view of changed conditions and in the light of the facts above set forth. He stated that when this project had been received it had offered nothing except the prospect of interminable negotiations which the Government of Venezuela was unwilling to contemplate.

The Attorney General stated that before the conclusion of this year of 1942 the Government of Venezuela was afforded the opportunity, by the terms of the concession granted the Shell Company, which had been in existence for just 20 years, to terminate the concession or negotiate a new concession. Dr. Pacanins stated that, by the terms of the concession, if the Government of Venezuela did not avail itself of this opportunity this autumn, the existing terms of the concession would continue in effect for another 30 years. He stated that it was therefore imperative for his Government to take this opportunity, and it desired, consequently, at the same time, to eliminate all of its differences with the other two American companies, although only a few of the subsidiary concessions of the American companies expired during the next twelve months.

The Attorney General stated that he was instructed officially to state to this Government that the Government of Venezuela had not the remotest intention of expropriating foreign-owned oil properties in Venezuela. He stated further that the Government of Venezuela desired that the exploitation of Venezuelan oil resources be continued by foreign companies and specifically the companies already doing business in Venezuela. Finally, he stated that the Government of Venezuela would not undertake a single act which was not strictly in

accordance with the precepts of international law and with the laws of Venezuela, and that any action undertaken by the Government of Venezuela to which the companies objected would be submitted to the tribunals of Venezuela for fair and legal adjudication.

I stated that this Government was of course deeply interested in the satisfactory and equitable and legal adjustment of the controversies which had arisen between the American companies and the Government of Venezuela. I said that for a long time past the Department of State had been urging the American companies to negotiate in a friendly and reasonable spirit the adjustment of these difficulties. I stated that, of course, under present conditions, the continued and full supply of oil from the Venezuelan oil fields was a vital necessity for the war effort of the United States and of the nations which are supporting, like Venezuela, the cause of the United Nations. I said anything that would interrupt this essential war service during the period of the war would constitute a grave danger to the Allied Nations.

Dr. Pacanins interjected to say that that is exactly the view of the Government of Venezuela, and that nothing would be permitted to interfere with the full and orderly operation of the oil properties.

I stated that I welcomed the very categorical and satisfactory assurances offered by the Government of Venezuela through Dr. Pacanins, and that, as the Government of Venezuela well knew, this Government would not claim, for American companies doing business in other countries, and in particular in the other American Republics, any undue or illicit privileges or rights, and would certainly condemn any operations on the part of American interests doing business in the other American Republics which constituted participation in bribery or corruption or unlawful procedure. I stated in conclusion that if the Government of Venezuela adopted the policy announced to me, namely strict observance of the tenets of international law, complete compliance with the terms of Venezuelan legislation, submission to the tribunals of any controversies which could not be solved by negotiation, and the determination to encourage the American companies to continue to do business in Venezuela, I felt sure that fair negotiations between the companies and the Government could result in a just and satisfactory settlement. To that end, I said, the Department of State would do whatever it appropriately could to facilitate a friendly adjustment.

S[UMNER] W[ELLES]

831.6363/1325

*President Roosevelt to the President of Venezuela (Medina)*²⁰

WASHINGTON, September 14, 1942.

MY DEAR MR. PRESIDENT: It was a great pleasure to receive from the hands of Dr. Gustavo Manrique Pacanins your letter of August 3 and to hear from Dr. Manrique Pacanins of the views, objectives and plans of your Government with respect to a revision of its relations with the oil companies operating in Venezuela. The fact that you have communicated with me on this subject is a most welcome indication of the degree of mutual confidence and wholehearted friendship existing between our two Governments.

All those who have had the privilege of knowing Your Excellency and the purposes and ideals which inspire you and your collaborators are confident that this matter will be handled in a manner wholly adjusted to the highest principles of right and equity. I welcomed the very categorical and satisfactory assurances offered by Dr. Manrique Pacanins. As the Government of Venezuela well knows, this Government will not claim for American companies doing business in other countries any undue or unreasonable privileges or rights and fully recognizes the Venezuelan interest in guiding its economic development in the best interest of its people. Since I understand it to be the policy of your Government to deal fairly with American companies and to give full recognition to their legitimate rights, and is fully aware of the need for maintaining production in the interest of both of our countries, I naturally feel confident that your Government and the companies will shortly find a just and satisfactory settlement of all controversial questions.

