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Foreign Relations of the United States

Diplomatic Papers

1939

(In Five Volumes)

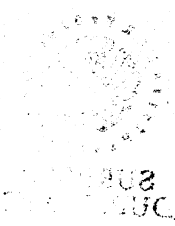
Volume V
The American Republics



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ATTITUDE OF GOVERNMENTS OF THE AMERICAN RE-
PUBLICS TOWARD PROPOSED JOINT RESOLUTION
WHICH WOULD AUTHORIZE COOPERATION IN SUP-
PLYING THEM WITH MILITARY AND NAVAL MATÉ-
RIEL FOR DEFENSE PURPOSES

810.24/31a : Circular telegram

*The Secretary of State to Missions in the American Republics Except
Mexico*

WASHINGTON, June 27, 1939—7 p. m.

There is now pending in the Congress the Joint Resolution to authorize our cooperation with the other American republics in supplying them, when they so request, with certain military and naval matériel for defense purposes (please see press release no. 96¹ and Radio Bulletin no. 60 of March 14 last, and subsequent bulletins especially no. 68 of March 23). We believe it would be useful in that connection to be able definitely to state to members of the respective Congressional committees that information has been received indicating that the other American republics would welcome the enactment of the Resolution, and to that end I desire you to seek an early opportunity for an informal and confidential discussion of the matter with the Minister for Foreign Affairs of the country to which you are accredited. The information already transmitted to you describes the scope and objectives of the Resolution. Its primary purpose is to extend the area of our cooperation to the field of defense and we believe that the measure is entirely consistent with the good neighbor policy and with the official declarations unanimously adopted at the Conferences in Buenos Aires in 1936² and at Lima last December.³ Furthermore we believe that cumulative developments in other parts of the world, including those subsequent to the introduction of the Resolution last March, have provided added reason for preoccupation on the part of the peoples of the New World with the problems of defense.

¹ See Department of State, *Press Releases*, March 18, 1939, p. 201.

² See *Report of the Delegation of the United States of America to the Inter-American Conference for the Maintenance of Peace, Buenos Aires, Argentina, December 1-23, 1936* (Washington, Government Printing Office, 1937).

³ 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).

In discussing the matter the following points should be made clear:

(1) The measure authorizes the President to make the facilities of the United States available in supplying matériel and information relative to defense only (that is specifically naval vessels, and coast defense and anti-aircraft artillery together with ammunition therefor).

(2) There is no thought of endeavoring to persuade any government to avail itself of the facilities offered. The Joint Resolution envisages no "salesmanship" on the part of the United States and no suggestion that any country should increase its armament. The initiative in every instance will come from a country desiring our cooperation.

(3) The Resolution provides that our cooperation shall be rendered without expense to the United States. It will of course be our purpose to provide the matériel, services, et cetera, on a basis equivalent in cost to that upon which similar work is undertaken for the Government of the United States itself. The Resolution contains no provision for the extension of credit by the War or Navy Department or any other government agency to a government desiring to avail itself of the opportunities offered.

(4) The Resolution will also enable this Government to cooperate with another American republic in the construction of war vessels in the shipyards of the latter.

Kindly report the results of your interview by cable. It is unnecessary to obtain a quoted statement from the minister of foreign affairs since an oral expression of opinion will be sufficient for the Department's purposes. It is not intended that the information obtained will be used in debate but merely as an indication for the confidential use of the pertinent committees of the views existing in the other American republics.

HULL

810.24/32: Telegram

The Minister in Haiti (Mayer) to the Secretary of State

PORT-AU-PRINCE, June 28, 1939—1 p. m.

[Received 2 p. m.]

92. Reference Department's circular June 27, 7 p. m. The Haitian Minister of Foreign Affairs would welcome the enactment of the resolution as the Haitian Government is most sympathetic with its purposes.

MAYER

810.24/33 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 28, 1939—3 p. m.

[Received June 28—2: 11 p. m.]

201. Department's circular June 27, 7 p. m. The Minister for Foreign Affairs says that the only comment that he has to make concerning the joint resolution is that it is "long overdue". He considers that the legislation is "vitaly necessary;" also Brazil has been waiting for it for some time and has a particular interest therein in connection with the guns promised for the destroyers which are now under construction here.

CAFFERY

810.24/34 : Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, June 28, 1939—3 p. m.

[Received 3: 40 p. m.]

46. Referring to Department's circular telegram dated June 27, 7 p. m., I called on the Minister for Foreign Affairs at 1 p. m. today and handed him an informal memorandum in the sense of the Department's instruction. The Minister read it in my presence, inquired as to one or two points, thanked me for presenting the matter for his consideration and stated that he would study it, discuss the subject with other members of the government and would give me a statement in a few days, stating that he observed that such statement would be for the confidential information of the Congressional Committees. I expressed appreciation and said that I would be glad to telegraph the Department immediately upon receipt of his expression of opinion.

DWYRE

810.24/40 : Telegram

The Chargé in El Salvador (Hoffman) to the Secretary of State

SAN SALVADOR, June 28, 1939—4 p. m.

[Received 6: 19 p. m.]

10. Your circular June 27, 7 p. m. The Minister of Foreign Affairs in interview this afternoon stated that El Salvador is grateful to the United States for taking the initiative in this step towards mutual defense and cooperation, and would welcome the enactment of the resolution. The Minister of Foreign Affairs will discuss the subject with the President who he believes entertains similar senti-

ments and will endeavor to obtain his consent to taking advantage of the provision of the resolution when and if the occasion therefor arises.

HOFFMAN

810.24/43 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, June 28, 1939—4 p. m.

[Received 9:45 p. m.]

52. Referring to the Department's circular telegram of June 27, 7 p. m., Minister for Foreign Affairs is of the opinion that Ecuador would welcome passage resolution which would make it possible for this country to obtain certain military and naval material for defense purposes, without expense to the United States, should the Ecuadoran Government so request. He added that it is a great step toward solidarity.

LONG

810.24/41 : Telegram

The Minister in Guatemala (Des Portes) to the Secretary of State

GUATEMALA, June 28, 1939—5 p. m.

[Received 8:42 p. m.]

19. Department's circular June 27, 7 p. m. I have taken up the subject matter of the Department's instruction with the Foreign Minister who viewed it very sympathetically. The Foreign Minister is referring it to the President upon the latter's return.

DES PORTES

810.24/42 : Telegram

The Chargé in Venezuela (Scott) to the Secretary of State

CARACAS, June 28, 1939—5 p. m.

[Received 6:16 p. m.]

57. Department's instruction of June 27, 7 p. m. The Minister for Foreign Affairs states that his Government cannot express an opinion until it has had time to study the exact copy of the proposed legislation. If the Department will kindly forward same by air mail I will endeavor to obtain an expression of opinion as quickly as possible.

SCOTT

810.24/45 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, June 29, 1939—10 a. m.

[Received 11 : 32 a. m.]

51. In reply to Department's telegram of June 23 [27], 7 p. m. the Minister for Foreign Affairs after consulting President Benavides has informed me that he agrees in principle with the objectives of the proposed resolution and looks with favor to its enactment.

DREYFUS

810.24/53

The Chargé in the Dominican Republic (Hinkle) to the Secretary of State

No. 779

CIUDAD TRUJILLO, June 29, 1939.

[Received July 5, 1939.]

SIR: I have the honor to acknowledge the receipt of the Department's circular telegram of June 27—7 p. m. instructing me to discuss informally and confidentially with the Minister for Foreign Affairs the information in the Department's telegram concerning the joint resolution now before Congress providing for our cooperation with the other Republics of America in supplying them on their request certain naval and military material for purposes of defense. In accordance with the Department's instruction the comments of the Foreign Minister were solicited and, as reported in my telephone conversation of June 28 with Mr. Chapin,⁴ he did not hesitate to assure me that his Government naturally viewed with favor any such resolution. The points in the Department's telegram were explained carefully to the Minister who expressed great interest in the matter.

The Dominican Republic, as the Department is aware, has at various times sought from us military and naval material, and the joint resolution would no doubt cause further inquiries on its part.

Respectfully yours,

EUGENE M. HINKLE

810.24/45a

The Secretary of State to Diplomatic Officers in the American Republics Except Mexico

WASHINGTON, June 29, 1939.

SIRS: I refer to the circular telegram of June 27, 1939, in regard to the Joint Resolution now pending in Congress, "To authorize the

⁴ Selden Chapin, Assistant Chief, Division of the American Republics.

Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes."

The text of the Joint Resolution is set forth below for your information:

"Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the President may, in his discretion, authorize the Secretary of War to manufacture coast defense and antiaircraft artillery, and ammunition for such artillery on behalf of the government of any American republic in factories and arsenals under his jurisdiction; to sell such arms and ammunition to any such government; to test or prove such arms and ammunition prior to sale or delivery to any such government; to repair such arms on behalf of any such government; and to communicate to any such government plans, specifications, or other information relating to such arms and ammunition as may be sold to any such government. (b) The President may, in his discretion, authorize the Secretary of the Navy to construct vessels of war on behalf of the government of any American republic in shipyards under his jurisdiction; to manufacture armament and equipment for such vessels on behalf of any such government in arsenals under his jurisdiction; to sell armament and equipment for such vessels to any such government; to manufacture antiaircraft artillery and ammunition therefor, on behalf of any such government in factories and arsenals under his jurisdiction; to sell antiaircraft artillery and ammunition therefor to any such government; to test or prove such vessels, armament, artillery, ammunition, or equipment prior to sale or delivery to any such government; to repair such vessels, armament, artillery, or equipment on behalf of any such government; and to communicate to any such government plans, specifications, and other information relating to such vessels of war and their armament and equipment or antiaircraft artillery and ammunition therefor, as may be sold to any such government or relating to any vessels of war which any such government may propose to construct or manufacture within its own jurisdiction: Provided, That nothing contained herein shall be construed as authorizing the violation of any of the provisions of any treaty to which the United States is or may become a party: And provided further, That no transaction authorized herein shall result in expense to the United States.

"Sec. 2. In carrying out transactions authorized by section 1, the Secretary of War and the Secretary of the Navy are authorized to communicate or transmit to the Government of any American republic, or to any duly authorized person for the use of such government, restricted, confidential, or secret plans, specifications, or information pertaining to the arms, ammunition, or implements of war sold under the terms of that section, or to any vessels of war constructed within the jurisdiction of any such government, and to export, for the use of any such government, coast and antiaircraft artillery and ammunition therefor, and vessels of war and their armament and equipment involving restricted, confidential, or secret information: Provided, That any restricted, confidential, or secret

plans, specifications, or information thus communicated or transmitted or involved in any such arms, ammunition, implements of war, or equipment, when exported, shall cease to be considered restricted, confidential, or secret after one year from the date that such communication or transmission has been authorized or such exportation made.

“Sec. 3. All contracts or agreements made by the Secretary of War or the Secretary of the Navy for the sale to the government of any American republic of any of the arms, ammunition, or implements of war, the sale of which is authorized by this joint resolution, shall contain a clause by which the purchaser undertakes not to dispose of such arms, ammunition, or implements of war by gift, sale, or any mode of transfer in such a manner that such arms, ammunition, or implements of war may become a part of the armament of any state other than an American republic.

“Sec. 4. The Secretary of War or the Secretary of the Navy, as the case may be, shall, when any arms, ammunition, implements of war, or equipment are exported pursuant to the provisions of this joint resolution, immediately inform the Secretary of State, Chairman of the National Munitions Control Board, of the quantities, character, value, and destination of the arms, ammunition, implements of war, or equipment so exported. Such information shall be included in the annual report of the Board.

“Sec. 5. (a) There is hereby authorized to be appropriated from time to time, out of any moneys in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this joint resolution.

“(b) All moneys which may be received from the government of any American republic, in payment for any article delivered or service rendered in compliance with the provisions of this joint resolution, shall revert to the respective appropriation or appropriations out of which funds were expended in carrying out the transaction for which money is received, and such moneys shall be available for expenditure for the purpose for which such expended funds were appropriated by law.

“Sec. 6. The Secretaries of War and of the Navy are hereby authorized to purchase arms, ammunition, and implements of war produced within the jurisdiction of any American republic if such arms, ammunition, or implements of war cannot be produced in the United States.”

Very truly yours,

For the Secretary of State:
SUMNER WELLES

810.24/46 : Telegram

The Minister in Costa Rica (Hornibrook) to the Secretary of State

SAN JOSÉ, June 30, 1939—11 a. m.

[Received 2:05 p. m.]

25. Referring to the Department's circular telegram of June 27, 7 p. m., Minister for Foreign Affairs informed of the contents and was very appreciative of offer contained therein. He further stated that

he would immediately advise the President of the Republic and that in the event of an emergency Costa Rica would avail itself of facilities offered.

HORNIBROOK

810.24/48 : Telegram

The Minister in Paraguay (Howard) to the Secretary of State

ASUNCIÓN, June 30, 1939—6 p. m.

[Received 9:38 p. m.]

17. Referring to Department's circular June 27, 7 p. m., in conversation with the Minister of Foreign Affairs today he stated that the proposed facilities should prove a handy thing for all the American Republics. However, owing to the isolated geographical position and financial condition of his country, he did not feel free to express an active interest therein by Paraguay at the moment but promised me a further statement after consulting with the President.

HOWARD

810.24/49 : Telegram

The Chargé in Bolivia (Prendergast) to the Secretary of State

LA PAZ, July 1, 1939—9 a. m.

[Received 11 a. m.]

35. Department's telegram of June 27, 7 p. m. The Minister for Foreign Affairs ad interim informed me last evening that President Busch would look with favor upon the enactment of the resolution.

PRENDERGAST

810.24/51 : Telegram

The Chargé in Panama (Muccio) to the Secretary of State

PANAMA, July 1, 1939—noon.

[Received 1:45 p. m.]

71. Department's telegraphic instruction June 27, 7 p. m. discussed with Minister of Foreign Affairs afternoon of June 29 when he stated he desired to present the matter to the President before expressing an opinion. Minister of Foreign Affairs has just orally declared that the Panaman Government enthusiastically endorses the plan to extend the facilities of American Government owned yards and arsenals to the other American Republics. He added that such a policy is not only necessary but also indispensable in the present state of world affairs.

MUCCIO

810.24/34 : Telegram

The Secretary of State to the Chargé in Uruguay (Dwyre)

WASHINGTON, July 5, 1939—6 p. m.

39. Your no. 46, June 28, 3 p. m. No formal statement is required for the purposes outlined in the Department's circular telegram of June 27 but merely an informal indication of the attitude of the Uruguayan Government. Most of the replies have now been received and have all been favorable and the Department hopes that the views of the Uruguayan Government can be indicated, as above, at an early date.

HULL

810.24/31a : Telegram

The Secretary of State to the Minister in Nicaragua (Nicholson)⁵

WASHINGTON, July 5, 1939—6 p. m.

42. Please expedite reply to Department's circular telegram of June 27, 7 p. m.

HULL

810.24/31a : Telegram

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

WASHINGTON, July 6, 1939—11 a. m.

111. Department's circular telegram of June 27, 7 p. m. Please endeavor to expedite reply. Fourteen replies have so far been received and all have been favorable. As you well understand, it would be particularly helpful if a similarly favorable response were received from the Argentine Government. You may emphasize of course that the opinion of the Argentine Government would be regarded as entirely confidential.

HULL

810.24/55 : Telegram

The Ambassador in Cuba (Wright) to the Secretary of State

HABANA, July 6, 1939—1 p. m.

[Received 3:10 p. m.]

71. Your circular telegram of June 27, 7 p. m. Secretary of State, as well as the Secretary of National Defense and Colonel Batista ⁶

⁵The same on the same date to the Ambassador in Cuba as telegram No. 78, and to the Minister in Honduras as telegram No. 14.

⁶Fulgencia Batista, Chief of Staff, Cuban Army.

to both of whom the Secretary of State referred me and the latter of whom has been absent but whom I have now seen, express themselves as wholly in sympathy with the purposes of the resolution, the points of which as enumerated in the Department's telegram I have discussed with them in some detail.

WRIGHT

810.24/57 : Telegram

The Minister in Paraguay (Howard) to the Secretary of State

ASUNCIÓN, July 6, 1939—6 p. m.

[Received 8:30 p. m.]

18. Referring to my telegram No. 17, June 30, 6 p. m. The Minister of Foreign Affairs today informed me that President Paiva believes that making available the proposed facilities to the American Republics is desirable but that for the reasons given in my telegram referred to Paraguay's interest for the moment is obviously academic.

HOWARD

810.24/56 : Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, July 6, 1939—6 p. m.

[Received 6:06 p. m.]

49. Referring to the Department's telegram No. 39 July 5. Since my telegram No. 46, June 28, I took the opportunity on two different social occasions to mention the matter to the Minister for Foreign Affairs and each time he assured me that a statement would soon be forthcoming. On receipt of the Department's telegram No. 39, I obtained an interview with the Minister for Foreign Affairs for this afternoon stating, as I did on each previous occasion, that no official and formal statement was necessary and that only an indication of the views of the Uruguayan Government is desired. The Minister stated that the matter has been under serious consideration from the moment of our first interview and that it is one on which he must first confer with the President, the Minister of National Defense, and certain technical advisers. The Minister said that he has appointments tomorrow with the President and the Minister of National Defense and promised to give me a statement at noon Saturday, July 8, at which time I am to call at the Ministry of Foreign Affairs. I shall telegraph immediately thereafter.

DWYRE

810.24/65 : Telegram

The Minister in Nicaragua (Nicholson) to the Secretary of State

MANAGUA, July 7, 1939—4 p. m.

[Received 6:38 p. m.]

70. Referring to the Department's circular telegram of June 27, 7 p. m. and to my telegram No. 68, July 6, 10 a. m.⁷ Somoza⁸ states that he appreciates the consultation and thoroughly approves the idea, to the extent that he is anxious to know the conditions under which Nicaragua can take advantage of the facilities offered if and when the measure is adopted.

NICHOLSON

810.24/64 : Telegram

The Minister in Guatemala (Des Portes) to the Secretary of State

GUATEMALA, July 7, 1939—6 p. m.

[Received 10:10 p. m.]

20. Department's circular telegram of June 27, 7 p. m. The Foreign Minister informed me today under instructions from the President:

(1) That Guatemala did not wish to buy any war material in the United States at the present time inasmuch as it already has sufficient material available for its peacetime needs.

(2) That in the event of war Guatemala expected to cooperate with the United States as it did during the World War. In this case if necessary it could put from 100,000 to 200,000 well trained men in the field. It has at present equipment for a maximum of 100,000; but little of this is modern. It would consequently require equipment for the men to be put in the field and it trusted that inasmuch as such a war presumably would be one in which Guatemala would be involved through solidarity with the United States, the United States would be willing to furnish the necessary equipment without cost to Guatemala.

(3) That Guatemala had no objection to the general plan of selling war material to other Latin American Republics.

DES PORTES

810.24/63 : Telegram

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

BUENOS AIRES, July 7, 1939—6 p. m.

[Received July 7—5:52 p. m.]

116. Department's telegram 111 of July 6, 11 a. m. Unfortunately the Department's circular telegram of June 27, 7 p. m. coincided with

⁷ Latter not printed; it explained the delay in replying (810.24/54).

⁸ Gen. Anastasio Somoza, President of Nicaragua.

the arrival of the President-elect of Paraguay and it has been impossible to see Dr. Cantilo until today when I handed him a memorandum embodying the Department's instruction and the press statements of the Under Secretary referred to in it. Dr. Cantilo appeared to be very much interested and promised to give us his Government's reaction at the earliest possible date.

ARMOUR

810.24/67: Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, July 9, 1939—noon.

[Received 1:55 p. m.]

50. Referring to my telegram No. 49, July 6. In an extended conversation with the Minister of Foreign Affairs yesterday he stated that he had given most careful consideration to the contents of my informal memorandum and at this time could only repeat what he has often declared publicly which he said was substantially the following declaration of Uruguay's foreign policy.

"Uruguay is and has always been in favor of the closest possible cooperation among the nations of the American continent and has reiterated that policy on every occasion including the Pan American Conferences."

Full report by air mail.

DWYRE

810.24/69: Telegram

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

BUENOS AIRES, July 10, 1939—7 p. m.

[Received 8:55 p. m.]

117. Department's circular June 27, 7 p. m. I am today in receipt of a memorandum from the Foreign Office to the following effect.

"This Chancellery has examined with interest the memorandum which has been transmitted to it by the Embassy of the United States concerning the project submitted to Congress in that country for the purpose of authorizing the eventual cooperation of the United States with the other American Republics for the supply of military and naval material for defensive purposes.

These proposals for cooperation, in view of the extreme situation they contemplate, and the sense of continental solidarity they reflect in the face of problems resulting from the political and military situation of the old world, are consistent with the position publicly adopted by Argentina in the Lima Conference of 1938, with the spirit

of the declaration⁹ signed on that occasion by the 21 American nations, and with the declaration likewise adopted by the Buenos Aires Conference of 1936.

The Argentine Chancellery takes note of the project transmitted to it, as a further expression of that policy of good neighborliness and collaboration."

ARMOUR

810.24/42 : Telegram

The Secretary of State to the Chargé in Venezuela (Scott)

WASHINGTON, July 10, 1939—9 p. m.

50. Your no. 57, June 28, 5 p. m. No formal statement is required for the purposes outlined in the Department's circular telegram of June 27 but merely an informal indication of the attitude of the Venezuelan Government. Nearly all replies have been received and all have been favorable.

Since you will already have received the full text of the resolution, it is hoped that the favorable response of the Venezuelan Government will be forthcoming. You may emphasize of course that Dr. Gil Borges'¹⁰ views would be regarded as entirely confidential.

HULL

810.24/70 : Telegram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, July 11, 1939—noon.

[Received 2:20 p. m.]

21. Referring to my telegram No. 20, July 8, 1 p. m.,¹¹ President Carias, after giving careful consideration and check up, states that he sees no immediate necessity for purchase of military and naval material for defense purposes thus made available, but that he welcomes the enactment of this legislation and states Honduras will undoubtedly avail itself of same at a later date.

The regrettable delay in replying to the Department's telegram was occasioned by the conditions outlined in my strictly confidential despatch number 661 of April 27, 1939.¹¹

ERWIN

⁹ Declaration of the Principles of the Solidarity of America, known as the "Declaration of Lima," approved December 24, 1938, *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.

¹⁰ Venezuelan Minister for Foreign Affairs.

¹¹ Not printed.

810.24/72: Telegram

The Chargé in Venezuela (Scott) to the Secretary of State

CARACAS, July 12, 1939—6 p. m.

[Received 8:40 p. m.]

65. My telegram No. 62, July 11, noon.¹² The statement of the Foreign Minister which I have just received reads in translation as follows:

"The Venezuelan Government considers the draft resolution pending before the Congress of the United States to accord to the American countries facilities for the construction of warships and military planes in the shipyards and factories of the United States and for the acquisition of war matériel as an apparent [*praiseworthy*] (Spanish 'plausible') evidence of the spirit of American cooperation and solidarity for the defense of the continental peace and security."

The Spanish text of the statement will be forwarded by airmail tomorrow.

SCOTT

¹² Not printed.

MEETING OF THE FOREIGN MINISTERS OF THE AMERICAN REPUBLICS FOR CONSULTATION UNDER THE INTER-AMERICAN AGREEMENTS OF BUENOS AIRES AND LIMA, HELD AT PANAMA SEPTEMBER 23-OCTOBER 3, 1939

[BIBLIOGRAPHICAL NOTE: *Diario de la Reunión de Consulta entre los Ministros de Relaciones Exteriores de las Repúblicas Americanas*; Consultative Meeting of Foreign Ministers of the American Republics, Final Act of the Meeting, printed in Department of State *Bulletin*, October 7, 1939, pp. 321 ff.; *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of American Republics Held at Panamá, September 23-October 3, 1939* (Washington, Government Printing Office, 1940); *Report on the Meeting of the Ministers of Foreign Affairs of The American Republics, Panama, September 23-October 3, 1939*, Submitted to the Governing Board of the Pan American Union by the Director General (Washington, 1939); *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Havana, Cuba, July, 1940: Special Handbook Prepared by the Pan American Union* (Pan American Union, Washington, 1940) (mimeographed).]

740.00111-A. R./A: Telegram

*The Secretary of State to the Ambassador in Argentina (Armour)*¹

WASHINGTON, September 3, 1939—9 a. m.

142. The outbreak of a general European war constitutes in the judgment of this Government a potential menace to the peace of the Western Hemisphere and consequently justifies the resort to inter-American consultation envisaged in the pertinent conventions and declarations of the Conference of Buenos Aires² as well as in the

¹ The same, *mutatis mutandis*, on the same date to Brazil (telegram No. 164), Chile (No. 110), Colombia (No. 84), Cuba (No. 101), Mexico (No. 193), Panama (No. 68), and Peru (No. 51).

² See Convention for the Maintenance, Preservation and Reestablishment of Peace, signed at Buenos Aires, December 23, 1936, *Report of the Delegation of the United States of America to the Inter-American Conference for the Maintenance of Peace, Buenos Aires, Argentina, December 1-23, 1936* (Washington, Government Printing Office, 1937), p. 116; Declaration of Principles of Inter-American Solidarity and Co-operation, approved December 21, 1936, *ibid.*, p. 227.

Declaration of Lima.³

Please call immediately upon the Minister for Foreign Affairs and inquire whether the Government to which you are accredited coincides in the views above expressed, and if so, whether it would be willing to join with the Government of the United States and the governments of certain other American republics in a request to all of the American republics for consultation. You may state for the confidential information of the Minister that a similar inquiry is being made of the Governments of Brazil, Chile, Colombia, Cuba, Mexico, Panama, and Peru.

In the event that the Government of Argentina is willing to join in the request for consultation, this Government suggests that the request for consultation might well be phrased as follows, and that it might be issued simultaneously by the governments mentioned therein:

“In as much as the tragic conflagration which has broken out in Europe constitutes in the judgment of the Governments of Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Peru, and the United States an act susceptible of disturbing the peace of America and therefore justifies the initiation of the procedure of consultation provided for in the Convention for the Maintenance, Preservation, and Establishment of Peace signed at the Conference for the Maintenance of Peace of Buenos Aires, as set forth in the Declarations of Inter-American Solidarity and Cooperation unanimously adopted at the same Conference, and as further set forth in the Declaration of Lima, the Governments above mentioned request that an inter-American conference be held in the city of Panama on to be attended by the Minister for Foreign Relations of each American republic, or by his representative, in order that the American republics may exchange views as to the measures which they may collectively or individually take in order best to assure the peace of the American continent.”

You may further state that this Government submits for the consideration of the Argentine Government the desirability of fixing the time for such conference ten days from the date upon which the request for consultation is made. If these suggestions are acceptable, it is further suggested that the Government of Panama might be designated as the recipient of the replies of the governments to whom the proposed joint request would be addressed.

Please telegraph immediately the response made to you by the Minister for Foreign Affairs.

HULL

³Declaration of the Principles of the Solidarity of America, known as the “Declaration of Lima”, approved December 24, 1938, *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.

740.00111 A.R./11a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, September 3, 1939—11 a. m.

165. Department's 164, September 3, 9 a. m.⁴ Please inform Aranha⁵ that this Government is now completing the formulation of its suggestions as to the agenda for the proposed Panama Conference. I shall greatly value having the benefit of his confidential advice with regard to the proposed agenda at the earliest possible moment. I shall send you tomorrow by telegram a digest of our ideas regarding the agenda so that you may go over the points contained therein with Aranha and I should like them to have his views as quickly as possible so that we may thereafter without delay submit our final suggestions in this regard to all of the other Governments who will attend the Conference.

HULL

740.00111 A.R./24a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, September 4, 1939—6 p. m.

168. For the Ambassador from the Under Secretary.⁶ My telegram no. 165 of September 3, 9 [11] a. m. Our draft agenda is quoted hereafter. Please go over it with Aranha and let me have the benefit of his views and suggestions as to any amendments et cetera as quickly as possible.

"AGENDA

I. *Neutrality*

Consideration of the rights and duties of neutrals and belligerents in the present situation with a view to the preservation of the integral sovereignty and the peace of the nations of the Western Hemisphere; Steps to be taken in common or individually :

1. To suppress violations of neutrality and subversive activities by nationals of belligerent countries or others seeking to promote the interests of belligerent powers in the territory and jurisdiction of any or all of the American Republics.
2. To enforce the obligations of belligerent public and merchant vessels and aircraft in neutral territorial waters and areas.
3. To safeguard the carrying on of legitimate international trade, commerce, and communications of the American Republics on the high seas, on land and in the air.
4. To discharge neutral obligations toward belligerent nations.

⁴ See footnote 1, p. 15.⁵ Oswaldo Aranha, Brazilian Minister for Foreign Affairs.⁶ Sumner Welles.

II. *Protection of the Peace of the Western Hemisphere*

Consideration of measures to preserve the American continent free from conflict whether on land, in the air, within territorial waters, or within the area of the primary defense of the Western Hemisphere.

III. *Economic Cooperation*

Consideration of measures to safeguard in the present situation the economic and financial stability of the American Republics. Such measures include:

A. Measures to preserve commercial and financial interests of the American Republics.

B. Continuation and expansion of long-term programs for commercial and economic cooperation among the American Republics."

[Welles]

HULL

740.00111 A.R./24c: Circular telegram

*The Secretary of State to the Ambassador in Argentina (Armour)*¹

WASHINGTON, September 4, 1939—9 p. m.

Department's No. 142, September 3, 9 a. m. Favorable replies now having been received, the simplest way to proceed would appear to be for Panama to extend the invitation in the name of all 9 countries (including its own) to the Governments of the other 12 Republics, namely, those of Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, Uruguay, and Venezuela.

Accordingly, you will please immediately request of the Minister for Foreign Affairs of the Government to which you are accredited authorization for the Department to inform the Panamanian Government of the readiness of his Government to participate in this joint invitation to be issued by Panama in accordance with the text suggested in the Department's telegram of September 3, 9 a. m. Please reply by telegraph as soon as you have received the requested authorization.

You should also say to the Minister for Foreign Affairs that it would appear possible to convene the Conference on September 21.

HULL

¹ The same, *mutatis mutandis*, on the same date to the Diplomatic Missions in Brazil (referring to Department's No. 164); Chile (referring to No. 110); Colombia (referring to No. 84); Cuba (referring to No. 101); Mexico (referring to No. 193); and Peru (referring to No. 51).

740.00111 A.R./24b : Telegram

The Secretary of State to the Ambassador in Panama (Dawson)

WASHINGTON, September 4, 1939—9 p. m.

69. The Department's telegram No. 68, September 3, 9 a. m.⁸ The following circular telegram is being sent to our missions in Argentina, Brazil, Chile, Colombia, Cuba, Mexico, and Peru: [Here follows text of circular telegram of September 4, 9 p. m., printed *supra*.] Please inform the Panamanian Government of the procedure envisaged which we have assumed from your No. 91, September 3, 8 p. m.⁹ will be satisfactory to it.

Ambassador Daniels¹⁰ indicates that the Mexican authorization¹¹ may be telegraphed directly to the Panamanian Government.

HULL

740.00111 A.R./26 : Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMA, September 5, 1939—noon.

[Received 1:04 p. m.]

92. Department's telegram No. 69 of September 4, 9 p. m. The procedure envisaged is entirely agreeable to the Panamanian Government which will issue the joint invitation in accordance with suggested text as soon as authorization of the several inviting governments is received either through the Department or directly.

DAWSON

740.00111 A.R./36 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, September 5, 1939—5 p. m.

[Received 5:58 p. m.]

303. For the Under Secretary. Your 168, September 4, 6 p. m. Aranha and President Vargas approve agenda as drafted.

Aranha wants to know who is going from Washington. He would like to go but does not feel that he can leave Rio de Janeiro at this time. He will send several technical experts from here by air. He

⁸ See footnote 1, p. 15.

⁹ Not printed.

¹⁰ Josephus Daniels, Ambassador in Mexico.

¹¹ See Preliminaries of the Meeting, in *The International Conferences of American States, First Supplement, 1933-1940 . . . Collected and Edited in the Division of International Law of the Carnegie Endowment for International Peace* (Washington, Carnegie Endowment for International Peace, 1940), p. 315, footnote 1.

has in mind sending his Ambassador at Washington as principal delegate.

CAFFERY

740.00111 A.R./31 : Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMA, September 5, 1939—10 p. m.
[Received September 6—12:10 a. m.]

95. The joint invitation was despatched by the Panamanian Government to the other 12 republics at 10:00 p. m. this evening.

DAWSON

740.00111 A.R./36 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, September 6, 1939—4 p. m.

170. For the Ambassador from the Under Secretary. Your 303, September 5, 5 p. m. While no announcement will be made for the moment, you may inform Aranha confidentially that I myself will represent this Government at the Panama Conference. Please express my earnest hope that Aranha may find it possible to go because of the increased prestige and importance which will be given the Conference by his presence. You may add that the President has instructed me to say that should he desire to proceed by airplane to Trinidad and find it convenient in order to arrive in Panama on the date set for the Conference, the President will order a United States cruiser to be available at Trinidad in order to transport such delegate to Panama. Similar offers will be made to the delegates of Uruguay and of Paraguay. [Welles.]

HULL

740.00111 A.R./66b : Circular telegram

The Secretary of State to Chiefs of Diplomatic Missions in the American Republics Except Brazil

WASHINGTON, September 6, 1939—6 p. m.

For the Conference of the American Republics to be held in Panama, September 21, the Department has prepared the tentative agenda quoted hereafter.

You are requested immediately to present a copy of the suggested agenda to the Minister of Foreign Affairs of the country to which you are accredited. In presenting it, you should state that because

of the emergency and in order to advance as rapidly as possible preparations for the Conference by each Government, this Government felt it might be helpful in making these suggestions for the consideration of the other Governments. You should also state that the basic consideration which this Government had in mind when it drew up the suggested agenda was the desirability of confining it strictly to questions arising out of the war in Europe. These questions, which may be summarized under the headings of (1) Neutrality, (2) Protection of the Peace of the Western Hemisphere, and (3) Measures to Safeguard the Economic and Financial Stability of the American Republics, are of an urgent character requiring very prompt attention and in some cases immediate action. In order that the Conference may achieve its purpose it is obvious that it must adhere closely to the problems presently confronting all the countries of this Hemisphere because of the war, so that you will discourage discreetly any suggestions for the addition of questions not directly pertinent to the purposes of this Conference.

In order that decision regarding the agenda may be reached as quickly as possible, it is suggested that the views of the Government to which you are accredited be communicated as rapidly as possible through you to the Department. It is suggested that the final views of all the governments be presented to the Governing Board of the Pan American Union for the approval of a final agenda at a special meeting to be held on September 12 at 3 o'clock. It is hoped that under the foregoing procedure the introduction of any subject not strictly germane can be avoided so that the meeting of the Board will in effect be limited to a ratification of the agenda previously discussed and agreed upon.

The proposed text follows:

[Here follows text of agenda quoted in telegram No. 168, September 4, 6 p. m., to the Ambassador in Brazil, printed on page 17.]

HULL

740.00111 A.R./100c : Telegram

The Secretary of State to the Ambassador in Panama (Dawson)

WASHINGTON, September 7, 1939—3 p. m.

74. The Department considers it very desirable that the Director General of the Pan American Union be present at the approaching meeting in Panama of the representatives of the American republics. Please suggest to the Minister for Foreign Affairs that an invitation be extended to Dr. Rowe in his official capacity and if such invitation is received by Dr. Rowe, he will request the approval of the Govern-

ing Board of the Pan American Union to his attendance at the special meeting of the Board to take place on September 13.

HULL

740.00111 A.R./96: Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMA, September 8, 1939—noon.

[Received 1:45 p. m.]

101. Department's telegram No. 74, September 7, 3 p. m. Minister of Foreign Affairs will send an invitation to the Director General of the Pan American Union immediately.

DAWSON

740.00111 A.R./97a: Circular telegram

The Secretary of State to Chiefs of Diplomatic Missions in the American Republics

WASHINGTON, September 8, 1939—4 p. m.

The President has announced that the Under Secretary of State¹² will represent the United States at the conference in Panama. He will be assisted by the following as advisers: The Honorable Edwin C. Wilson, Minister Designate to Uruguay; and Dr. Herbert Feis,¹³ Dr. Warren Kelchner,¹⁴ and Miss Marjorie M. Whiteman,¹⁵ of the Department of State. Mr. Paul C. Daniels, Foreign Service Officer, will act as secretary to Mr. Welles.¹⁶

You will please inform the Government to which you are accredited.

HULL

740.00111 A.R./119: Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, September 9, 1939—1 p. m.

[Received 2:50 p. m.]

95. Department's rush circular September 6, 6 p. m. The Foreign Minister is unconvinced of the need of holding a conference at this time particularly without adequate preparation but informs me that

¹² Sumner Welles, Representative of the Secretary of State.

¹³ Herbert Feis, Adviser; Adviser on International Economic Affairs, Department of State.

¹⁴ Warren Kelchner, Secretary General of the Delegation; Chief, Division of International Conferences, Department of State.

¹⁵ Marjorie M. Whiteman, Legal Adviser; Assistant to the Legal Adviser, Department of State.

¹⁶ For a complete list of the delegation of the United States, see *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá September 23–October 3, 1939* (Washington, Government Printing Office, 1940).

Venezuela will participate and that the Venezuelan Minister to Panama will probably be named as representative. He expressed the view that holding a conference so soon after the outbreak of war may prejudice future efforts at concerted action if a real emergency should develop. He has no observations whatever to make with respect to the proposed agenda.

CORRIGAN

740.00111 A.R./129 : Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMA, September 9, 1939—5 p. m.

[Received 9 p. m.]

104. The Minister for Foreign Affairs informs me that replies have now been received from all of the 12 Republics invited and that all are favorable with the possible exception of Venezuela whose Government requested certain information but failed to specify whether it would participate. He has asked the Venezuelan Minister here to telegraph his Government in order to clear up the matter. The Panamanian Minister for Foreign Affairs tells me also that thus far the Ministers of Foreign Affairs of Bolivia, Colombia, Costa Rica, Guatemala, Haiti, Mexico, Nicaragua, and Peru have signified their intention of being present and that it appears from their replies that the Bolivian, Mexican, and Peruvian Foreign Ministers are planning to be here about September 19. Does the Department wish me to transmit information as it becomes available regarding the representatives to be designated by other governments and does it desire also the names of advisers, experts, et cetera, who will accompany them?

DAWSON

740.00111 A.R./119 : Telegram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, September 11, 1939—5 p. m.

79. Personal for the Ambassador from the Under Secretary. Your 95, September 9, 1 p. m. Please see the Minister for Foreign Affairs as soon as possible and tell him that while I am most happy to know that Venezuela will participate in the Panama meeting and that we may thereby have the invaluable benefit of the assistance and cooperation of the Government of Venezuela in the deliberations of the meeting, I am somewhat concerned as to the reasons for the feeling expressed to you by the Minister that he is "unconvinced of the need of holding a conference at this time." It has seemed to this Government that the outbreak of any general European war clearly constitutes a potential menace to the peace of this continent and it was for that

reason that this Government strongly supported the idea of an early consultation as provided for in the Convention and Declaration of Buenos Aires and in the Declaration of Lima. Prior to the declaration of war, several governments had approached the Government of the United States indicating their belief that consultation should take place as provided for in the Convention of Buenos Aires, and others publicly announced their belief in the same sense. Immediately after the declaration of war, this Government informed the governments referred to that it was ready to join in a request for consultation and suggested that the Government of Panama be the intermediary in this case.

If there had been more time available, this Government would have immediately undertaken an exchange of views with the Government of Venezuela, but in view of the urgency of the situation and in view of the most helpful and cooperative attitude always shown by the Government of Venezuela in all questions affecting the welfare of the continent and particularly in view of the position taken by the Government of Venezuela in both the Buenos Aires and the Lima Conferences, this Government assumed that the Government of Venezuela would coincide in its own belief that consultation at the earliest possible date would be desirable.

Please say to the Minister that I personally had hoped that I might have the privilege of working with him at the Panama meeting and that I still hope there may be some chance that he may find it possible to attend in representation of his Government. You may add that there is no statesman on the continent whose presence at Panama would, in my judgment, be more conducive to an outcome of the meeting which would prove in the highest interest of all the American Republics. [Welles.]

HULL

740.00111 A.R./176a : Telegram

The Secretary of State to the Ambassador in Panama (Dawson)

WASHINGTON, September 11, 1939—5 p. m.

80. In view of the doubt whether certain of the delegates can reach Panama by September 21, I think it would be desirable for the Government of Panama to telegraph all countries suggesting that the definite date for convening the conference be September 23. Please make this suggestion to the Panamanian Government and reply by telegraph.

With reference to your telegram 104, September 9, 5 p. m., please report by cable to reach Washington by morning of September 14 names of delegates, advisers, et cetera, who will represent the other American Republics.

HULL

740.00111 A.R./318

Memorandum by the Assistant Chief of the Division of the American Republics (Briggs)

[WASHINGTON,] September 11, 1939.