Your Excellency, as well as I, appreciates the importance to our common defense of production and exportation of oil from Venezuela. From this point of view, as well as from the standpoint of general welfare, it is gratifying to note your statement that it is the purpose of your Government to guarantee "the longest and most stable possible future industrial peace, which will be as beneficial to the nation as to the petroleum concessionaires"; and "to avoid and prevent in this manner events which could prejudice these concessionaires in the future, as has happened in other countries". It seems entirely possible to me to resolve the present problems in a manner which will benefit Venezuelan development and at the same time preserve the rights of the private parties concerned.

This expression is in keeping with sound international relations and the principles of the Good Neighbor policy, to which your country and mine have wholeheartedly subscribed.

With the assurances [etc.]

FRANKLIN D. ROOSEVELT

²⁰ Handed to Dr. Manrique Pacanins on October 8, 1942.

831.6363/1321½

Memorandum by the Petroleum Adviser (Thornburg) ²¹

[WASHINGTON,] September 23, 1942.

It is apparent that the Venezuelan Government intends to reach a settlement of some kind with the American and British oil companies in the near future. In as much as the Royal Dutch Shell concessions expire in December of this year, according to my information, there is little enough time left for considered negotiation and none at all for unnecessary delays. Our primary interest is that Venezuelan oil remains available for the war. Reduced exports of 200,000 to 300,000 barrels per day have created certain economic problems for Venezuela. Even more serious, however, may be the fact that a reduction to this low level over a considerable period might make it impossible to resume production on short notice at 700,000 to 800,000 barrels per day, which might be necessary if we were to lose our sources of supply in the Middle East at a time of high military activity. Consequently it is of the greatest importance that the arrangements made between the Venezuelan Government and the oil companies not only insure uninterrupted supplies from Venezuela at their present level, but also provide for sufficient development work and adequate personnel to enable practically our entire European and African war effort to be supplied from Venezuela on short notice. This, I say, should be this Government's first concern in the Venezuelan oil situation.

I have seen a great deal of Dr. Manrique since he reached this country. He was introduced by a mutual friend, and our frequent meetings have been entirely informal. However, he has talked hours at a stretch about the Venezuelan oil situation. I have not made written reports of these conversations because, actually, the substance of almost everything he has told me was reported by Mr. Welles and Mr. Bonsal after his official conversations with them.

Last Sunday, however, he mentioned for the first time a "commission" which, he indicated, is to make a survey of the Venezuelan oil situation and make recommendations to him as to what kind of arrangement should be offered to the oil companies. He explained that this commission is to consist of American experts not connected with any of the oil companies directly concerned, plus two or three Venezuelan oil experts who are intimately familiar with the oil operations there. This commission, he said, is to review the history of oil development in Venezuela with particular reference to the benefits already received by the oil companies and also by Venezuela and then recommend a new basis of division based upon past history, present conditions, and an estimate of the future. These recommendations, ac-

²¹ Addressed to the Chief of the Division of the American Republics (Bonsal), the Adviser on Political Relations (Duggan), and the Under Secretary of State (Welles).

ording to Manrique, are to be based upon "justice" as closely as "justice" can be determined by impartial and fair-minded men, and without consideration of present legislation or contracts. Manrique's idea on this point appears to be that if a fair arrangement can be agreed upon, the laws and contracts can easily be changed to accord with it, whereas, in his opinion, it will be impossible to find a sound and lasting solution by matching lawyers' wits over the technicalities of contracts and existing laws.

[Here follow comments regarding choice for head of proposed commission and representative of oil companies for negotiations.]

MAX THORNBURG

831.6363/1335: Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, October 29, 1942—3 p. m.

[Received 9:23 p. m.]

1078. I had an interview yesterday with President Medina and discussed with him at some length the negotiations which are about to be inaugurated with the oil companies. He told me that Dr. Manrique had returned and brought with him an American technical expert. He stated that it is desired to arrive at a satisfactory settlement with the oil companies without lawsuits on [or?] public furor.

Dr. Manrique Pacanins came to the Embassy this morning to tell me of his visit to the United States and to introduce Mr. Arthur Curtice, an American engineer who has been engaged as a technical consultant to aid the Venezuelan Government in discussions with the oil companies. Curtice said he plans to be here 3 months.

Dr. Manrique is very optimistic that a satisfactory settlement will be achieved by negotiation. He told me in strictest confidence that his present plans are after about a month's study of the situation to return to the United States for final discussion there with the heads of the companies concerned.