As of this evening we have received word from 18 countries (all except Cuba and Guatemala) that they are satisfied with the agenda which will be considered by the Governing Board of the Pan American Union tomorrow afternoon.

The only country to submit its own suggestion is Mexico, whose resolution on "Continental Solidarity" was considered at the meeting this morning.

ELLIS O. BRIGGS

740.00111 A.R./255

Memorandum by the Chief of the Division of the American Republics (Duggan) to the Under Secretary of State (Welles)

[WASHINGTON,] September 12, 1939.

There is attached the map¹⁷ about which I spoke to you this morning, drawn by Mr. Boggs.¹⁸ The radius of the neutral zone is 300 nautical miles, which is the equivalent of 345.47 statute miles. Mr. Boggs suggests the use of nautical miles because that is the terminology used and understood by mariners.

I have gone over with Mr. Boggs the question of the northern and southern termini of the zone and offer for your consideration the following definition of the zone:

300 nautical miles from the coast of the mainland or neighboring islands of the American Republics between the following parallels of latitude:

(a) In the Atlantic, between 44°46'36" North Latitude, except the territorial waters of any part of Canada included within this area, and 60° South Latitude;

(b) In the Pacific, between 48°29'38". 11 North Latitude and 60° South Latitude.

On the Atlantic side, therefore, the line would start in Passamaquoddy Bay and would extend east along the parallel mentioned until striking the territorial waters of Nova Scotia. It would follow the limits of territorial waters of Nova Scotia on the west, south and east coasts until it reaches the same parallel.

¹⁷ Facing p. 35.

¹⁸ Samuel W. Boggs, Geographer of the Department of State.

On the Pacific side, the line would start at the boundary terminus in the Strait of Juan de Fuca, which is the agreed upon boundary with Canada.

LAURENCE DUGGAN

740.00111 A.R./177: Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMA, September 12, 1939—noon.

[Received 1:15 p. m.]

110. Department's telegram No. 80, September 11, 5 p. m. The Government of Panama approves your suggestion and is telegraphing to all countries suggesting that the definite date for convening the Conference be September 23.

DAWSON

740.00111 A.R./221a: Telegram

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

WASHINGTON, September 12, 1939—6 p. m.

151. Please refer to despatch no. 371 of the American Legation at Buenos Aires, dated November 18, 1914, regarding a suggestion by the Argentine Minister for Foreign Affairs "that the Pan American Union should be authorized by all the American republics to propose to the belligerents that certain sections of the southern Atlantic and Pacific should be closed to naval warfare and that the belligerents should come to some arrangement with the Union as to the protection of neutral shipping". This despatch is printed on page 438 of *Foreign Relations*, 1914 Supplement. Any additional information available in your files on the subject of this proposal should be air-mailed to Warren Kelchner, Secretary General of the American Delegation, American Embassy, Panama, not later than September 21. (Summary of such information should be telegraphed to the Department at once.)

HULL

740.00111 A.R./202: Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, September 13, 1939—3 p. m.

[Received 6:55 p. m.]

98. Department's 79, September 11, 5 p. m. The complimentary references of the Under Secretary were conveyed to the Minister of Foreign Affairs and were received with appreciation. The Foreign Minister in turn sends a message of friendship and affection to the Under Secretary. He fervently desires for Mr. Welles and for the

United States complete success in the forthcoming Conference. While he deplors the hastiness and especially the neglect of previous consultation, I obtained an assurance that Venezuela would lend its whole-hearted cooperation to the success of the Panama Conference.

The Venezuelan delegation will be named later today after consultation with the President.

CORRIGAN

740.00111 A.R./223 : Telegram

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

BUENOS AIRES, September 14, 1939—5 p. m.

[Received 8:20 p. m.]

168. Department's telegram 151, September 12, 6 p. m. Embassy's files contain in addition to despatch mentioned in the Department's telegram only a telegram on the same subject from the Chargé d'Affaires¹⁹ dated November 18, 6 p. m., 1914 printed page 437 of *Foreign Relations*, 1914, Supplement, and despatch No. 380, December 11, 1914, page 452 same volume. Department has presumably noted resolution adopted by Pan American Union on December 8, 1914, page 444, *Foreign Relations*, apparently resulting from the action proposed by the Argentine Government.

Lorillard's despatches indicate proposal was handled through Argentine Minister at Washington and it is possible that the Argentine Embassy might have additional information.

In this connection the Department may be interested in reference by the Minister for Foreign Affairs to proposal of the Argentine Minister for Foreign Affairs made through the Argentine Legation at Washington in 1916 for a conference of American Republics to discuss situation created by German submarine campaign (see Embassy's despatch 113 of September 8,²⁰ which should reach the Department today). The Minister for Foreign Affairs is examining the files here to give me further data on this proposal which was apparently distinct from the proposal referred to in the Department's telegram No. 151. In the meantime I am endeavoring discreetly to obtain further information on 1914 proposal through the Foreign Office.²¹

Repeated to Panama.

ARMOUR

¹⁹ George Lorillard.

²⁰ Not printed.

²¹ In despatch No. 136, September 19, the Ambassador in Argentina reported: "It now appears that Dr. Cantilo was mistaken in his recollection of what transpired in 1916. What he apparently had in mind were the 1914 proposals and the action resulting therefrom which continued on up to 1916. In other words, the Argentine Government does not appear to have made any new proposals in 1916 to meet the situation resulting from the German unrestricted submarine warfare, as Dr. Cantilo had thought." (740.00111 A.R./360)

740.00111 A.R./428

*Memorandum by the Chief of the Division of the American Republics
(Duggan)*

[WASHINGTON,] September 21, 1939.

In connection with the resolution which Mr. Welles intends to present at Panama for a neutral zone around the Americas, with the exception of the territorial waters of European possessions, the Department has ascertained that there are at the present time in ports of the American Republics approximately 82 German vessels. There is one German vessel in United States ports. Their distribution is indicated on the attached tabulation.

Under the proposed arrangement it would be possible for all of these vessels to engage in carrying goods between the American Republics free from search and seizure by the war vessels of Great Britain and France. A difficult problem of patrol may be presented, since these vessels might serve as mother ships to supply German submarines just at the edge of the neutral zone.

There is also the problem of these vessels being clandestinely fitted out as raiders and then of their attacking merchant shipping outside of the zone, returning within the zone in order to escape attack of the war vessels of Great Britain and France.

LAURENCE DUGGAN

Annex

GERMAN VESSELS IN PORTS OF THE AMERICAN REPUBLICS

Argentina	3	Costa Rica	4
Uruguay	4	Nicaragua	0
Brazil	26	Honduras	0
Surinam	1	Salvador	0
Venezuela	2	Guatemala	0
Colombia	1	Mexico	10
Ecuador	4	Cuba	0*
Peru	5	Dominican Republic	0
Chile	6	Haiti	0
Panama	0	Curacao	16
		Total:	82

740.00111 A.R./350½

*Memorandum of Conversation, by the Chief of the Division of
European Affairs (Moffat)*

[WASHINGTON,] September 25, 1939.

In the course of a conversation this morning Mr. Hoyer Millar²² told me that according to a report from the British Minister at Panama,

* Habana only. [Footnote in the original.]

²² F. R. Hoyer Millar, First Secretary of the British Embassy.

the German Minister had asked for permission to have a German delegation present at the conference as "observers". The Panamanian Minister of Foreign Affairs declined the suggestion.

PIERREPONT MOFFAT

740.00111 A.R./383

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] September 27, 1939.

The Ambassador of Great Britain ²³ called at his own request. He said he came in to inquire about that feature of the present Pan American meeting relating to a so-called safety zone around this hemisphere. He said that, of course, his Government stands for the well-established principle of international law relating to the freedom of the seas and the rights of both neutrals and belligerents to utilize the sea as a public highway open to all alike, and that, therefore, his Government is naturally interested in this pending proposal at Panama. I replied that the matter at present is in the developing stage; that whatever our attitude may later be, it was my understanding that the present plan contemplates a patrol system similar to the present patrol system of this Government from opposite the Canadian border to the lower end of the Caribbean Sea; that, in addition to this patrol plan, the Pan American proposal at Panama probably contemplates that the 21 American republics, after declaring a purpose jointly to patrol the sea a considerable distance from shore and entirely around this hemisphere to the Canadian border, will request belligerent governments to agree not to engage in any act of hostilities within this so-called safety zone of the ocean; that if either or both belligerents should refuse thus to agree, the 21 American republics would go forward with their patrol work, and, in the event there should be acts of hostilities on the part of any belligerent within the so-called safety zone, the American republics would proceed to confer, with the view to determining what step or steps they might take to deal with such a situation; that no specific method of so dealing with such hostile acts will be discussed or agreed upon in advance by the American republics. I added that, of course, if one belligerent should agree to the request aforementioned it would do so on condition that an opposing belligerent would likewise agree and would carry out this promise; that if the opposing belligerent should violate its promise and if the 21 American republics should fail to deal effectively or satisfac-

²³ Lord Lothian.

torily with such violation, then Great Britain might feel constrained to come into the safety zone and deal with it herself. I stated that, of course, the request would contemplate that both sides must agree to comply and both sides must carry out the agreement in order for it to be operative; that this proposal would except, from the safety zone plan, British possessions in this hemisphere. I then added that, of course, the 21 American republics would be specially interested in keeping submarines from Europe away from this hemisphere and away from any base of supplies in this hemisphere; that in harmony with this spirit it was not improbable that Congress might prohibit submarines from coming into harbors of the United States for any purpose. The Ambassador seemed satisfied with this general proposal provided both sides agree to it and carry out their agreement and provided it does not interfere with British access to British colonies and other possessions lying and situate within this proposed so-called safety zone. I stated that the proposal would naturally make an exception with respect to access on the part of the British to British possessions in this hemisphere.

C[ORDELL] H[HULL]

740.00111 A.R./380a : Telegram

The Secretary of State to the American Delegate (Welles)

WASHINGTON, September 27, 1939—10 p. m.

24. According to our latest data, at the present time there are at least 80 German vessels in the ports of the American republics and Dutch possessions. Under the terms as they now stand of the proposed declaration establishing the so-called safety zone, these vessels and any other German vessels that might slip into ports of the American countries could engage in coast wise trade within the zone. This possibility raises a number of important questions. For instance, the entry into the carrying trade between the Americas of all of these ships might create serious complications and hardship for American shipping regularly engaged in this service. Moreover, considering the large number of vessels involved, what attitude might be expected from the British and French who seem intent upon bottling up in port all German shipping.

Would you be good enough to give me the thoughts you may have on these and any other related questions?

HULL

740.00111 A.R./378: Telegram

The American Delegate (Welles) to the Secretary of State

PANAMA, September 28, 1939—4 p. m.

[Received 7:47 p. m.]

20. Your 24, September 27, 10 p. m. I have had the matter mentioned in your telegram very much in mind from the beginning of our consideration of the proposed restricted zone around this continent and if I remember correctly discussed it with you and with the President.

It is of course clear that if the proposed restricted zone is established and respected by the belligerents both Germany and the allies will derive certain advantages as well as disadvantages therefrom. From the standpoint of possible advantages to the allies the security of their ships carrying supplies of raw materials from the South American Republics to their own ports so long as they remain within the restrictive zone would be a very great gain. They would derive even greater benefits from the fact that if the restricted zone is respected they would be enabled to reduce materially their naval patrols within such areas as well as from the fact that their colonial possessions within the restricted zone would be far less liable to incur any danger. The sole disadvantage to the allies which I can see derives from the relative advantage to Germany which would result from the security of German merchant ships now within the restricted zone which would be enabled as you indicate to engage in coastwise shipping.

As you know there is already under way a movement on the part of some of the American governments to attempt to take over these German merchant vessels and if this is done there is no doubt that the allied governments would immediately raise the question as to the validity of such transfer of title during the war period. If we sustain the general proposal for the creation of a restricted zone on the ground that the American Republics are entitled to continue normal shipping communications with each other notwithstanding the outbreak of war in Europe it would seem to me that there would necessarily be inherent in such proposal the right of all belligerents to engage in maritime communications between the American Republics so long as their merchant ships kept within a reasonable distance of our coasts. The great fear of many of the American Republics which has been expressed to me in my conversations here and particularly in conversations with the representatives of the Pacific Coast republics is that the sharp reduction in British shipping from South American ports to Europe caused by the outbreak of war cannot within any foreseeable period be compensated for by any commensurate increase in American merchant ships. The unanimous

tendency on the part of these republics will be to insist that German ships be permitted to continue inter-American trade whether under German flags or under the flags of some of these republics themselves after transfer of title.

I realize the complicated nature of this problem but so far as my own opinion is concerned I have reached the very definite conclusion that from the standpoint of preserving so far as possible healthy trade and commerce between the American Republics notwithstanding the outbreak of war the disadvantages resulting from the creation of the restricted zone would be far less than the advantages to be derived therefrom; I need hardly emphasize the fact that as is clearly stated in the project the restricted zone would only continue so long as all of the American Republics retained their present neutral status.

WELLES

740.00111 A.R./378 : Telegram

The Secretary of State to the American Delegate (Welles)

WASHINGTON, September 29, 1939—8 p. m.

32. For the Under Secretary from Berle. Your 20, September 28, 4 p. m. Have discussed the proposed line with the Navy Department and with the President.

The President has in mind a patrol line under which the Argentine, Brazil and ourselves in cooperation patrol from a point just below Mar del Plata to the northern boundary of the United States. He believes that the Argentine government might be persuaded to take on patrolling part of the Brazilian coast to a point south of Rio and the Brazilians from there on as far north as they could, but probably to a point off Natal, and that they would have to invite us to share patrolling from there north to the southern terminus of our own patrol. Such patrols would be chiefly by destroyers, seaplanes, etc. In the event that focal areas required special patrolling, necessary measures might be worked out in consultation. This would require that arrangements be made by which Brazil would invite us to patrol a portion of her area and Brazilians and Argentines mutually agree on patrolling from Mar del Plata north.

The primary purpose of the patrol would be to prevent establishment of submarine bases and to assure that unneutral use of these coasts was not made by any belligerent. A possible measure might be understanding that unneutral use of the coast of any of the American republics would be considered as an unneutral use of the coast of all American republics, so that a ship acting unneutrally from an Argentine base might be interned if she entered a Brazilian port or the like.

The problem of German merchant vessels now blockaded in Latin American harbors has likewise been discussed. The probable provisions of the new Neutrality Act will be such as to release a great many American vessels which would promptly seek to enter Latin American trade, and for this reason it is not thought that the German vessels will be needed to maintain communications with the Latin American republics. Further, both the Navy and the Department are impressed by the obvious dangers of allowing German ships with German crews to engage extensively in the coastwise continental trade. The President does not believe it advantageous to create a situation permitting these ships to operate freely in the restricted zone.

British Embassy has indicated to us that it will not recognize title to German ships transferred to neutral flags, and will insist on right to capture German ships in any event. Nevertheless, it is contemplated that representations may be made to the British suggesting that German ships taken over by neutrals and put into the trans-Atlantic trade may be of great importance to them in view of the provisions of the Neutrality Act, and we plan further discussions with the British on this point.

Under these circumstances it seems to me, first, that the resolution as drafted textually may stand, but that the limitation on hostile acts might be so handled as not to release German vessels now immobilized unless or until arrangements are made to take over the blockaded vessels. The consultation committee might be so set up as to remain in continuous contact with a view to determining any particular areas, ports or lanes in which belligerent activities interrupted inter-American communications and in any such case measures might be devised for ending activities by diplomatic or naval action, or both. [Berle.]

HULL

740.00111 A.R./415 : Telegram

The American Delegate (Welles) to the Secretary of State

PANAMA, October 3, 1939—9 a. m.
[Received 12:20 p. m.]

36. For the President and Secretary. I am deeply gratified to be enabled to report that a final agreement was reached today by the meeting upon all of the remaining proposals submitted. From the commencement of the discussions there has been complete harmony and an exact identity of criterion on the part of all of the delegations.

The four points contained in the declaration providing for the restricted zone around the American Republics were agreed upon in precisely the form approved by the Department. No suggestion was

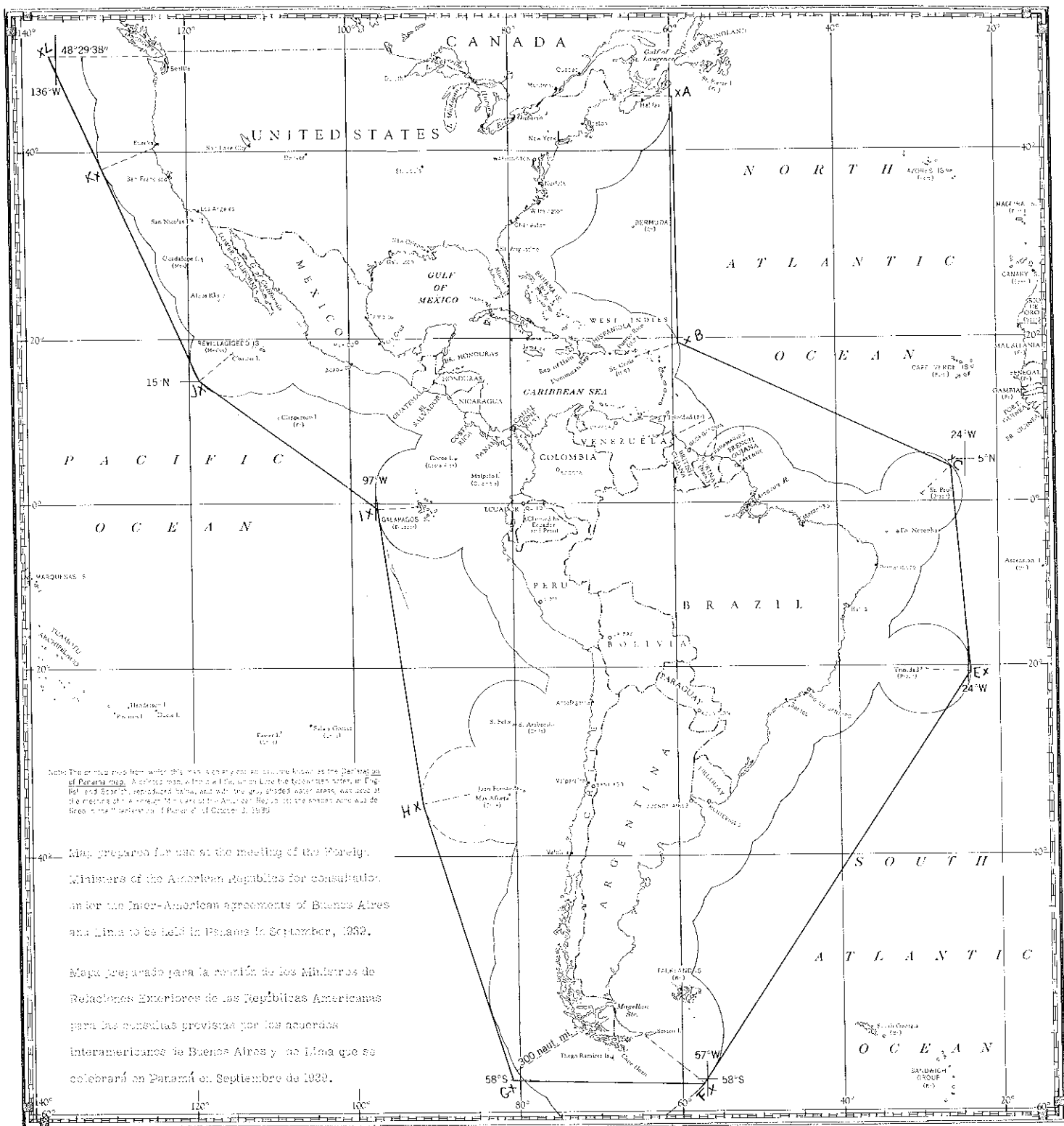
made by the Argentine delegation or any other delegation for a change in the extent of the zone.

The delegations of Argentina, Brazil, Chile, Mexico and Peru have indicated their desire to purchase the German merchant ships which have taken refuge in their respective ports. I believe of course that it would be exceedingly necessary that steps on this character be taken promptly in order to eliminate the danger of a large number of German merchant vessels undertaking inter-American maritime service.

A general agreement on the norms of neutrality measures was likewise reached in what in my judgment constitutes an exceedingly desirable form. A considerable number of other declarations and resolutions were adopted none of them, however, of any peculiar significance other than one providing for the establishment of inter-American police contacts so as to guard against the danger of agents of the belligerents undertaking concerted subversive activities in the territory of any American republic.

Full texts of all of the declarations and resolutions adopted will be sent to the Department by air mail.

WELLES



Note: The boundary shown with this map, which is the boundary fixed by the Partition of Panama map, is the boundary which was fixed by the Partition of Panama map, and which is the boundary which is shown in this map and which is the boundary which is shown in this map and which is the boundary which is shown in this map.

Map prepared for use at the meeting of the Foreign Ministers of the American Republics for consultation, in accordance with the Inter-American agreements of Buenos Aires and Lima to be held in Panama in September, 1923.

Mapa preparado para la reunión de los Ministros de Relaciones Exteriores de las Repúblicas Americanas para las consultas previstas por los acuerdos interamericanos de Buenos Aires y de Lima que se celebrará en Panamá en Septiembre de 1923.

EXPLANATORY NOTE REGARDING DECLARATION OF PANAMA MAP

The history of the Declaration of Panama map, preceding the meeting of the Foreign Ministers of the American Republics in Panama, follows:

At the request of the Division of the American Republics in the State Department the Office of the Geographer laid down on National Geographic Society maps of the Western Hemisphere, at different times, the limits of waters within 500, 700, 1,000 and then finally 300 nautical miles of all of the 21 American Republics, including their island possessions—and excluding Canada, Newfoundland, and the colonies of European countries in the Americas. The 300-mile limit was regarded as being adequate, and the arcs of 300-mile radius were then laid down on a U. S. Hydrographic Office chart of the world, taking into account the latitude variations in scale on the Mercator chart. That chart, with only the 300-mile arcs (as shown within the shaded areas on the accompanying map) was sent to President Roosevelt.

The President selected turning points of a provisional zone, which he identified with small "x" marks in pencil, and lettered them from "A" to "L". He then drew straight lines with a ruler between those points. The map was returned to the geographer of the Department with a request that the zone provisionally laid down by President Roosevelt be shown on a well drafted map, and described textually. In order to facilitate description, some of the turning points were slightly moved. The parallels of latitude serving as northern limits of the zone, on both the Atlantic and Pacific sides, are the latitudes of the termini of the U. S.-Canada boundary, as defined in the joint reports of the Boundary Commissioners; all of the other turning points were assumed to be points at integral numbers of degrees nearest the President's lettered turning points. The limits of the gray shaded areas, on the accompanying map, precisely coincide with the lines thus modified from the President's preliminary lines. Wherever the limiting lines do not follow a meridian or a parallel they are defined as "rhumb lines," which means that they follow a continuous true compass course between the points concerned, and that the lines are straight lines on a Mercator projection.

The textual description of the zone is given in the Declaration of Panama, printed on page 36.

It will be noted that there was no point "D" on the map in President Roosevelt's notation. Also that the point "H" was ignored in laying down the modified limits; the 300-mile arc beside which President Roosevelt marked "H" had been incorrectly laid down by the draftsman, from a spot on the map which had been mistaken for the Chilean island "Mas Afuera." The Hawaiian Islands, two Chilean islands, Easter Island and Sala y Gomez Islands, and other distant islands, were ignored in laying down the 300-mile arcs on which the zone was based.

The waters within three nautical miles of Bermuda, Jamaica, the Guianas, and other European territorial possessions were excluded from the zone described in the Declaration of Panama. They could not be excluded from the shaded area of the map because of the smallness of the scale.

The map, as printed and sent to Panama for use at the meeting of the Foreign Ministers, showed the shaded area, with the latitude and longitude of turning points, and the English and Spanish notes, as shown on the accompanying map, but without the 300-mile arcs there shown, and without the "x" marks and letters which had been added (on another map) by President Roosevelt.

740.00111 A.R./508

*Declaration of Panamá*²⁴

The Governments of the American Republics meeting at Panamá, have solemnly ratified their neutral status in the conflict which is disrupting the peace of Europe, but the present war may lead to unexpected results which may affect the fundamental interests of America and there can be no justification for the interests of the belligerents to prevail over the rights of neutrals causing disturbances and suffering to nations which by their neutrality in the conflict and their distance from the scene of events, should not be burdened with its fatal and painful consequences.

During the World War of 1914-1918 the Governments of Argentina, Brazil, Chile, Colombia, Ecuador and Peru advanced, or supported, individual proposals providing in principle a declaration by the American Republics that the belligerent nations must refrain from committing hostile acts within a reasonable distance from their shores.

The nature of the present conflagration, in spite of its already lamentable proportions, would not justify any obstruction to inter-American communications which, engendered by important interests, call for adequate protection. This fact requires the demarcation of a zone of security including all the normal maritime routes of communication and trade between the countries of America.

To this end it is essential as a measure of necessity to adopt immediately provisions based on the above-mentioned precedents for the safeguarding of such interests, in order to avoid a repetition of the damages and sufferings sustained by the American nations and by their citizens in the war of 1914-1918.

There is no doubt that the Governments of the American Republics must foresee those dangers and as a measure of self-protection insist that the waters to a reasonable distance from their coasts shall remain free from the commission of hostile acts or from the undertaking of belligerent activities by nations engaged in a war in which the said governments are not involved.

For these reasons the Governments of the American Republics Resolve and Hereby Declare:

1. As a measure of continental self-protection, the American Republics, so long as they maintain their neutrality, are as of inherent right entitled to have those waters adjacent to the American continent, which they regard as of primary concern and direct utility in their relations, free from the commission of any hostile act by any non-American belligerent nation, whether such hostile act be attempted or made from land, sea or air.

²⁴ Transmitted to the Department in covering despatch of October 3 from the American Delegate. This Declaration was part of the Final Act of the Meeting of the Foreign Ministers, approved October 3, 1939.

Such waters shall be defined as follows. All waters comprised within the limits set forth hereafter except the territorial waters of Canada and of the undisputed colonies and possessions of European countries within these limits:

Beginning at the terminus of the United States-Canada boundary in Passamaquoddy Bay, in 44°46'36" north latitude, and 66°54'11" west longitude;

Thence due east along the parallel 44°46'36" to a point 60° west of Greenwich;

Thence due south to a point in 20° north latitude;

Thence by a rhumb line to a point in 5° north latitude, 24° west longitude;

Thence due south to a point in 20° south latitude;

Thence by a rhumb line to a point in 58° south latitude, 57° west longitude;

Thence due west to a point in 80° west longitude;

Thence by a rhumb line to a point on the equator in 97° west longitude;

Thence by a rhumb line to a point in 15° north latitude, 120° west longitude;

Thence by a rhumb line to a point in 48°29'38" north latitude, 136° west longitude;

Thence due east to the Pacific terminus of the United States-Canada boundary in the Strait of Juan de Fuca.

2. The Governments of the American Republics agree that they will endeavor, through joint representation to such belligerents as may now or in the future be engaged in hostilities, to secure the compliance by them with the provisions of this Declaration, without prejudice to the exercise of the individual rights of each State inherent in their sovereignty.

3. The Governments of the American Republics further declare that whenever they consider it necessary they will consult together to determine upon the measures which they may individually or collectively undertake in order to secure the observance of the provisions of this Declaration.

4. The American Republics, during the existence of a state of war in which they themselves are not involved, may undertake, whenever they may determine that the need therefor exists, to patrol, either individually or collectively, as may be agreed upon by common consent, and in so far as the means and resources of each may permit, the waters adjacent to their coasts within the area above defined. (Approved, October 3, 1939.)

740.00111 A.E./492

The Chargé in Chile (Frost) to the Secretary of State

No. 50

SANTIAGO, October 4, 1939.

[Received October 10.]

SIR: I have the honor to report that the Acting Chief of the political section of the Foreign Office, Señor Enrique Gajardo, informed me this morning that Chile's only hesitation respecting the three hundred

mile safety zone agreed upon by the Pan American Conference had arisen from the opinion of the Chilean Navy that the latter would not be able effectively to patrol the extensive ocean areas which the zone establishes. The Navy last week expressed the view that a fifty mile zone would be much more practicable. As assurances were received by the Chilean delegation at Panama, however, from Under Secretary Welles, that each country would be expected only to effect such patrol measures as its naval resources permit, the Chilean Government was glad to accept the proposal. He indicated that the Declaration of Panama regarding the safety zone is to be communicated to all the belligerent Governments by the president of the Conference; and expressed the opinion that Germany would be fully as ready to accept it as would England and France.

Much interest has been aroused at Santiago by the possibility that the German merchant ships which have sought refuge in Chilean harbors might navigate freely within the safety zone. This would be to the advantage of Germany, but would also be beneficial to Chilean commerce. The decision of Panama that the merchant ships of belligerents in Latin American ports might be transferred to Latin American ownership if the sales are bona fide is of some relevance; but it is doubtful whether Chile possesses sufficient German exchange or funds to put through genuine purchases of the six vessels now in her ports. Some of the leading American mineral enterprises in Chile would be pleased to see such a transfer take place, or to learn that the regulations in connection with the establishment of the safety zone will permit German vessels to operate without danger throughout the western hemisphere. Señor Gajardo stated that his Government has not as yet given this question protracted or thorough consideration.

It may be mentioned that Señor Gajardo drafted the instructions to the Chilean delegation to Panama, with the approval of the Foreign Minister, which is said at all times to have been readily forthcoming. He states that no difficulties of any consequence arose, from a Chilean standpoint, during the Conference. The Chilean delegation under instructions from its Government, he feels, was able to cooperate cordially and without differences of opinion in the deliberations of the Panama Conference; which he considers to have been eminently successful. From such cursory attention as the Embassy has found time to devote to the Santiago press during the past week it would appear that the public reaction to the labors of the Conference has not been very active; but that it has been favorable, except that the Nacista-Socialist *El Trabajo* attacks the results as representing one more advance for imperialism.

Respectfully yours,

WESLEY FROST

740.00111 A.R./502

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] October 7, 1939.

The French Ambassador²⁵ called at his own request. He made some reference to the so-called safety zone around this hemisphere as suggested by the Panama Conference during this week. I made it clear to him that it was really just an extension to the lower end of the Caribbean of our present patrol policy in the Atlantic opposite this country; that it simply further implemented the consultative peace pacts of Buenos Aires and Lima; that there were no implications of the use of force in any of these consultative pacts, from the Buenos Aires Conference to and including that in Panama; that this Government in no event contemplates the use of force unless and until it is first attacked; that there is no plan or purpose to break down or destroy international law; that it is deemed important that this and other American nations should know something of what is going on as far out in the ocean as any activities might be calculated to affect the national security of the American Republics.

The Ambassador seemed to be satisfied, and added that his Government had not requested him to make any inquiry or representations.

C[ORDELL] H[ULL]

740.00111 A.R./498: Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMA, October 10, 1939—10 a. m.

[Received 1:40 p. m.]

123. On October 4, President Arosemena cabled the Declaration of Panama to the King of England, the President of France and the Chancellor of Germany. Although he requested acknowledgment of receipt, the only reply received thus far is that of the King of England who states that he has referred the message to his responsible Ministers.²⁶

DAWSON

²⁵ Count de Saint-Quentin.

²⁶ On October 16, the Panamanian Minister for Foreign Affairs directed a note to the Department of State enclosing a reply (undated) from the President of France stating that the note of October 4 would be the object of an attentive examination. (740.00111 A.R./645)

740.00111A/110b: Circular telegram

The Secretary of State to Diplomatic Missions in the American Republics

WASHINGTON, October 19, 1939—4 p. m.

On October 18 the President of the United States announced the following Proclamation with reference to "Use of ports or territorial waters of the United States by submarines of foreign belligerent states":²⁷

[Here follows text of proclamation printed in Department of State *Bulletin*, October 21, 1939, page 396, and 54 Stat. 2668.]

Please make the foregoing text available to the Minister for Foreign Affairs, explaining that the action was taken in accordance with paragraph 3, subparagraph (k), of the General Declaration of Neutrality of the American Republics, approved at Panama City on October 3, 1939,²⁸ which states that neutrals "may exclude belligerent submarines from the waters adjacent to their territories or admit them under the condition that they conform to the regulations which each country may prescribe."

HULL

[The following American Republics adopted legislation or issued decrees during the year 1939 designed to prohibit and/or limit the entry of belligerent submarines into their ports and territorial waters:

Brazil (Article 13 of decree-law No. 1561 of September 2, 1939, in Pan American Union, Law and Treaty Series No. 12: *Decrees and Regulations on Neutrality*, p. 23).

Mexico (Article 5-b of decree of September 11, 1939, *ibid.*, p. 51; repeated in article 1 of decree of October 5, 1939, *ibid.*, p. 53).

Venezuela (Article 10 of decree of September 12, 1939, *ibid.*, p. 82).

Dominican Republic (Article 21 of law No. 163 of October 18, 1939, *ibid.*, p. 68).

Panama (Decree No. 167 of November 6, 1939, *ibid.*, p. 59).

Honduras (Article 9 of decree No. 38 of November 13, 1939, *ibid.*, p. 46).]

740.00111 A.R./631

The Panamanian Chargé (Briceño) to the Secretary of State

[Translation]

No. D-248

WASHINGTON, October 26, 1939.

MR. SECRETARY: I have the honor to inform Your Excellency that I have received instructions from my Government to communicate

²⁷ A similar proclamation was issued on November 4, 1939, under authority of the joint resolution of November 4, 1939; 54 Stat. 4 and 2672.

²⁸ Department of State *Bulletin*, October 7, 1939, pp. 326, 328.

to the Department of State that His Excellency the President of the Republic of Panama has received a reply from the Fuehrer Adolf Hitler, Head of the Executive Power of Germany [to the telegram]²⁹ in which he transmitted to him the Declaration of Panama.

The Fuehrer's reply is of the following tenor:³⁰

"His Excellency Dr. Juan Demostenes Arosemena, President of the Republic of Panama, Panama. I acknowledge to Your Excellency the receipt of the telegram of October 5 in which you communicate to me the decision of the American Governments, reached at Panama, to establish a prohibited zone around America to prevent belligerent activities. I have charged the proper offices of the Government with the examination of the matter. Please accept, Mr. President, the expression of my highest esteem.

Adolf Hitler."

I avail myself [etc.]

JULIO E. BRICEÑO

²⁹ Brackets appear in the file translation.

³⁰ Translation from the German.

ESTABLISHMENT OF THE INTER-AMERICAN FINANCIAL
AND ECONOMIC ADVISORY COMMITTEE¹

740.00111 A.R./437 : Telegram

The American Delegate (Welles) to the Secretary of State

S. S. "SANTA ELENA", October 4, 1939—10 p. m.
[Received 11:10 p. m.]

43. The Economic and Financial Advisory Committee agreed upon at Panama is to be a permanent body which will turn its attention to any and all questions of inter-American relationships in these fields in which it may appear that useful result is to be expected. The meeting scheduled at Guatemala is one of treasury representatives for purpose of technical discussion and interchange; there is no expectation that any agreements will be reached at Guatemala or any negotiations undertaken.

I suggest that the Guatemala meeting in carrying on the discussion and interchange on the topics in its agenda could do a useful job in defining the tasks in the monetary and financial field that the permanent committee could undertake and perhaps mail recommendations to it. I see no reason why this meeting should be delayed.²

WELLES

710. Financial and Economic Advisory Committee/2

*The Director General of the Pan American Union (Rowe) to the
Secretary of State*

WASHINGTON, October 19, 1939.

MY DEAR MR. SECRETARY: I beg to send you herewith a copy of the resolution adopted by the Governing Board of the Pan American Union at the session held on Wednesday, October 18th, 1939.

¹ Created by resolution III, approved October 3, 1939, of the Final Act of the Meeting of the Foreign Ministers of the American Republics for Consultation under the Inter-American Agreements of Buenos Aires and Lima, held at Panama, September 23–October 3, 1939 (see pp. 15 ff.). See also *Comité Consultivo Económico Financiero Interamericano, Manual de su organización y actividades 1939–1943* (Washington, n. d.); *Organization and Activities of the Inter-American Financial and Economic Advisory Committee* (Washington, Pan American Union, May 1941) (mimeographed); *Actas de las sesiones del Comité Consultivo Económico Financiero Interamericano* (Washington, Unión Panamericana, n. d.) (mimeographed).

² First meeting of the Finance Ministers of the American Republics, Guatemala, November 14–21, 1939, called in conformity with Resolution LXIV of the Eighth International Conference of American States. See Final Act of the Meeting, Department of State *Bulletin*, December 2, 1939, pp. 625–631.

I will greatly appreciate if you will be good enough to send me the name of United States representative on the Inter-American Financial and Economic Advisory Committee as soon as the appointment has been made.

I beg to remain [etc.]

L. S. ROWE

[Enclosure]

Resolution Adopted by the Governing Board of the Pan American Union on October 18, 1939

WHEREAS:

The Meeting of the Ministers of Foreign Affairs of the American Republics held at Panama adopted a resolution creating an Inter-American Financial and Economic Advisory Committee to be composed of twenty-one experts in economic problems, one for each of the American Republics, to be installed in Washington not later than November 15, 1939; and

The Pan American Union was requested to undertake the organization of the Committee.

The Governing Board of the Pan American Union

Resolves:

1. To request each Government, member of the Union, to designate an expert in economic problems to serve on the Inter-American Financial and Economic Advisory Committee created by resolution of the Meeting of the Ministers of Foreign Affairs of the American Republics at Panama.

2. To invite the members of the Financial and Economic Advisory Committee to convene at the Pan American Union on Wednesday, November 15, 1939.

3. To authorize the Director General to transmit this resolution as well as the resolution adopted by the Meeting of the Ministers of Foreign Affairs to the Governments through the intermediary of the members of the Governing Board.

4. To authorize the Director General to take the necessary steps for the organization of the secretariat of the Committee.

710. Financial and Economic Advisory Committee/2

The Secretary of State to the Director General of the Pan American Union (Rowe)

WASHINGTON, November 3, 1939.

MY DEAR DR. ROWE: In reply to your letter of October 19, 1939, sending me a copy of the resolution adopted by the Governing Board

of the Pan American Union, I wish to inform you that Mr. Sumner Welles, Under Secretary of State, will be the representative of the United States on the Inter-American Financial and Economic Advisory Committee.

Sincerely yours,

CORDELL HULL

ESTABLISHMENT OF THE INTER-AMERICAN
NEUTRALITY COMMITTEE

740.00111 A.R./545

*The Secretary of the Governing Board of the Pan American Union
(De Alba) to the Secretary of State*

WASHINGTON, October 13, 1939.

MY DEAR MR. SECRETARY: I have the honor to inform you that in accordance with your request, the Governing Board of the Pan American Union will meet on Wednesday, October 18, in an extraordinary session, to consider the two resolutions adopted at the recent Conference held in Panama relative to the organization of an Inter-American Committee on Neutrality and an Inter-American Economic and Financial Committee.¹

I beg to remain [etc.]

PEDRO DE ALBA

740.00111 A.R./606

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, October 20, 1939—7 p. m.

210. For the Ambassador from the Under Secretary.² Your 371, October 20, 1 p. m.,³ second paragraph. As you will recall, the general neutrality resolution provides for the election by the Governing Board of the Pan American Union of an inter-American neutrality committee composed of seven members. The Governing Board has designated a subcommittee to recommend to the full Board suggestions as to the manner in which the subcommittee should be selected. The subcommittee is composed of the Argentine and Venezuelan Ambassadors and the Guatemalan Minister. I am informed by the members of this subcommittee that they desire to suggest that the neutrality committee be composed of representatives of the same countries now represented on the committee of juriconsults which is undertaking a study of the codification of international law. There are now six members on this committee of juriconsults representing the United States, Mexico, Costa Rica, Chile, Argentina, and Brazil.

¹ See pp. 42 ff.

² Sumner Welles.

³ Vol. I, p. 678.

If this procedure is adopted by the Governing Board, Brazil will consequently obtain a representative on the neutrality committee. The seventh member to be appointed would presumably be a representative of Venezuela in recognition of the fact that Venezuela was the author of the project providing for the appointment of the neutrality committee.

Please tell Nabuco ⁴ that this Government will most decidedly favor and support Brazilian representation on the neutrality committee. [Welles.]

HULL

740.00111 A.R./634

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] October 26, 1939.

During his call on me, the Brazilian Ambassador requested the support of the United States Government in favor of Rio de Janeiro as the meeting place for the Inter-American Neutrality Committee, as created by paragraph five of the General Declaration of Neutrality of the American Republics at Panama. I spoke at length about the friendship of my country for his and the desire of my Government always to be cooperative in every feasible manner, etc., etc. I said then that I should say to him confidentially that the subcommittee of the Pan American Union, recently appointed to study the manner of selecting the seven members of the Inter-American Neutrality Committee, were rumored to have their report completed for the meeting on November first of the Governing Board; that the report suggests that each of the six countries represented on the Committee of Experts on the Codification of International Law be invited to choose one member of the Neutrality Committee, and that the host Government, when known, shall be invited to choose the seventh member.