CORRIGAN

831.6363/1346: Airgram

The Chargé in Venezuela (Flack) to the Secretary of State

CARACAS, November 17, 1942—4:40 p. m.

[Received November 21—11 a. m.]

A-212. Following is translation of excerpt dealing with oil industry from President Medina's address at Maracaibo yesterday.

"My speech is getting long, but I see in your faces a question which I do not want to leave unanswered: The revision of our petroleum policy as announced by me at the Palacio de Miraflores on that memorable occasion. The National Government, in fulfillment of one of its inevitable duties, firm in its purposes and sure of its action, proposes to obtain a fairer State participation from the exploitation of petroleum, and also that its industrial process be a sure source of work for the Venezuelan laborer. I must observe that this Government, obedient to the Law, endorser of the guarantees which honor our Constitution, watchful of the righteousness of its procedures and not in the least given to hastiness, respects the rights legally acquired, does not consider as adversaries those enterprises which have brought their capital to extend the development of our natural wealth; but, animated by a spirit of right and justice it believes that Venezuela should receive an adequate participation in keeping with its position as owner of that which constitutes the real source of that industry, and that its industrial process should have its principal headquarters in Venezuela in order that the opportunities for the employment of Venezuelan labor may be intensified. The Government does not attack, it tries to convince and is sure that in its purpose there is fair satisfaction for the Nation and a steady and secure equilibrium for industry because agreements are lasting only when they have a basis of equity and justice. I have said that the Government is not given to hastiness and when, from the Presidential Seat I announced the revision of our petroleum policy, it was because I felt sure that we would come to it by one way or the other, by means of conviction and cooperation or by legal means; if, unfortunately, all of the expected results can not be obtained by the first means, then, leaving aside the reasons for equity, the Government, arming itself with incontrovertible juridical and moral power shall proceed, in the name of the Republic, to regain possession of that which corresponds to it by right.

From the very same moment that I assumed the Presidency, I became extremely interested in this matter of our petroleum policy, which I consider of the utmost importance to our economic development, and it is my conviction that the year 1942 will see the end of a cycle in the history of our petroleum: the cycle of trial of ignorance and empiricism; today we know what we have and it is a duty of my Government to initiate the first stage of what we might call the era of technical, economical and financial exploitation at the service of the State in cooperation with the enterprises associated with us to transform in effective wealth the potential richness of our subsoil."

FLACK

831.6363/1350 : Telegram

The Chargé in Venezuela (Flack) to the Secretary of State

CARACAS, December 2, 1942—11 p. m.

[Received December 3—1:58 a. m.]

1272. Lieb informed me today that he attended along with representatives in the Gulf and Shell companies, the meeting with President Medina yesterday afternoon at the latter's request, simple announcement of which was made in today's press.

Lieb said that the President saw each company representative separately in the presence of Dr. Manrique and the Minister of Fomento, and reiterated his Maracaibo statement adding his desire that the companies enter into conversation with Hoover²² and Curtice as soon as possible in the presence of an observer from Fomento.

Hoover and Curtice previously informed me that while initial conversations would be with the three large producing companies the smaller companies would be called and duly informed before any action affecting them would be taken. Both expressed satisfaction with the cooperation evidenced by the companies in endeavoring to assemble requested information.

FLACK

831.6363/1363 : Telegram

The Secretary of State to the Chargé in Venezuela (Flack)

WASHINGTON, December 26, 1942—8 p. m.

856. Your 1373, December 21, 4 p. m., and 1376, December 21, 11 p. m.²³ The Department's point of view is that, since the Venezuelan Government is currently engaged in drafting legislation and in making other arrangements affecting the entire oil industry of Venezuela, it is important that all of the United States oil interests be given an adequate hearing. It seems important that you, as the representative of the United States Government, make sure that such a hearing is, in fact, granted. The Department is, of course, convinced that the Venezuelan Government desires to consider equitably and comprehensively all of the different interests involved, both private and public. Please, therefore, take an early opportunity of discussing this situation informally with Dr. Manrique.

As you are, of course, aware, Mr. Thornburg,²⁴ who has in the Department's judgment been extremely effective and helpful in this

²² Herbert Hoover, Jr., engineer, president of United Geophysical Company, Inc., employed by the Venezuelan Government.

²³ Neither printed.