I added that this would probably bring on debate and discussion at the coming Pan American meeting. I concluded by saying that I would be glad in the meantime to keep in touch with the Ambassador and to exchange any further information with him in regard to all phases of the question. He said that the matter was not of enough importance for extended debate or discussion and he would undertake to see the Ambassador of Venezuela and talk at length with him so as to develop unanimous agreement with respect to the matter. I agree with the Ambassador that all reasonable effort should be made to avoid controversy since this was not a matter of major importance.

C[ORDELL] H[ULL]

⁴Mauricio Nabuco, Secretary General, Brazilian Foreign Office.

740.00111 A.R./672

*The Secretary of the Governing Board of the Pan American Union
(De Alba) to the Secretary of State*

WASHINGTON, November 3, 1939.

MY DEAR MR. SECRETARY: At the meeting held on November 1, the Governing Board of the Pan American Union approved the Report of the Special Committee that had been appointed to consider the resolution on the Inter-American Neutrality Committee created by a resolution of the meeting of Foreign Ministers of the American Republics held recently at Panama. In the Report approved by the Governing Board it is provided that this Committee should be composed of representatives from the following countries: Argentina, Brazil, Chile, Costa Rica, Mexico, the United States of America, and Venezuela. At the same session it was provided that the seat of the Committee should be in Rio de Janeiro. It devolves, therefore, upon the Government of the United States to designate a member to serve on the Committee.

It will be greatly appreciated if you will inform the Pan American Union of the Representative who may be designated by the Government of the United States to serve on the Inter-American Neutrality Committee.⁵

I beg to remain [etc.]

PEDRO DE ALBA

740.00111 A.R./672

*The Under Secretary of State (Welles) to the Secretary of the
Governing Board of the Pan American Union (De Alba)*

WASHINGTON, November 27, 1939.

MY DEAR DR. DE ALBA: I have your letter of November 3, 1939 referring to the action of the Governing Board of the Pan American Union, which approved the Report of the Special Committee appointed to consider the resolution on the Inter-American Neutrality Committee created by a resolution of the Meeting of Foreign Ministers of the American Republics held at Panama.

In compliance with your request that this Government inform the Pan American Union as to the designation of its representative, I take pleasure in informing you that the President has designated Charles G. Fenwick, Ph. D., Professor of Political Science at Bryn Mawr College, as the representative of the United States on the Inter-American Neutrality Committee.

Sincerely yours,

SUMNER WELLES

⁵ By a note of November 28, 1939, the Brazilian Ambassador informed the Acting Secretary of State that his Government had scheduled the inauguration of the work of the Committee for January 15, 1940.

UNITED STATES COOPERATION IN MAINTAINING IN
THE TERRITORIAL WATERS OF CERTAIN OTHER
AMERICAN REPUBLICS THE NEUTRALITY PATROL
ENVISAGED BY THE DECLARATION OF PANAMA

740.00111A Neutrality Patrol/42

The Secretary of State to the Chargé in Guatemala (Cabot)

No. 357

WASHINGTON, December 12, 1939.

SIR: The Declaration of Panama¹ enunciated at the recent Consultative Meeting of the Foreign Ministers of the American republics provides in the fourth article thereof that:

"The American Republics, during the existence of a state of war in which they themselves are not involved, may undertake, whenever they may determine that the need therefor exists, to patrol, either individually or collectively, as may be agreed upon by common consent, and in so far as the means and resources of each may permit, the waters adjacent to their coasts within the area above defined. (Approved, October 3, 1939.)"

You may inform the Guatemalan Government that this Government has concluded that the need existed for a patrol of the waters adjacent to the coasts of the United States and accordingly established and at present is maintaining such a patrol. While the decision as to the need for a patrol of the waters adjacent to the coasts of the other American republics is obviously a matter for the determination of the governments of those countries, this Government believes that the institution of a patrol of the waters comprehended within the zone specified in the Declaration of Panama is very desirable, if not essential. If the Government of Guatemala likewise believes in the desirability of such patrol and would welcome the assistance of this Government in order that the patrol might be of a collective nature as contemplated in the paragraph referred to, this Government would be very glad to cooperate with the Government of Guatemala by making available from time to time its vessels and aircraft.

You are requested to discuss this situation informally with the appropriate officials of the Guatemalan Government along the lines set forth in the previous paragraph and if the Guatemalan Government is desirous of establishing a collective patrol, it is believed that it would be desirable if arrangements could be concluded to grant a

¹ *Ante*, p. 36.

general authorization for flights by aircraft of this Government over the territory of Guatemala, with any necessary landings at airports, and for entrance into its territorial waters of vessels of the United States Navy in connection with the carrying out of the observation patrols contemplated. You should explain in your conversation that notification will be made to the Government of Guatemala as far in advance as possible, although urgent cases may arise when information regarding the flights or visits can be furnished only after they have taken place. You should emphasize that in any event complete information with regard to the designation of planes, names of vessels and commanding officers, and the location or area to be visited will be furnished as promptly as possible. You should also inform the officials of the Guatemalan Government with whom you discuss this matter that the general authorization requested will be terminated at the earliest possible date. At the same time please endeavor to make it clear that the proposed general authorization for observation flights is not intended to affect in any way the existing blanket arrangement with the Government of Guatemala in accordance with which through flights of service planes over Guatemalan territory to or from the Canal Zone may be made upon notification given through the Legation.

You may also inform the officials with whom this matter is taken up that similar agreements have been concluded in principle or are being discussed with the governments of the other Central American countries and certain of the countries in the Caribbean area.

If a favorable response is accorded to your oral request, it is believed that it would be desirable to embody the terms and conditions of the understanding in an exchange of informal memoranda with the Ministry for Foreign Affairs. You are requested to inform the Department promptly of the result of your conversation and to forward the texts of any communications exchanged on the subject.

For your own information and guidance, in informing the War and Navy Departments of any arrangements for general authorizations for emergency observation patrols which may be concluded, the Department will make it clear that the authorizations are under no circumstances to be used for indiscriminate visits to the countries concerned, and that our missions and local foreign officials will under no circumstances be expected to make arrangements for entertainment of visiting Army and Navy personnel.

A similar instruction has been sent to the American Legations in Managua, San José, San Salvador and Tegucigalpa.²

Very truly yours,

For the Secretary of State:

SUMNER WELLES

²To Nicaragua as instruction No. 299; to Costa Rica as No. 296; to El Salvador as No. 209; and to Honduras as No. 221; all dated December 21.

862.33/105 : Telegram

The Chargé in Nicaragua (Baldwin) to the Secretary of State

MANAGUA, December 29, 1939—1 p. m.

[Received 3 : 30 p. m.]

154. Instruction No. 299, December 21³ and my telegram 125, October 18, 4 p. m.⁴ The Foreign Minister commends the suggested patrol and authorizes Nicaragua's fullest cooperation and extension of facilities under the terms and conditions suggested.

BALDWIN

740.00111A Neutrality Patrol/41 : Telegram

The Minister in Costa Rica (Hornibrook) to the Secretary of State

SAN JOSÉ, December 30, 1939—noon.

[Received 3 : 20 p. m.]

79. Referring to Department's instruction No. 296, December 21, 1939.³ At an informal conference the Minister for Foreign Affairs accepted the proposals contained in the above mentioned instruction subject to the approval of the President but assured me that he had no doubt of the latter's approval. Doubtful if President's approval can be obtained until Wednesday as all Government offices are closed because of the holidays.

HORNIBROOK

740.00111A Neutrality Patrol/55

The Minister in Honduras (Erwin) to the Secretary of State

No. 915

TEGUCIGALPA, December 30, 1939.

[Received January 4, 1940.]

SIR: With reference to the Department's instruction No. 221, of December 21, 1939,³ regarding the proposed establishment of a patrol of the waters adjacent to the coasts of the American Republics, I have the honor to report that this matter was taken up orally with the Foreign Minister immediately upon receipt of this instruction, on Thursday, December 28, 1939.

After giving Foreign Minister Aguirre an informal outline of the substance of the Department's instruction, I supplied him with a written memorandum embodying the principal points. The Foreign Minister stated that because of the jurisdiction involved, he felt it

³ See footnote 2, p. 49.⁴ Not printed.

necessary to discuss the matter with the Minister of War, Navy and Aviation, after which he would present it to President Carías for approval.

The Foreign Minister again emphasized the sympathetic attitude of his Government towards the objectives of the Declaration of Panama and his desire to afford full cooperation to crystalize the recommendations of the Panama meeting into recognized principles.

The Foreign Minister has today given in writing the full approval of his Government for the establishment of a patrol by United States Naval vessels of the waters adjacent to the coasts of Honduras and a general authorization for flights of United States Naval aircraft over the territory of Honduras, with such landings as may be necessary, and for the entrance into its territorial waters of vessels of the United States Navy.

Copies of my informal Memorandum regarding the proposed establishment of the patrol, and copies and an informal translation of Foreign Office Note No. 3987, of December 30, 1939, containing the acquiescence of the Honduran Government for the establishment of a patrol are enclosed herewith.⁵

Respectfully yours,

JOHN D. ERWIN

740.00111A Neutrality Patrol/60 : Telegram

The Minister in El Salvador (Frazer) to the Secretary of State

SAN SALVADOR, January 5, 1940—11 a. m.

[Received 2:35 p. m.]

2. Referring to my telegram No. 1, January 2, 3 p. m.,⁵ Salvadoran Government acquiesces in all proposals Department's instruction No. 209 of December 21⁶ with the sole qualification that blanket authorization will be given United States naval vessels to enter Salvadoran ports upon establishment by previous mutual accord between the two Governments that there exists a positive threat of hostile action on the part of any non-American belligerent; nevertheless in special cases when said prior accord would be impracticable the United States Government may proceed without it on condition that the United States Government would inform the Salvadoran Government as soon as possible and in detail of the circumstances justifying the action taken.

Please instruct if I may accept the foregoing. In such case it is understood by the Salvadoran Government that my acceptance would implement the understanding and conclude the exchange of informal

⁵ Not printed.

⁶ See footnote 2, p. 49.

memoranda mentioned in the third paragraph from the end of Department's instruction under reference.

FRAZER

740.00111A Neutrality Patrol/59: Telegram

The Minister in Costa Rica (Hornibrook) to the Secretary of State

SAN JOSÉ, January 5, 1940—3 p. m.

[Received 5:40 p. m.]

2. Referring to the Legation's telegram No. 79, December 30, noon, the Minister for Foreign Affairs has informed me that the President of Costa Rica fully approves the acceptance of the proposals as previously submitted to the Foreign Minister and agreed to by him.

HORNIBROOK

740.00111A Neutrality Patrol/64a: Telegram

The Secretary of State to the Minister in El Salvador (Frazer)

WASHINGTON, January 13, 1940—5 p. m.

1. Your telegrams No. 1, January 2, 3 p. m.⁷ and No. 2, January 5, 11 a. m. In your continuing discussions please make it clear that this Government greatly appreciates the willingness of the Government of El Salvador to cooperate with this Government for the purposes indicated in the establishment of an effective collective neutrality patrol. This Government is in entire agreement with the Government of El Salvador as to the proposed qualifications⁸ but feels that in order to avoid any possibility of misunderstanding, both Governments should have a full meeting of minds as to the interpretation of the phrase "a positive threat of hostile action on the part of any non-American belligerent".

You should then explain to the Minister for Foreign Affairs that although the vessels on patrol could of course not establish the true facts concerning any reports indicating a positive threat of hostile action by any non-American belligerent individuals or vessels without an adequate and undelayed investigation, which might involve patrol operations, at any time when on presumptively well-founded possibility the patrol officers believe that such "a positive threat" exists, they will make every endeavor to advise the Department of State and the Legation promptly so that the Government of El Salvador may be

⁷Not printed.

⁸In telegram No. 6, January 24, 1940, 11 a. m., the Minister in El Salvador reported that the Salvadoran Government had withdrawn qualifications and had agreed completely with the Department's proposals (740.00111A Neutrality Patrol/77).

immediately informed. You should emphasize that the patrol officers will not undertake investigation operations in any case even one of utmost urgency without simultaneously taking every precaution to enable this Government to advise the Government of El Salvador at once.

HULL

740.00111A Neutrality Patrol/68: Telegram

The Chargé in Guatemala (Cabot) to the Secretary of State

GUATEMALA, January 18, 1940—1 p. m.

[Received 2:30 p. m.]

3. Department's instruction No. 357, December 12, 1939. Memorandum just received from the Foreign Office states that the Guatemalan Government will be pleased to conclude arrangements envisaged in the above mentioned instruction. Will see the Foreign Minister immediately to arrange exchange of memoranda in accordance with the Department's instruction.

CABOT

DISCUSSIONS REGARDING POSSIBLE PURCHASE BY
NEUTRAL INTERESTS OF GERMAN MERCHANT SHIPS
WHICH HAD TAKEN REFUGE IN WESTERN HEMI-
SPHERE PORTS

862.852/11

The Ambassador in Brazil (Caffery) to the Secretary of State

No. 1756

RIO DE JANEIRO, September 16, 1939.

[Received September 25.]

SIR: Referring to my telegram No. 327 of September 14, 11 a. m.,¹ regarding the offer of the German Government to sell German boats now in Brazilian ports, I have the honor to report that the Minister for Foreign Affairs remarked to me yesterday that if Brazil were not successful in obtaining the boats promised them by the Moore-McCormack Steamship Line, the Brazilian authorities would buy the German boats. I said, "what will the English and French say?" He replied, "Oh, we can arrange that: the British are being excessively polite to us these days."

In that connection, the Director of Exchange of the Bank of Brazil observed this morning that conversations in that regard are going on with the German authorities.

Respectfully yours,

JEFFERSON CAFFERY

862.852/13

The Minister in the Dominican Republic (Norweb) to the Secretary of State

No. 901

CIUDAD TRUJILLO, September 19, 1939.

[Received September 26.]

SIR: I have the honor to report that interest has been evinced by Mr. H. N. Hansard, Administrator of the Naviera Dominicana, C. por A., (Trujillo owned) concerning the possible acquisition of former German vessels which are now in neutral ports in the Netherland West Indies. Mr. Hansard brought up the subject at first as a hypothetical question as to whether there would be any complications if such vessels had been transferred to Netherlands ownership and flag prior to the European war. Nevertheless, in spite of protestations to the effect that Dominican interests would never even consider dealing with Nazi

¹Not printed.

Germany during times such as the present, it was obvious that what he had in mind were the bargains that could doubtless be obtained if the Naviera Dominicana could, with impunity, purchase German ships which had been rendered useless either by internment in neutral ports or inability to run the blockade. If such acquisitions could be made without complications, however, there is little doubt as to what action the Naviera Dominicana would take.

Mr. Hansard finally concluded, or intimated as much to an officer of the Legation, that perhaps the risks involved would not be worth any bargain, no matter how attractive the price.

I might add in conclusion that ever since its inception in November 1938 the Naviera Dominicana has been trying to build up a Dominican merchant marine by the purchase of old and outmoded or condemned vessels. Immediately after it was organized it acquired the S. S. *Presidente Trujillo* of the Dominican Navy at a reputed price of \$40,000 which had previously been purchased from the Empresa Naviera de Cuba for \$60,000, and in December 1938 it purchased the S. S. *Mayan* (American) from Mr. Benitez Rexach, which had until November 1938 been owned by the Grace Line. The price that was supposed to have been paid was \$16,000.

This in itself would explain the urge for bargains, but added to this is the expectation that, with the elimination of German shipping as a result of the European war and the partial disruption of normal services of the other belligerents, a very favorable opportunity now exists for the new Dominican merchant marine to flourish and grow strong at the expense of others.

Respectfully yours,

R. HENRY NORWEB

812.001 Cardenas, Lazaro/200

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 9178

MEXICO, September 23, 1939.

[Received September 25.]

SIR: I have the honor to inform the Department that I called on President Cárdenas yesterday afternoon, as I always do prior to even a short visit to the United States.

I expressed, as I have done in all my interviews with President Cárdenas, the earnest hope that all pending questions between the two countries could be settled upon an equitable basis. The President said that was his sincere desire and mentioned particularly the waters and petroleum questions.² As to the latter he said he had conferred with Ambassador Castillo Nájera and would do so again before the

² See pp. 667 ff.

Mexican Ambassador returns to Washington the middle of next week and would outline suggestions which he believed would open the way to an agreement. He said they were not yet fully formulated or he would give them to me, but that they would be in shape before Ambassador Castillo Nájera leaves for Washington. He added that I could assure President Roosevelt that Mexico would do everything possible to insure a settlement.

We discussed the question of neutrality and he said that Mexico was in full accord with the policy of President Roosevelt and that General Hay³ would give the heartiest cooperation at Panama⁴ toward securing effective continental solidarity. I suggested to him, as I had to Ambassador Castillo Nájera earlier in the day, that because the Carranza Government was pro-German in 1916, 1917 and 1918, there was a fear that German influence would be strong in Mexico in this decade. He said: "That was another and distant day. We live in a different period. There should be no fear of German influence or German penetration in Mexico. It is in full accord with the policy of the United States whose friendship it prizes and we will be found standing together to prevent any European country's penetration or influence in our policies."

Referring to the German ships in Mexican ports (about ten) he said they were kept under observation and their wireless installation had been dismantled. "What will become of these ships?" I asked him. He replied that his government was giving consideration to the question. He said Mexico was negotiating with Germany with a view to having two German tankers turned over in payment of the debt Germany owes Mexico for oil it has delivered. The oil was sold to Germany in a barter agreement, but a large part of the electrical apparatus, steel rails, etc. which Germany was to send to Mexico in payment had not been delivered. If Mexico could get the tankers it would be a good arrangement. As to the other German ships in Mexican waters, the President said he did not think Mexico wished them and he could not say what would happen to them until the Foreign Office had completed its studies. I asked him if he thought any American company would buy and operate them. He said that would depend upon international law and any negotiations they might conclude with the German government. He smiled and asked: "Would they take them with everything on board, including the German crews?" He went on to say that if any American company had a concrete proposal that was deemed workable, of course it would be considered. This was in response to my statement that an American gentleman had suggested that the German ships should be put

³ Eduardo Hay, Mexican Minister for Foreign Affairs.

⁴ See pp. 15 ff.

into service and he knew Americans who might be glad to purchase them. I asked if this gentleman ought not to take up the matter with Minister Suárez.⁵ He answered: "Assuredly".

I talked to Minister Suárez and he said he would be glad to see the American gentleman (Mr. Elmer R. Jones, President of Wells Fargo & Company) next week. Mr. Jones thinks a way could be found for the utilization of these German ships. Minister Suárez said it would be necessary to consider the international usage before he could be ready even to do more than discuss any proposal Mr. Jones might make.

President Cárdenas asked me if I had heard that France and Germany might ask President Roosevelt to intervene to prevent a long and bloody war. He said that such reports had come to him but without confirmation.

Respectfully yours,

JOSEPHUS DANIELS

862.852/14: Telegram

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, September 26, 1939—5 p. m.

[Received 9 p. m.]

280. Finance Minister Suárez advises that Mexico is interested only in purchasing the two German tankers now in its ports by using cash credit which Mexico has in Germany. Suárez said German Embassy in Mexico advised that Germany would fulfill all merchandise contractual obligations against unused Mexican mark credits in Germany by sending merchandise through neutral port to Mexico. German Legation told Suárez that no further mark credits could be opened for account of Mexico. Suárez said equipment and merchandise contracts with Germany call for deliveries at specified intervals and that within two weeks he could tell whether or not Germany could make shipments as specified. Only in case Germany fails to fulfill contracts would Mexico be interested in purchasing German merchant vessels in its ports in order to liquidate credits. Suárez said a legitimate purchase of the merchant vessels would permit Mexico to place them under the Mexican flag without risk of seizure by belligerents. Suárez has made proposition through German Embassy for the two German tankers and is awaiting answer. Suárez stated Davis cash and carry purchase plan was progressing slowly but that processing contract with Eastern States has been increased to 25,000 barrels daily with Eastern States acting as sales agent in various European countries. Suárez said he had information that Davis is in Italy and will attempt to enter Germany. Anticipating rayon shortage Suárez attempting to

⁵ Eduardo Suárez, Mexican Minister of Finance.

increase existing rayon barter contract with Italy several million kilograms for storage purposes.

Telegraphed to American delegation Panama.

BOAL

862.852/12: Telegram

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, September 26, 1939—7 p. m.

[Received 8:39 p. m.]

283. My 280, September 26, 5 p. m. Ambassador Daniels is bringing you strictly confidential memorandum prepared by Elmer Jones, Manager of Wells Fargo, Mexico City, regarding the desire of American interests headed by Thomas W. Lamont of Morgan and Company to purchase all of German ships now in Mexican ports. See Ambassador's air mail despatch No. 9178, September 23 reporting that this possibility was discussed by him with President Cárdenas without, however, mentioning names. At the President's suggestion the interested parties are [to?] take up the matter with Suárez. Jones had to leave for Texas owing to desperate illness of member of his firm but is expected to return here late this week and will call at the Embassy upon his return.

Telegraphed to American delegation Panama.

BOAL

862.852/16

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, September 26, 1939.

[Received September 29.]

SIR: I have the honor to record below a conversation between the Minister of Finance and the Commercial Attaché on September 25, 1939 in reference to the relation between Mexican unused mark credits in Germany and the German vessels now in Mexican ports. The Commercial Attaché reports as follows:

"I asked Minister Suarez the amount of unused mark credits which his Government now had in Germany. He answered that as far as the Mexican Government was concerned it amounted to approximately 3 million dollars. (Mr. W. R. Davis previously stated that his books showed that the unused Mexican credits in Germany totalled slightly in excess of 5 million dollars. Records of Petroleos Mexicanos recorded an unused credit in Germany of 19,000,000 marks) I asked the Minister if he knew the total of private commercial credits in Germany held by Mexican merchants and he replied that he had not made the calculation.

"I inquired of the Minister what method he intended to employ to secure the withdrawal of his mark credits from Germany. He replied that he had received the assurances of the German Embassy in Mexico that the German Government would fully and scrupulously fulfil all of its contractual obligations with the Government of Mexico. I, then, inquired as to how this would be possible since Germany's merchant fleet had been practically cleared from the seas. He answered that the German Embassy in Mexico had also told him the merchandise ordered by Mexico against its mark credit would be delivered to a neutral port and then to Mexico in accordance with stipulations in the various contracts. I asked the Minister if he believed that this could be done without serious delays and interruptions to the transportation of the merchandise in question. He answered that he could tell within the next ten days or two weeks whether or not Germany could fulfil its contractual obligations because certain shipments were due within that period.

"In view of the above I inquired of the Minister as to whether or not he had made any plans for withdrawing his credits from Germany in case that country could not make shipments of merchandise. I told him that I asked the question because a number of people had mentioned to me that Mexico would probably receive some of the German shipments [*ships?*] now in Mexican ports in payment of the obligations. The Minister replied that he had been negotiating with the German Government through its Embassy in Mexico City for the purchase of the two German tankers now in Mexican ports. He said that he wished to emphasize that aside from the petroleum mark credit which his Government had in Germany there was also a cash credit and that he was negotiating for the two tankers in lieu of the cash credit. In order to clarify this point I asked him whether or not he would continue to negotiate for the two tankers even though Germany shipped punctually all of its merchandise obligations. The Minister reiterated that his negotiations now in progress for the two tankers were entirely apart from the petroleum barter credits. He said that he had already made his propositions to the German Government for the two tankers and was awaiting an answer. Should Germany fail to meet its contractual obligations to ship merchandise to Mexico the Minister stated that he would probably be interested in taking over sufficient merchantmen to cover the account.

"I asked the Minister if he could transfer the registry of any of the German vessels without running the risk of seizure on the part of belligerents. He replied that he now believed he could make a legitimate purchase of the vessels from Germany, fly the Mexican flag and not encounter any difficulties with the allies. The Minister then laughed and said that in case a seizure should take place Germany would be the loser of the vessel because his purchase contracts would provide for such an eventuality.

"In concluding the conversation on this subject, Minister Suarez stated that the Germany Embassy in Mexico City had advised him that the German Government would not open any additional petroleum mark credits."

Respectfully yours,

PIERRE DE L. BOAL

862.852/15

The Chargé in Mexico (Boal) to the Secretary of State

No. 9198

MEXICO, September 27, 1939.

[Received September 29.]

SIR: I have the honor to enclose a memorandum of a conversation I had this morning with Licenciado Beteta, Acting Minister for Foreign Affairs, with regard to the desire of the Mexican Government to purchase certain German vessels in Mexican ports.

The enclosed is transmitted for the strictly confidential information of the Department.

Respectfully yours,

PIERRE DE L. BOAL

[Enclosure]

Memorandum of Conversation, by the Chargé in Mexico (Boal)

MEXICO, September 27, 1939.

In the course of my conversation with Licenciado Beteta this morning he said that the Mexican Government has been negotiating with the German Government with a view to purchasing two of the German ships (tankers) now in Mexican harbors since the Mexican Government is badly in need of tankers. The object is to credit them against German indebtedness to Mexico for oil, which amounts to about 18 million marks. The German Government has not yet replied. He said that this purchase would be in lieu of taking the German material which was originally proposed in exchange for delivery of oil which occasioned the Mexican credit in Germany. He said that he was acquainted with the suggestion that all German vessels now in Mexican ports might be purchased by American interests, and that he thought this was a very good idea. He said that, although he knew for a certainty that the German ships are now under the control of the German Admiralty, he thought title still rested with the individual German steamship companies, and that he thought Mexico might be able to make some arrangement with Germany for the purchase and eventual transfer to the American interests, retaining that part of the purchase price which would represent the balance of Mexican credits in Germany. He said he supposed it would be necessary to give some assurance that they could not be resold to belligerents. I gathered that his idea was to have the American interests buy only those ships which are not tankers, and that Mexico would keep the two tankers, presumably buying them separately under the negotiations already initiated.

Licenciado Beteta also said that the Mexican Government had recently purchased two ships in the Scandinavian countries—the *Bita*

and the *Binta*—both tankers. The Mexican Government had paid something like 103 thousand dollars for one of these, and an amount close to that for the other. Apparently the ships had not as yet been delivered, and he was rather disturbed lest war conditions would obstruct the consummation of the deal, or lest they should fail to reach Mexico.

He said that recently Mexico had purchased a tanker from the Cities Service Company in the United States, but that our Maritime Commission had refused to allow the transfer to take place. He understood that this refusal was not directed at the Mexican Government, but was destined to preserve American shipping for American needs.

862.852/35

Memorandum of Conversation, by the Political Adviser (Dunn)

[WASHINGTON,] September 29, 1939.

The Counselor of the British Embassy⁶ came in this morning by appointment, and said that as the Ambassador was in New York, he had come to convey instructions which had been received from the Foreign Office.

Mr. Mallet said that the British Government had learned that the Government of Mexico had been giving consideration to the possibility of a transfer of certain German ships, now taking refuge in Mexican ports, to the Mexican flag, and that President Cardenas had had a conversation on the subject with Mr. Daniels. The British Government further learned that on September 24, in the *Star and Herald* of Panama City, an article had appeared which described plans for a cooperative arrangement under which claims against Germany held by nationals of the American republics were to be pooled in an organization for the holding of these claims and other debts owed to such nations by the German Government or German nationals, and that as a means of obtaining payment of these claims and debts, the German ships now in the ports of the American states, not including the United States, were to be taken over and operated in the Inter-American trade exclusively under the flags of the different South American republics.

Mr. Mallet then stated that on September 17, the British Government had instructed their representatives in all neutral countries, with the exception of the United States, to point out to the Governments to which they were accredited that the British Government would be within their rights in capturing any ship, the flag of which had been transferred from Germany to another country after the outbreak of war. This instruction was not sent to Lord Lothian⁷ because of the

⁶ V. A. L. Mallet.

⁷ British Ambassador in the United States.

confidence felt by the British Government that the American Government would not lend itself to the carrying out of any such transfers of flag.

The Counselor then went on to say that as a result of the information the British Government had received as to the above suggested plans, to which was added the information that the Government of Argentina was very much interested in a similar arrangement, the British Government felt that some move might be undertaken at Panama during the present conference to provide for the transfer of the flags of the German ships now taking refuge in South American ports. The Ambassador, Mr. Mallet said, had been instructed to explain confidentially to this Government the attitude of the British Government toward their right to capture ships transferred from the German flag after the outbreak of war, and to say that this question was vital to the British Government in the prosecution of the war and that they could not entertain any exceptions from the established principles, as any exception would leave the door open to mass transfers of all German ships now sheltering in neutral ports. The British Government thought it best, before any action towards such transfers of flag were taken, to explain its attitude to this Government and to point out that such transfers would leave the way open for the realization of vast sums of foreign exchange by the German Government, as well as the continued operation of their ships in sea-borne commerce with the many attendant advantages resulting to Germany thereby. The British Government had decided that they would find it necessary to proceed to the capture of such ships wherever they were found to be transferred to a foreign flag.

In view of the foregoing, the Ambassador was asked to request this Government to use a restraining influence at Panama if the question of the transfer of flag of these German ships were to become active.

JAMES CLEMENT DUNN

740.00111 A.R./406

The Chargé in Mexico (Boal) to the Secretary of State

No. 9201

MEXICO, September 29, 1939.
[Received October 2.]

SIR: I have the honor to record below the important details of a conversation between Finance Minister Suarez and Mr. Elmer Jones of Wells Fargo Company on September 28, 1939, as related by Mr. Jones to the Commercial Attaché. The Commercial Attaché reports as follows:

"Mr. Jones said that he told Minister Suarez that he and other parties which he represented had an interest in securing the German vessels now in Mexican ports. He said that he told Minister Suarez that he was particularly interested in purchasing the two German tankers, but, would also purchase the other freight and cargo vessels, excluding the *Columbus* if possible, because he felt that the latter vessel would be a white elephant. Mr. Jones said that he told the Minister that he knew that the German Government was indebted to the Mexican Government in excess of five million dollars and, therefore, the Mexican Government might be interested in taking over the German vessels in liquidation of the credits and resell them to him. Mr. Jones told the Minister that he could arrange to pay for the vessels in materials which the Mexican Government might desire, or, by full cash payment or by material and part cash payment.

"Mr. Jones said that the Minister replied that the German Government was reluctant to dispose of any of the vessels at this time and that the German Legation had tried to impress upon him that the war would be of short duration with Germany as the victor which would permit Germany to re-enter the Mexican market within a short time and with much greater force than heretofore. Mr. Jones said that the Minister also told him that the German Legation had given him the fullest assurances that all merchandise against credits established in Germany would be delivered as specified in the contracts.

"Mr. Jones said that he asked Minister Suarez if he thought that Germany could make the deliveries and if he believed that the war would be of short duration. According to Mr. Jones Minister Suarez replied that he was not in agreement with the German Legation on the two points mentioned above because he believed that the war would be of long duration and, furthermore, he had his serious doubts as to Germany's ability to make the merchandise deliveries. The Minister advised Mr. Jones that he had made separate overtures to the German Government for the two tankers and was awaiting a reply. Mr. Jones then asked Minister Suarez if he would be willing to resell the tankers to him in case he succeeded in purchasing them. The Minister replied that the two tankers would be of very great importance to Mexico's petroleum industry and that he would not be interested in reselling the tankers. Mr. Jones then asked Minister Suarez if the latter would be willing to resell the three tankers which are now under construction in Italy and the Minister replied in the negative giving the same reasons as just previously stated in the case of the two German tankers.

"Mr. Jones asked the Minister if Germany did not fulfill its merchandise deliveries would he be interested in taking over the German vessels and reselling them to him. He said the Minister replied to the extent that he would fully cooperate in this matter.

"Mr. Jones said that the petroleum question was discussed casually between himself and Minister Suarez and that during the conversation Minister Suarez indicated to him that he thought a man of his type as negotiator would have a good opportunity of settling the petroleum question.

"Mr. Jones said that he discussed with Minister Suarez the question of the National Railways of Tehuantepec and the latter requested that Mr. Jones accompany Ulises Irigoyen on an inspection trip of

the Tehuantepec Railway. Mr. Jones said that he accepted the invitation and would leave within the next few days for the Isthmus.

"As a result of his conversation with Minister Suarez, Mr. Jones said he reached one very definite conclusion. He said he recalled very distinctly the activities of the German Legation during the last world war and the success which it had in convincing the Mexican Government that Germany would be the victor and return Texas and other portions of the Southern United States to Mexico. Bearing that in mind Mr. Jones said he could readily see that the German Legation was now employing the same tactics with Administration officials, trying to convince them that the war would be brief with Germany as the victor. Mr. Jones said that he had no evidence or intimation that Germany had made any promises to Mexico and that, furthermore, contrary to the Carranza Administration he believed that the present activities of the German Legation would fall upon deaf ears in most cases. Mr. Jones said an instance of this was the statement of Minister Suarez that he did not agree with the German Legation that the war would be brief and that Germany could make the merchandise deliveries. Mr. Jones said that he told Minister Suarez that if the United States was compelled to enter the present war Mexico could probably not avoid doing the same thing and he said that Mr. Suarez agreed with him.

"As a matter of explanation Mr. Jones told me that he had discussed the purchase of the German ships with Mr. Thomas W. Lamont before leaving New York and that Mr. Lamont had shown considerable interest. Mr. Jones said that when he arrived in Havana and was on his way to Mexico, he received a telegram from Mr. Lamont stating that he had discussed this matter with officials of the State Department and that they had displayed some interest. In other words, Mr. Jones seems to be representing himself and Mr. Thomas W. Lamont in his conversation with Minister Suarez."

In connection with the foregoing, please see the Embassy's Despatch No. 9198 of September 27, 1939.

Respectfully yours,

PIERRE DE L. BOAL

862.852/30

Memorandum of Conversation, by the Assistant Secretary of State (Berle)

WASHINGTON, October 2, 1939.

The Counselor of the British Embassy came in to see me today, at my request. Mr. Dunn and I stated that we had been turning over in our minds the suggestion made by Mr. Mallet in his recent conversation with Mr. Dunn. That suggestion, we reminded him, contemplated that we use our influence at Panama to restrain movements which might be going forward there under which Latin American governments, in whose harbors German ships were blockaded, should take over those ships.

I pointed out that the only discussions we knew of were bilateral, proceeding between the German government and the governments of the countries involved. If we were concerned at all, it could only be as a result of some cooperative arrangement between the Latin American governments. I pointed out that we expected the Neutrality Act to pass in a form which released ample American shipping to take care of the inter-American trade, so that these ships would not be needed for that purpose.

Nevertheless, I said, it was entirely conceivable that the effect of continued submarine warfare might result in a shortage of ships in the Atlantic trade. In such case, neutrals would naturally wish to have ships available for their needs. This would, presumably, be greatest on the trans-Atlantic runs. In such case we here were exploring the possibilities of a take-over of these ships, possibly by expropriation under an arrangement by which the price of the ships would be held in escrow for Germany or for their owners, to be paid at the close of the war. It was generally agreed, I said, that operation of these ships by German crews and German agents would not be desirable; the actual tonnage, however, under some such arrangement as that under exploration, would become available to keep the commerce lanes open.

Mr. Mallet indicated that their principal preoccupation was the fear lest the German government, through sale of these ships, acquire credits here which they might use. He suggested that he would put the matter up to London. I pointed out that this was merely tentative and unofficial; that we were exploring the possibilities of the situation, rather than suggesting a definite plan, but that the attitude of the British government would be of interest. Mr. Mallet agreed that he fully understood this and would endeavor to find out what views his government might have in the premises.

A. A. BERLE, JR.

862.852/23

*Memorandum of Conversation, by the Assistant Secretary
of State (Berle)*

[WASHINGTON,] October 3, 1939.

The French Ambassador ^{7a} called to see me today, at his own request. He referred to the ships blockaded in Latin American harbors and to the suggestion that the governments of these countries purchase these ships from Germany. He pointed out that his government took the same position as the British government, namely, that they would not recognize any such transfers and that such ships would accordingly be liable to capture as prize if they reached the high seas.

^{7a} Count de Saint-Quentin.

I stated that we had had a similar indication of attitude from the British government. Further, I said, we had asked the British Embassy to indicate their attitude towards an idea we were exploring, namely, that these ships might after a period of time be expropriated; the payment for them be held in escrow until the end of the war, in which case the ships might be used in the trans-Atlantic trade. I pointed out that we would not consider it satisfactory to have these ships operated by German crews or German agencies but that the transfer would have to be bona fide.

The Ambassador pointed out that certain large French ships, including the *Normandie*, were taking indefinite refuge in American ports and he wondered whether the procedure of expropriation might be applied to them. In this connection he recalled, rather unhappily, that Secretary Morgenthau⁸ had requested him and Lord Lothian to meet him at the Treasury and had there proposed that the British and French Governments sell the *Queen Mary* and the *Normandie* respectively, to the United States Government. On inquiry it developed that the price was to be credited on the French and British war debts. He and Lothian had thereafter conferred. He had, he said, presented the matter to his government in the kindest light possible, namely, that the hope was to get a token payment on the French war debts in order to assist in passing the Neutrality Act⁹ here; but he was not altogether clear whether this was the real motive. However, he said, on endeavoring to discuss it with Mr. Hull shortly thereafter, Mr. Hull had stopped him by saying that the proposal had been entirely dropped, at the President's suggestion.

I said at once that I did not think anyone had even remotely considered any idea of that kind. Our concern, rather, was that as and when Atlantic shipping became necessary, the Latin American countries which depended on such shipping might find it possible to use that shipping. I said that I thought it not unlikely that prior to expropriation some procedure would be adopted by which the owners of the vessels might be asked to take the vessels out, failing which they might be expropriated. I also pointed out that our cables from Panama indicated that certain Latin American governments desired to purchase the German merchant ships. M. de Saint-Quentin observed that they had no particular objection to these ships being purchased, but that they feared lest the price of these ships would become credits for the German government which it could use abroad; and consequently they objected. I said that if the idea we were exploring were carried into effect, this would not be a difficulty, because the price would be held in trust until the end of the war. In any case,

⁸ Henry Morgenthau, Jr., Secretary of the Treasury.

⁹ See section entitled "Revision of United States Neutrality Legislation," vol. 1, pp. 656 ff. The Neutrality Act was approved November 4, 1939; 54 Stat. 4.

the matter was not immediate, but merely an attempt to consider possibilities.

We talked briefly as to the progress of the war; the Ambassador considered that Mr. Hitler's speech would probably be an offer of peace, including the establishment of a buffer Polish state and possibly Bohemia, accompanied by threats to wipe out London and Paris through air bombs. A Poland so constituted, he stated, would be meaningless, because it could be seized at any time. If it were thought that a threat of wiping out London or Paris would frighten anyone, the Germans would be surprised, since both populations were thoroughly prepared in their minds for that eventuality.

A. A. BERLE, JR.

862.852/17: Telegram

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, October 3, 1939—5 p. m.

[Received 8:36 p. m.]

293. The French Chargé d'Affaires has just called to inform me that he has received instructions from his Government giving the following information to the Mexican Government.

The British Government with which the French Government associates itself in the matter is unalterably opposed to any transfer of any of the German ships to another flag and if they are acquired by the Mexican Government or Mexican interests they will continue to be considered as belligerent vessels.

French Chargé d'Affaires expects to deliver this message to Beteta tomorrow. See my telegram No. 283, September 26, 7 p. m.

BOAL

862.852/48

Memorandum of Conversation, by the Assistant Secretary of State (Berle)

[WASHINGTON,] October 4, 1939.

The French Ambassador telephoned me this morning. He said he had gathered from our conversation that action by the Panama Conference regarding the transfer of blockaded German ships to inter-American governments had not taken place. Yet in this morning's paper he had observed that a resolution on the subject was passed.

I called to his attention the fact that while I had made no mention of any possible action by the Panama Conference regarding these ships, I had indicated to him that certain Latin American governments were pressing the problem of transfer of these ships to their

flags. The final resolutions of the Panama Conference had not as yet reached us and I would have to withhold any comment until we had the texts of the resolutions passed.

A. A. BERLE, JR.

740.00111: A.R./415: Telegram

*The Secretary of State to the Under Secretary of State (Welles)
on Board the S. S. "Santa Elena"*

WASHINGTON, October 4, 1939—6 p. m.

45. Department's 32, September 29, 8 p. m.,¹⁰ and your 36, October 3, 9 a. m.¹¹ In conversation yesterday¹² with Assistant Secretary Berle the French Ambassador indicated that his Government took the same position as the British Government on the purchase and transfer of German ships now in the harbors of the other American republics. The Ambassador was then informed, as the British Ambassador had already been on October 2, that in order to make these ships available probably for use in trans-Atlantic trade we were continuing to explore the matter with particular reference to the possible needs of the neutral nations of this hemisphere. The possibility that payments for transferred ships might be held in escrow until the end of the war was mentioned to the Ambassador, as was also the opinion that any of the transfers which were already desired by several of the other American republics should be entirely bona fide and the ships not operated by German crews or agencies.