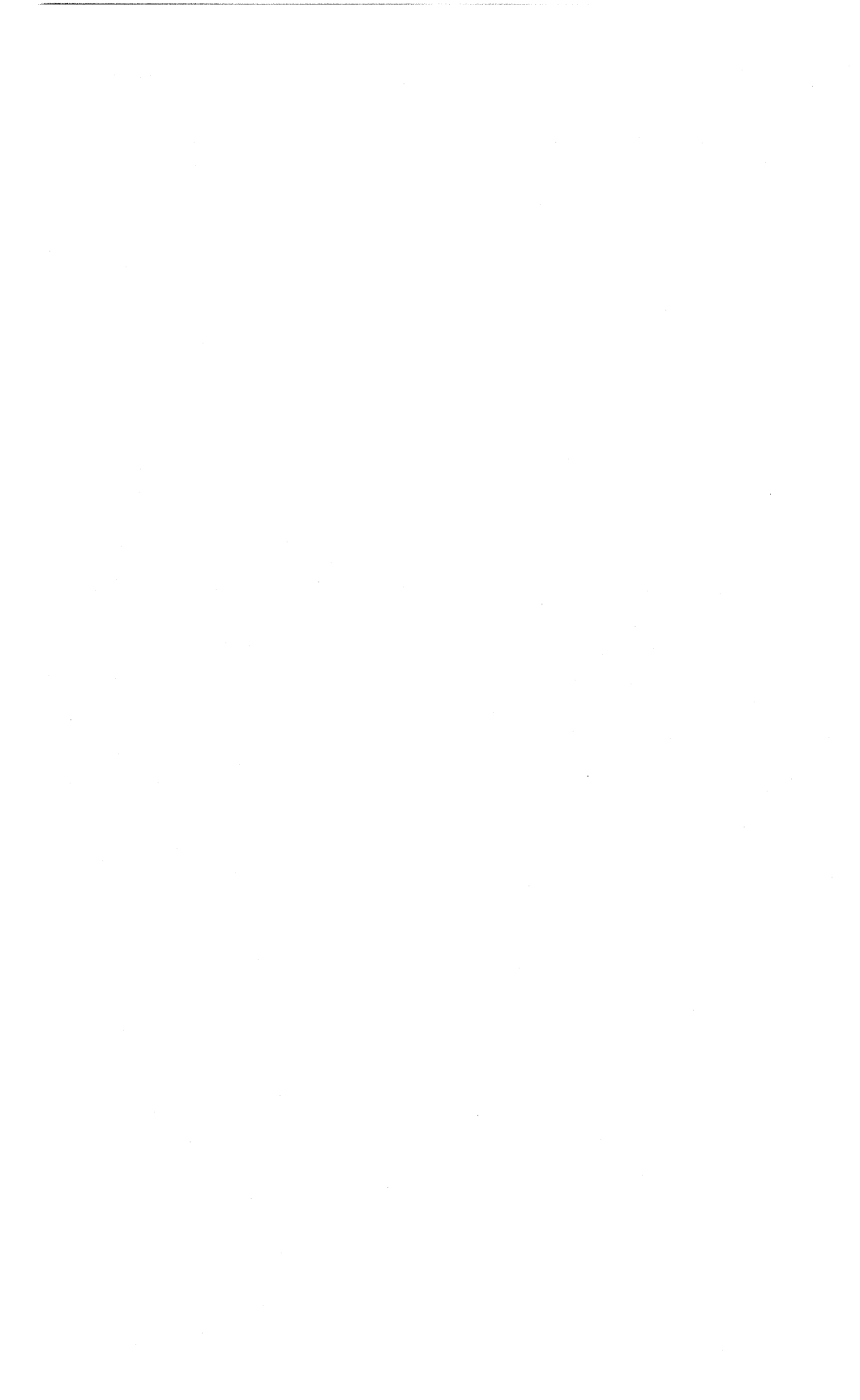
²⁴ Max Thornburg, Petroleum Adviser in the Department of State, who had gone to Venezuela on the invitation of the Venezuelan Government.

matter, is acting in an entirely unofficial capacity. In other words, he is not discharging the responsibility of the Department and of the Embassy toward United States interests, but is merely giving advice at the request of the Venezuelan Government.

Please keep the Department currently informed as to whether, in your judgment, the proposed petroleum legislation is fair and equitable as between the American interests which will be affected, taking into account, of course, their relative state of development and the nature of their operations.

HULL

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