The French Ambassador indicated, as had the British Ambassador on September 29, that the objection to transfer of title of the ships was not chiefly their purchase by American neutrals but fear lest the payments would become credits usable abroad by the German Government.

A telegram of October 3, 5 p. m., from the Embassy in Mexico reports that the French Chargé expects today to deliver to the Mexican Government the information that his Government associates itself with the British Government in being "unalterably opposed" to any kind of transfer and would continue to consider any transferred German ships as belligerent vessels.

Shipping interests in the United States continue to be disturbed at the possibility that use might be made of transferred German ships and are inquiring as to any contemplated movements in this direction. Your radio address of yesterday¹³ appears to have given such interests

¹⁰ *Ante*, p. 32.

¹¹ *Ante*, p. 33.

¹² See memorandum *supra*.

¹³ For text, see *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics, Held at Panama, September 23-October 3, 1939* (Washington, Government Printing Office, 1940), p. 39.

reason to believe that transfers are to some extent likely in the near future.

In the circumstances we would greatly appreciate having your comment and any further information concerning the status of the possibility of such transfers being made in the near future. We would also appreciate having fuller information as to the provision mentioned in your radio address yesterday concerning a possible concentration of the refugee German merchant vessels under guard in some single American port.

HULL

862.852/18 : Telegram

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, October 4, 1939—6 p. m.
[Received October 5—8: 31 p. m.]

296. My 293, October 3, 5 p. m. The French Chargé has just informed me that he is going to communicate further with his Government before carrying out the instructions mentioned in my 293. His motives are (1) that he believes that opposition to the transfer to the Mexican flag of the two German tankers in Mexican ports would be taken amiss by the Mexican Government and (2) that it may not be to the interest of the French and British to endeavor to prevent a transfer of the other German ships in Mexican ports to American interests. He had learned that the possibility of transfer of some of these ships to Americans was mentioned in a conversation between the Ambassador and President Cardenas.

BOAL

862.852/24

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] October 5, 1939.

The British Ambassador came in at his own request. He said that he desired to make some further reference to the proposed safety zone around this hemisphere; that this would include the problem of how German merchant vessels, some eighty in number, now in American harbors, would be dealt with; that his Government would be averse to the sale of these vessels, for the reason, among others, that it would give the German Government a large amount of exchange to use abroad for all sorts of undesirable purposes. He then raised the question of transfer under legal requirements and asked whether it could be made legally. I did not go into details on this matter but threw out the tentative comment, which I described as tentative, to the effect that there would be serious difficulties in any event in carrying through a

completed legal transaction for the sale and transfer of these German vessels to other governments or individuals, and especially governments. I indicated to him that I would take the matter up further and acquaint him with any final impressions I might have. He then said that the effect of any policy of taking over these vessels in Pan American ports would be bad on other neutrals in whose ports German vessels in large numbers are now anchored, such as in the case of Holland. Germany, he said, could easily put pressure on Holland to do her wishes if such a policy of transfer should be adopted in Pan America. I stated to the Ambassador, in reply to a general remark of his, that there were no particularly new developments in the scope and nature of the proposed safety zone more than I had set forth in our previous conversation. I then repeated the substance of what I had said to the press within the last two days on this subject.

C[ORDELL] H[ULL]

740.00111 A.R./449 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

S. S. "SANTA ELENA," October 5, 1939—3 p. m.
[Received October 6—3:57 a. m.]

44. Your 45, October 4, 6 p. m. Paragraph H of article 3 of the general declaration of neutrality of the American Republics provides that the Governments of the American Republics "may concentrate and place a guard on board belligerent merchant vessels which have sought asylum in their waters, and may interfere with vessels¹⁴ which have made false declarations as to their destinations, as well as those which have taken an unjustified or excessive time in their voyage or have adopted the distinctive signs of warships".

This provision which was initiated by the Argentine representatives was intended to take care primarily of those republics which have extensive coast lines and which either now have or may have in their several ports German merchant vessels which have taken refuge and where the local police or naval authorities may not be sufficiently strong or numerous to cope with particular situations which may arise. The basic idea was to concentrate all such merchant vessels in a selected port where presumably the naval or police authorities would be sufficiently ample to take care of any emergency situation.

In my judgment the carrying out of such a provision in the cases mentioned would make it easier for the American Governments to maintain strict vigilance and supervision and to prevent the sudden egress of German merchant vessels for offensive purposes.

¹⁴ ". . . and may intern those . . .", *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá September 23-October 3, 1939*, p. 56.

As indicated in an earlier telegram I think it is probable that certain of the American Governments will take steps in this direction in the near future as a measure of self protection. Immediately after my return I will discuss with the President, the Department and the Navy Department the impressions I have obtained as to the desire and intentions of several of the American Governments with regard to the problem with which they are all confronted in connection with a relatively large number of German vessels which have taken refuge in their ports. I would recommend as a matter of expedience as well as of ultimate advantage that it be suggested to the British and French Governments that they should not undertake to crystallize their positions with regard to this problem until our own Government in particular has been afforded ample opportunity of discussing the whole situation with them and of giving full consideration to every factor in the problem. There are many possible ways in which the question could be handled and developed some of which would clearly have advantages in many directions but further discussion and interchange would be necessary before they could be defined.

It would be very difficult to set forth clearly by telegram the multitude of impressions which we have all of us obtained from our conversations with the representatives of the other American Republics in regard to this question. I am optimistic enough to believe that it can be worked out satisfactorily but I recognize that many exceedingly powerful interests are involved and considerable time and study would have to be given to it.

With reference to the penultimate paragraph of the Department's telegram the statement in my radio address of October 3 was merely a reference to a provision in the general declaration of neutrality which is of course applicable only in the light of certain clearly specified contingencies. There was no indication in my speech that such transfer of the flag is immediately likely although I am advised that the Mexican Government has transfer under very urgent consideration as a means of offsetting debts held by them in the form of frozen marks.

WELLES

862.852/28

*Memorandum of Conversation, by the Assistant Secretary
of State (Berle)*

[WASHINGTON,] October 6, 1939.

The Counselor of the Argentine Embassy ¹⁵ came in to see me today, at his request. He stated that his government had received a notice from the British government that transfer of German ships blockaded

¹⁵ Ricardo Bunge.

in Argentine harbors to the Argentine flag would not be recognized by the government of Great Britain. He indicated that the principal reason given was the fear lest the German government thereby be placed in funds in the Argentine. He asked what attitude we were taking.

I immediately showed him the memorandum of conversation between Mr. Mallet, Mr. Dunn and myself, dated October 2, 1939, relating to the British suggestion that we use our influence to restrain such transfers. I directed his attention particularly to the fact that I had pointed out to Mr. Mallet that the matter was primarily a matter between the British government and the governments of the countries involved; that if we had any right to make representations it could only arise as a result of a cooperative arrangement between the American governments. I added, however, that the matter had been the subject of some discussion at Panama; and that we might contemplate at least the possibility that a solidary and uniform attitude in these matters might be reached by all of us. I added that I understood the representations made by the British to the Argentine government were in line with those which had been made in Mexico; and that the French government had associated itself with these proposals.

I also invited attention to the suggestion which we were exploring, namely, that the British might possibly see their way clear to recognizing such transfers, provided the price of these vessels was held in escrow until the end of the war.

Dr. Bunge expressed appreciation. He said that he was informed from Buenos Aires that a law had been passed here supposedly under date of August, 1914, under and by which we arranged for the taking over of ships blockaded here and their transfer to our own flag. I said that I had no knowledge of such a law and that I thought that there might have been confusion with a part of our war legislation which did permit us to take over ships both building and actually in port; but that I would look the matter up and inform him of the state of our legislation in that regard.

He likewise adverted to the article in the *American Journal of International Law*, which includes a projected statement of neutral rights.¹⁶ In this is found a statement that any transfer from a belligerent flag to a neutral flag in time of war is presumed to be in bad faith unless the government to whose flag the ship is transferred can prove the contrary. This, he thought, was contrary to the settled rule of international law.

I confined myself to commenting that this rule had been widely insisted on by the British during the previous war and since they were actually a great naval power, I presumed that they would continue to insist on it.

¹⁶ See Editorial Comment, *American Journal of International Law*, vol. IX, pp. 167, 195.

Dr. Bunge concluded by asking whether I could make up a little bibliography of the American text writing and opinion relating to the transfer of belligerent ships to neutral flags, which he might send to his government. I told him I would be very happy to ask the Legal Adviser's office if they would make up such a list, which I should be glad to send him.¹⁷ I gathered that he wished merely a list of the outstanding articles, books or statements, if any, which had appeared on the point.

A. A. BERLE, JR.

862.852/28a : Telegram

The Secretary of State to the Under Secretary of State (Welles), on Board the S. S. "Santa Elena"

[WASHINGTON,] October 6, 1939—7 p. m.

51. From Duggan.¹⁸ The Chargé d'Affaires at Mexico City reports that the French Chargé states privately that he is going to communicate further with his Government before carrying out the instructions to inform the Mexican Government of the unalterable opposition of his Government to the transfer of German vessels to neutrals, because (1) he believes that opposition to the transfer to the Mexican flag of the two German tankers in Mexican ports would be taken amiss by the Mexican Government and (2) it may not be to the interest of the French and British to endeavor to prevent a transfer of the other German ships in Mexican ports to American interests. (The Chargé may have received new instructions from his Government after the desirability was pointed out to the French Ambassador here of very careful consideration of this matter before reaching a fixed decision.)

The Chargé d'Affaires at Mexico City also reports that the Chilean Embassy there has received instructions from the Chilean Government to seek full particulars regarding the capacity, tonnage, et cetera, of German tankers in Mexican harbors, and he suggests that some offer for the use or acquisition of these tankers may have been made by the German Government to the Chilean Government.

In response to our request, Trippe¹⁹ accompanied by Vice President Rihl called at the Department yesterday to discuss Panair's situation in Colombia. They agreed to do everything possible to conclude the reorganization of Colombian air lines, Rihl to go to Bogotá arriving about October 15. They were told that it seemed preferable to dispense with Von Bauer's services in the new organization and that the de-Germanizing of SCADTA should be continued. I believe Rihl

¹⁷ This list was handed to the Counselor of the Argentine Embassy by Assistant Secretary Berle on October 12 (800.852/207a).

¹⁸ Laurence Duggan, Chief of the Division of the American Republics.

¹⁹ Juan Terry Trippe, president of Pan American Airways.

will do his best to clarify the situation, but that he may be reluctant to dispense with Von Bauer's services unless urged further. Braden²⁰ is being fully posted by airmail.

Mr. Hurley²¹ has informed the Secretary that he has advised his clients to suspend separate negotiations with the Mexican Government at this time because of his belief that President Cardenas is now working on a proposal which Castillo Najera²² will bring back to Washington with him.

The following telegram has been received from the Ambassador at London:

(Here quote telegram no. 1936, October 5, 4 p. m. from London (2 sections).)²³ [Duggan.]

HULL

862.852/25

*The Minister in the Dominican Republic (Norweb) to the
Secretary of State*

No. 933

CIUDAD TRUJILLO, October 7, 1939.

[Received October 9.]

SIR: I have the honor to refer to the Legation's despatch no. 901 of September 19, 1939 and to report further developments regarding the interest of the Compañía Naviera Dominicana, C. por A., in acquiring German vessels.

Mr. H. N. Hansard, the administrator of the Trujillo owned company, again brought the subject up in a conversation with an officer of the Legation and stated that it had been determined that the vessel under consideration was one of the Horn Line ships now in Curacao. It was intimated that the bill of sale had already been drawn up before it was discovered definitely that the ship was German. Hansard made a point of stating that as soon as he learned that the ship was German he wished to drop the matter completely and consequently he was looking for an excuse to do so, implying that he had reluctantly pursued the matter thus far under orders from his chief.

Nevertheless, interest is still evinced in the possibility of acquiring a German vessel at a bargain and evidently the subject was brought up in order to sound out the attitude which the Legation might take in the event that the purchase were effected and also as a possible means of settling in their own minds whether or not they could take

²⁰ Spruille Braden, Ambassador in Colombia.

²¹ Patrick J. Hurley, representative of five Mexican companies affiliated with the Sinclair Company.

²² Francisco Castillo Najera, Mexican Ambassador.

²³ *Post*, p. 85.

advantage of this opportunity within the scope of the arrangements made at Panamá on this subject.

It may be added in conclusion that this might have been one of the subjects discussed by Hansard with General Trujillo during his recent sudden and unexpected trip to the United States referred to in page 7 of the memorandum to despatch no. 928 of October 5, 1939.²⁴

Respectfully yours,

R. HENRY NORWEB

862.852/27 : Telegram

The Chargé in Mexico (Boal) to the Secretary of State

[Extract]

MEXICO, October 10, 1939—1 p. m.

[Received 4:06 p. m.]

305. Suarez advised October 9, that in reference to his offer to purchase the two German tankers now in Mexican ports the German Legation told him that its answer to his proposal would be delayed until the outcome of Hitler's peace proposals became evident. . . .

BOAL

862.852/29 : Telegram

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, October 11, 1939—5 p. m.

[Received 11:17 p. m.]

307. My telegram No. 296, October 4, 6 p. m. The French Chargé d'Affaires yesterday received from his Government instructions regarding the question of transfer of belligerent vessels which he says leaves him ample latitude to deal cautiously with the matter in talking with members of the Mexican Government. He says that he saw Beteta this morning and explained to him that any transfer of German vessels to Mexican registry might raise certain problems for the British and French Governments. Beteta replied that he was aware of this; that the Mexican Government was anxious to acquire these vessels (two tankers) and that when they found a way of doing so he would consult with the French Chargé d'Affaires regarding the method in order to obtain the concurrence therein of the British and French Governments.

I also saw Beteta today and in the course of the conversation he told me that while the Mexican Government was taking every precaution regarding belligerent activities in Mexico they realize that as a Government they might not always have full information regarding what was going on. Any information which might reach our Embassy

²⁴ Not printed.

even if it were only a rumor regarding unneutral activities would be of interest to him as it would give him an opportunity to check up to ascertain the facts.

I would appreciate telegraphic instructions as to whether it is desired that any of the information now currently reaching the Embassy should be communicated to Beteta. I believe it would be best except in cases of extreme urgency if it is desired that anything should be communicated that this should be done only after it has been coordinated in Washington with information from other sources. Thus the Department could telegraph Embassy what it wished to have communicated to Beteta as information is received from all sources and coordinated.

BOAL

862.852/36 : Telegram

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, October 18, 1939—8 p. m.

[Received 10:06 p. m.]

329. Refer Embassy's telegram 280, September 26, 5 p. m. Suarez said that Germany so far was delivering merchandise according to asserted agreements and that until a default occurred he could not take any measures to seize German ships. He said that Germany is delivering the merchandise to Mexican Consulates in neutral ports mentioning particularly Rotterdam. He said that such procedure placed the merchandise under Mexican ownership before its departure from neutral ports. Suarez said Germans had notified him that they were ready to deliver to Rotterdam 1,000 tons cast-iron pipe; 200 tons steel pipe; two suction dredges; one turbine and one mariposa valve. Structural bridge steel at Vigo, Spain being transferred to Italian vessel for Mexican delivery. Remainder of structural steel is to be delivered to Holland for transshipment to Mexico.

BOAL

862.852/42

Memorandum of Conversation, by the Assistant Secretary of State (Berle)

[WASHINGTON,] October 23, 1939.

The French Ambassador, Count de Saint-Quentin, called to see me today, at his own request.

He said that he had merely come to inquire whether anything further had happened in regard to the proposed transfer of German ships blockaded in Latin American harbors to the neutral flags of the countries in which they were blockaded.

I said that so far as I knew there had been no change in the *status quo*, though certain governments had continued to discuss the matter among themselves and had been good enough to keep us informed.

The Ambassador said that he had naturally sent along to Paris our suggestion that we consider the possibility of transfer of these vessels to neutral flags, payment being held in escrow until the end of the war, for study, but had no reply as yet.

I said that we had not felt under any great pressure of time in that regard; and I reminded him that at the time the suggestion was made it was in view of the possibility that shipping losses might be so great as to result in a shortage of bottoms for the Atlantic Trade. I had gathered that no government desired to precipitate action in this regard. I said, however, that in the event that further proposals by Latin American governments to acquire blockaded shipping were presented to us, I should be glad to try to keep him generally informed. We had repeated to the governments which had discussed the matter with us the substance of the French and British objection to the transfer; and it was our general view that if anything were worked out it would come better as a matter of general agreement. For the present, however, there was no change in the *status quo*.

The Ambassador asked whether there would not be a competent group to determine it and whether the proposed Committee of Seven emerging from the Panama Conference would not be an appropriate body. I said I thought that this very likely was so.

A. A. B[ERLE, JR.]

862.852/53

Memorandum by the Assistant Chief of the Division of the American Republics (Bursley) to the Chief of the Division (Duggan)

[WASHINGTON,] November 1, 1939.

Mr. Truelle²⁵ of the French Embassy spoke to me yesterday in your absence from your office. He said that his Government had information to the effect that Mexico was about to acquire from Germany all of the German vessels now in Mexican waters with the exception of the *Columbus* as an offset to the five million marks credit established in Germany by Mexico in connection with oil shipments. Mr. Truelle did not seem to know whether the marks in question were of the gold or some other variety.

I gave him some general information such as might be available to anyone who has carefully followed the Mexican and American press, and in reply to his specific inquiry as to whether we knew of the conclusion of any deal between the Mexican and German governments

²⁵ Jacques Truelle, French Minister, and Counselor of Embassy.

respecting some or all of the vessels in question, I said that so far as I knew no definite arrangements had been made.

He said he would appreciate being informed should we learn of the conclusion of any arrangement of this character.

The last information I have indicated that the British and French governments had not been receptive to any ideas of acquisition by Mexico or other American republics of German vessels, and I would therefore appreciate instructions as to whether, in the event we receive information of the reaching of an agreement between Germany and Mexico in this matter, I should inform Mr. Truelle.

H[ERBERT] S. B[URSLEY]

862.852/45

*Memorandum of Conversation, by the Assistant Secretary of State
(Grady)*

[WASHINGTON,] November 3, 1939.

Participants: Mr. Daniel P. McDonald, Counselor at Law, New York City

Mr. Henry F. Grady

Mr. William R. Vallance²⁶

Mr. McDonald called on me this morning, at the suggestion of Mr. Saugstad²⁷ and Mr. Vallance. Mr. McDonald said that he represented interests in New York who wish to buy the German ships interned in Latin American ports. He had approached the German Embassy and had been given encouragement. He had attempted to see Sir Owen Chalkley²⁸ at the British Embassy but it was intimated that he could not discuss matters of this kind with any one in authority unless he were introduced through officials in the Department of State. He asked me if I could arrange for an appointment for him. He said the purpose of the purchase was to put the ships into the trans-Atlantic trade for carrying cargo to the British and French and that the ships would be registered under the Panama flag. I told him that I would give thought to the matter and let him know.

After consulting with Mr. Moffat²⁹ and Mr. Hackworth,³⁰ I telephoned Mr. McDonald at his hotel and advised him that I would be unable to arrange an introduction to Sir Owen Chalkley.

H[ENRY] F. G[RADY]

²⁶ Assistant to the Legal Adviser.

²⁷ Jesse E. Saugstad, Assistant Chief, Division of International Communications.

²⁸ Commercial Counselor of Embassy.

²⁹ Jay Pierrepont Moffat, Chief, Division of European Affairs.

³⁰ Green H. Hackworth, Legal Adviser.

862.852/51

*Memorandum of Conversation, by the Assistant Secretary of State
(Berle)*

[WASHINGTON,] November 8, 1939.

Mr. William K. Jackson,³¹ together with the Washington representative of the United Fruit Company, came in to see me yesterday, at Mr. Jackson's request. He wished the assistance of the Department in the following manner:

The United Fruit Company owns the Unida Company, a German corporation. This subsidiary owns a ship, the *Wesermunde*, which is under the German flag and is now blockaded in Curaçao. United Fruit wishes to transfer this to the Honduran flag; says it has the consent of the German government; wishes to have the transfer recognized by the British government, and wants our assistance.

I told him that I did not see that we could intervene in the matter. The ship had never been American and was not coming to American registry. While it was true that we had at various times endeavored to give assistance on the basis of mere ownership of stock, I thought it unwise, in a single situation, to set up the precedent that the Government would intervene with one belligerent to secure recognition of transfer from an opposing belligerent to a neutral flag.

I added that I thought it not impossible that the problem of all of the German blockaded ships and their transfer might come up eventually; further, I noted the British objection to any transaction which might make foreign exchange available to the Germans.

Mr. Jackson said that since this was a mere book transfer, with no money coming to the Germans, he thought everything was all right. I said that in that case his assurances to the British probably would be more persuasive than ours, since it was obviously impossible for us to check through the very long ramifications of the United Fruit Company financing and thus be able to give our assurance to the British that the Germans would not be advantaged by the transfer.

I added that of course we had not any objection to the Company's making any representation to the British Embassy which it cared to do.

The United Fruit Company was not particularly happy about this, but they accepted the situation. I should be inclined to think that they may ask further consideration of the matter.

A. A. BERLE, JR.

³¹ Vice president of the United Fruit Company.

862.852/49

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

No. 139

SANTIAGO, November 8, 1939.

[Received November 14.]

SIR: Apropos of the reports in the press concerning the prospective purchase by the Chilean Government of some German ships now in Chilean ports, I have the honor to report that Mr. Frost²² has discussed the matter with Under Secretary of Commerce Señor Cayetano Vigar, who admits that the Chilean Government, soon after the beginning of the war, suggested to the German Government its desire to purchase these ships. It appears that Señor Vigar, under whose jurisdiction the maritime section of the Foreign Office falls (the Chilean Maritime Commission), is in active charge; though he was vague as to where the plan initiated.

He reports that the German Government has been most unresponsive and up to the present moment appears to be entirely indifferent, and that there have been no new developments to indicate that the proposal is receiving serious consideration by the Germans. He went so far as to speculate on what Germany's ultimate aims may be which may explain Germany's apparent indifference, and mentioned the possibility that the German merchant fleet may be given Russian registry.

It appears that but three of the six German ships in Chilean ports were of interest to the Chilean navigation companies, namely, the *Frankfurt*, the *Dusseldorf*, and the *Dresden*; the others being too large (such as the *Osorno*) or too small (such as the *Prinwall*). The *Dresden* has now left Chilean waters presumably on its way to Vladivostok. Señor Vigar has the idea that the *Frankfurt* and the *Dusseldorf* might be worth something like 100,000 pounds sterling each. If Germany will sell, he thought the funds could be secured partly by the Corporation of Fomento, partly by the Ministry of Fomento, and partly through loans floated by the already water-logged Junta de Exportación Agrícola. Marks are gradually becoming available in moderate quantities from the non-arrival of goods ordered in Germany.

To sum up, however, it seems that at present nothing in the way of a sale is in prospect, despite the press reports.

Respectfully yours,

CLAUDE G. BOWERS

²² Wesley Frost, Counselor of Embassy.

862.852/44 : Telegram

The Consul at Curaçao (Ocheltree) to the Secretary of State

ARUBA, November 9, 1939—10 a. m.
[Received 12:40 p. m.]

10. According to the British Consul who arrived yesterday from Curaçao Macauley of the New Orleans office of the United Fruit Company is now at Curaçao arranging to transfer their vessel, the German steamship *Wesermunde*, to the Panamanian flag.

He said the steamer *Macabi*, Panamanian flag, owners United Fruit Company, proceeded from Aruba to Curaçao loading cargo from German vessels. This consisted of German shipments of pipe, et cetera, belonging to United Fruit Company and some materials for the construction of the Casa Presidencial at San José, Costa Rica. British authorities did not raise any objection to these transshipments.

OCHELTREE

862.852/52

The Consul General at Rio de Janeiro (Burdett) to the Secretary of State

No. 757

RIO DE JANEIRO, November 10, 1939.
[Received November 16.]

SIR: I have the honor to refer to the report from this office dated October 6, 1939, entitled "Method of Transferring Foreign Vessels to the Brazilian Flag",³³ and to inform the Department that it has now been ascertained, from a reliable source, that the Hamburg-South American Line at Rio de Janeiro has taken steps to transfer certain German vessels to the Brazilian flag.

It appears that about two months ago, a Brazilian born in the State of Santa Catharina of German parents, whose name is unknown at present, registered with the Brazilian authorities as the active partner of a firm organized under Article 231 of Decree No. 220-A of July 3, 1935. This man is said to have provided 10 contos of the capital for the new firm, while 1,000 contos was obtained from the Rio de Janeiro branch of the Hamburg-South American Line, acting as the inactive partner. The new firm has applied to the Maritime Administrative Tribunal for permission to effect the registry under the Brazilian flag of certain ships belonging to it, and it is understood that this permission will probably be refused.

It may be noted that three of the four German ships now at this port (the *Santos*, *La Coruña* and *Bahia Blanca*) belong to the Ham-

³³ Not found in Department files.

burg-South American Line. Further details will be made available to the Department as soon as practicable.

Respectfully yours,

WILLIAM C. BURDETT

862.852/54

The Minister in Honduras (Erwin) to the Secretary of State

No. 861

TEGUCIGALPA, November 13, 1939.

[Received November 20.]

SIR: I have the honor to report that I was informed today by Mr. Harold Darlington, British Vice Consul in Tegucigalpa, that it has been reliably reported the German freighter *Wesermunde*, at present at Curaçao, West Indies, is negotiating for a change of registry to the Honduran flag. The new name this vessel will take is *Chirropo*, according to this report.

It is believed that the effort to change to Honduran registry at this time is motivated by the fact that the ship is now in a port controlled by the Dutch and that this step is being taken as protection for the German owners in the event the Netherlands break relations with Germany.

Respectfully yours,

JOHN D. ERWIN

862.852/61

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

No. 177

SANTIAGO, November 27, 1939.

[Received December 5.]

SIR: With reference to the Embassy's despatch No. 139 of November 8th last, I have the honor to report that newspaper articles apparently based on statements secured at the Foreign Office have now appeared to the effect that Chilean negotiations for the acquisition of the S. S. *Frankfurt* and the S. S. *Dusseldorf* reached a stalemate on the 24th instant. The German Ambassador, accompanied by his counselor, conferred extensively with the Minister for Foreign Affairs and the Under Secretary of Commerce on that day; and the state[ment] was thereupon published that the negotiations had been terminated because of disagreement as to prices. It was intimated that the Chilean Government has not abandoned its intention of acquiring additional ships for the expansion of its merchant marine, and might undertake negotiations with other countries. The Under Secretary of Commerce had discussed the matter informally with a member of my staff a day or two earlier, and indicated the possibility that the purchase of American merchant ships might be considered if the prices should not prove

to be too high. He mentioned that ships not to exceed 7,000 gross tons would be desired, and that refrigeration facilities would be a consideration. In a subsequent press interview, however, Señor Vigar has stated that the war dangers to navigation in Europe are driving abundant tonnage into the South American trade, so that Chile will not need to concern herself as to purchasing merchant ships. Conceivably the Chilean attitude may be based on the thought that the German prices on the two vessels in question may yet be brought to a level which would permit a transaction.

Respectfully yours,

CLAUDE G. BOWERS

862.852/57.

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 9553

MEXICO, November 27, 1939.

[Received November 29.]

SIR: I have the honor to record below a conversation between Finance Minister Suarez and the Commercial Attaché on November 27, 1939. The Commercial Attaché reports as follows:

"I asked Minister Suarez when he expected to receive his three tankers from Italy and the two tankers from Norway. Minister Suarez answered that he had just sent a man to Italy for the purpose of making arrangements to receive the first tanker in January, the second in February and the third in March. He said that the three tankers had a capacity of 12,000 tons each. In regard to the Norwegian tankers, Minister Suarez said that they would arrive in December or January and also had a capacity of 12,000 tons each. Without any questioning the Minister said that he would soon own the German tanker *Tine Amussen* now at Puerto Mexico. I asked him if the German Government had agreed to make the sale and he replied that it had and that its consummation only depended upon an agreement in price. The Minister stated that he had offered the German Government 250,000.00 dollars whereas the seller was requesting Dlls. 350,000.00. Minister Suarez stated that the Mexican Government would pay more than it had offered and that in view of the reduction of duties on petroleum in the Venezuelan treaty, he would telephone Mr. Silva Herzog to make the purchase as soon as possible. Minister Suarez laughed when he said that he would have the American Navy to protect his German tanker plying between Mexican and American Gulf ports. The Minister said that it would be necessary to pay cash in dollars for the tanker.

"In speaking of petroleum deliveries to the United States he said that the petroleum and its derivatives now at Eastern States or stored in the United States would have to be re-exported and sold to other countries. He said, however, that if conditions continued as they are he would find it necessary to ship petroleum to the United States, pay the regular import duty and sell it upon the American market."

Respectfully yours,

JOSEPHUS DANIELS

862.852/60: Telegram

The Consul at Tampico (Collins) to the Secretary of State

TAMPICO, December 2, 1939—noon.

[Received 1:49 p. m.]

A contact reports that the first officer of the *Orinoco* yesterday informed him that negotiations are in progress for sale of the German vessels at Tampico to American interests and that the *Orinoco's* captain and chief engineer are at Mexico City or Villa Acuna Coahuila in this connection.

Repeated to the Embassy.

COLLINS

862.852/63

Memorandum of Telephone Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] December 22, 1939.

Mr. Pierre Boal, Counselor of the Embassy in Mexico City, stated that Señor Fernandez del Castillo had informed him that he had sounded out the German Minister with regard to the purchase of the seven German ships still remaining in Mexican waters. The German Minister was said to have replied that if a "fair offer" were made, it would probably be accepted.

862.852/62

The Ambassador in Brazil (Caffery) to the Secretary of State

No. 2290

RIO DE JANEIRO, December 29, 1939.

[Received January 4, 1940.]

SIR: I have the honor to report that the Director of Exchange of the Bank of Brazil informs me that Major Napoleão Alencastro Guimarães, Chefe do Gabinete of the Ministerio da Viação e Comunicações, is interested in purchasing German freight ships now tied up in Brazilian and other South American ports. The Director feels that the Brazilian Government will not sanction the transaction owing to the possibility of future complications with the British and French Admiralties.

Respectfully yours,

For the Ambassador:
WALTER J. DONNELLY
Commercial Attaché

VIOLATIONS BY THE BELLIGERENTS OF THE SECURITY
ZONE ESTABLISHED BY THE DECLARATION OF
PANAMA¹

740.00111 A.R./444 : Telegram

*The Ambassador in the United Kingdom (Kennedy) to the Secretary
of State*

LONDON, October 5, 1939—4 p. m.
[Received October 5—1 p. m.]

1936. Strictly personal for the President and the Secretary. Churchill sent for me this morning and following our talk sent me the following communication:

“My Dear Ambassador. The inclosures cover our conversation this morning. Yours sincerely, Winston S. Churchill.”

I am sending memorandum enclosed with Churchill's note.
The following from Naval Person:²

[“] We quite understand natural desire of United States to keep belligerents out of their waters. We like the idea of a wide limit of say 300 miles within which no submarines of any belligerent country should act. If America requests all belligerents to comply, we should immediately declare that we would respect your wishes. General questions of international law would of course remain unprejudiced. More difficulty arises about surface ships, because if a raider operates from or takes refuge in the American zone, we should have to be protected or allowed to protect ourselves. We have mentioned several other instances to Mr. Kennedy. We do not mind how far south the prohibited zone goes, provided that it is effectively maintained. We should have great difficulty in accepting a zone which was only policed by some weak neutral. But of course if the American Navy takes care of it, that is all right.

Thirdly, we are still not sure whether raider off Brazil is *Scheer* or *Hipper*, but widespread movements are being made by us to meet either case. The more American ships cruising along the South American coast the better, as you, Sir, would no doubt hear what they saw or did not see. Raider might then find American waters rather crowded, or may anyhow prefer to go on to sort of trade route, where we are preparing.

We wish to help you in every way in keeping the war out of Americas.”

¹ For text of the Declaration of Panama, see p. 36.

² Code words used for Winston S. Churchill, First Lord of the Admiralty.

Following is note from Admiral Phillips who was present at the conversation with Churchill.

"My Dear Ambassador: In accordance with our conversation this morning, I enclose a short note on points which may arise concerning the Panama Conference proposal for a zone round the United States and South America. Yours Sincerely T. S. V. Phillips."

Following is memorandum enclosed with Admiral Phillips' note.

"While the proposal in general is welcomed, the following points will need attention.

(1) From the point of view of international law, it would obviously be necessary to make it clear that British assent to the proposal was not any precedent and did not imply a recognition of a right on the part of a neutral to exclude belligerents from operating anywhere on the high seas (i. e. outside the 3-mile limit).

(2) It would naturally be necessary for belligerent forces to have free access to their own or allied territory and territorial waters within the zone.

(3) It would be a fundamental part of the scheme that it should be effective, i. e. not only that enemy action against territory, forces or shipping should be prevented, but also that the use of the area as a sanctuary in which raiders or supply ships might take refuge should be prevented. The question of the use of the area as a sanctuary is clearly very important because, unless such action were prevented, it would clearly facilitate greatly the operations of enemy raiders in areas outside the zone.

(4) The extent of the zone to be finally accepted would presumably be linked up with the possibilities of effective enforcement.

(5) The conversion of belligerent merchant ships into warships in ports within the zone would presumably be prevented.

(6) It would naturally be necessary that a belligerent should retain the right to continue a pursuit of the forces of his enemy into that area, because otherwise the existence of the zone might frequently enable a raider to escape destruction and subsequently emerge from the zone to re-commence raiding in some other area.

(7) We should of course hope to obtain any information concerning the movements of enemy forces within the area since otherwise the operation of the scheme would greatly reduce the possibilities of obtaining such information for ourselves.

(8) The question of enemy merchant ships is also of some importance because the number now interned in various American ports might presumably, under the safety given by the scheme, resume trading on the American continent, so earning considerable quantities of foreign currency. Such trading would presumably in any case not be allowed unless the Germans themselves had accepted the scheme and respected it."

KENNEDY

740.00111 A.R./7411

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] November 14, 1939.

The British Ambassador ³ called to see me this morning by appointment in order to have our first preliminary exchange of views with regard to the attitude of the British Government concerning the Declaration of Panama.

I told the Ambassador that a digest had been made of the salient points in the communications sent on October 5 by Mr. Winston Churchill and Admiral Phillips to Ambassador Kennedy in London,⁴ and that I would read to him these points together with the opinion of this Government regarding each of the points listed:

I

Point 1: “. . . If America requests all belligerents to comply, we should immediately declare that we would respect your wishes.”

Answer: At the time the declaration was approved by the Conference, a resolution was adopted requesting the President of the Republic of Panama to transmit the declaration to the belligerent governments involved in the present war in Europe in the name of all the Republics of America. This was done on October 4, 1939, and is to be considered as a communication not only from this Government but from all the other American Republics. It is, of course, the wish and expectation of this Government that all belligerents shall respect the declaration.

Point 2: “General questions of international law would of course remain unprejudiced.”

Answer: It was not the purpose of the American Republics in adopting the declaration to prejudice international law but rather it was their purpose, as a practical matter, to assert first, that as long as they maintained their neutrality, the war in Europe, in which they were not involved, should not jeopardize their rights to self-protection nor interfere with or destroy normal relations between them; and second, that belligerent activities undertaken by the European powers should not take place within waters adjacent to the American continent which embrace normal inter-American maritime communications. We do not consider that this is to be regarded as prejudicial to international law, and that Mr. Churchill's statement is in the nature of a reservation.

Point 3: “More difficulty arises about surface ships, because if a raider operates from or takes refuge in the American zone, we should have to be protected or allowed to protect ourselves.”

Answer: It is, of course, the purpose of the American Republics that the zone be respected by all belligerents and, hence, that belligerent operations by raiders within the zone no less than operations

³ The Marquess of Lothian.

⁴ See telegram *supra*.

by any other vessel will not be permitted. In case the zone is not respected, the matter will become the subject of consultation between the American Republics.

Point 4: "We do not mind how far south the prohibited zone goes, provided that it is effectively maintained. We should have great difficulty in accepting a zone which was only policed by some weak neutral. But of course if the American navy takes care of it, that is all right."

Answer: The zone extends south to 58° south latitude and applies to both sides of the continent. It is the purpose of the governments whenever they may determine that the need therefor exists, to patrol either individually or collectively as may be agreed upon by common consent, and in so far as the means and resources of each may permit, the waters adjacent to their coasts within the area defined in the declaration. The United States cannot, of course, give assurances that the American Navy alone will patrol the entire area but it is expected that the United States Navy will participate whenever necessary in any patrol that may be undertaken.

II

The points raised by Admiral Phillips might be answered as follows:

Point 1: "From the point of view of international law, it would obviously be necessary to make it clear that British assent to the proposal was not any precedent and did not imply a recognition of a *right* on the part of a neutral to exclude belligerents from operating anywhere on the high seas (i. e. outside the three mile limit)."

Answer: The United States perceives no objection to the adoption of such an attitude by the British Government, but it perceives no good reason why belligerent operations should be conducted in waters adjacent to the American continent to the great danger of the neutral American countries which, while maintaining positions of neutrality, are of right entitled to pursue their normal peacetime trade and commerce in waters adjacent to their shores.

Point 2: "It would naturally be necessary for belligerent forces to have free access to their own or allied territory and territorial waters within the zone."

Answer: The second paragraph of Point 1 of the declaration makes specific exception for territorial waters of Canada and of the undisputed colonies and possessions of European countries within the limits of the described zone.

Point 3: "It would be a fundamental part of the scheme that it should be effective, i. e., not only that enemy action against territory, forces or shipping should be prevented, but also that the use of the area as a sanctuary in which raiders or supply ships might take refuge should be prevented."

Answer: The purpose of the declaration is to prevent all hostile acts by any non-American belligerent nation. This would preclude the use of the area as a sanctuary or place of refuge. It is expected that through consultative collaboration the plan should be placed in as

fully effective operation as is possible to the end that hostile acts by any belligerent would be repressed and that there would be full enforcement of the obligations of neutral American states with respect to assistance in any manner to raiders by use of supply ships or otherwise, so as to preserve the area free from unneutral activity.

Point 4: "The extent of the zone to be finally accepted would presumably be linked up with the possibilities of effective enforcement."

Answer: The declaration does not contemplate specific acceptance by belligerent nations but rather compliance by them with its purposes, namely, to refrain from the commission of any hostile act within the area. The zone has been delimited in the declaration. It is this zone that the American Republics expect the belligerents to respect. The question of effective enforcement will not arise unless some belligerent fails to respect it, in which event the measures to be adopted will be decided after consultation.

Point 5: "The conversion of belligerent merchant ships into warships in ports within the zone would presumably be prevented."

Answer: Naturally such acts being in contravention of the neutrality of the American Republics will be prevented. A specific provision on this question is contained in paragraph 3 (e) of the General Declaration of Neutrality of the American Republics, approved October 3, 1939,⁵ wherein the American Republics resolve to prevent on their respective territories the fitting out, arming, or augmenting of the forces or armament of any ship or vessel to be employed in the services of one of the belligerents.

Point 6: "It would naturally be necessary that a belligerent should retain the right to continue a pursuit of the forces of his enemy into that area, because otherwise the existence of the zone might frequently enable a raider to escape destruction and subsequently emerge from the zone to recommence raiding in some other area."

Answer: This Government does not consider that legitimate hot pursuit begun outside the area and continued in the area would be in contravention of the purposes of the declaration.

Point 7: "We should of course hope to obtain any information concerning the movements of enemy forces within the area since otherwise the operation of the scheme would greatly reduce the possibilities of obtaining such information for ourselves."

Answer: It can hardly be expected that the American Republics would give to one belligerent information regarding operations within the area of the vessels of another belligerent except to the extent that such information might be obtained from public announcements made by one or more of the American Republics at the time. To communicate information to an opposing belligerent would place the American Republics in the position of compromising their neutrality.

Point 8: "... enemy merchant ships ... because the number now interned in various American ports might presumably, under the

⁵ See *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá September 23-October 3, 1939*, p. 54.

safety given by the scheme, resume trading on the American continent, so earning considerable quantities of foreign currency. Such trading would presumably in any case not be allowed unless the Germans themselves had accepted the scheme and respected it."

Answer: There has been no decision by the American Republics or, so far as this Government is informed, by any one of them, concerning the action to be taken with respect to belligerent merchant vessels in ports of the American Republics. It is to be supposed that if such vessels are allowed to trade between ports of the American Republics they will be permitted to do so only on condition of strict observance of the neutrality of the American Republics and with proper respect to the neutrality of the area in question, and on condition that their governments shall likewise respect the neutrality of the area.

The Ambassador requested clarification of certain of the opinions of this Government as I read them to him, but although he had received voluminous instructions, which he had with him, he raised no points of any significance in addition to those contained in Mr. Churchill's communications.

The Ambassador requested my interpretation of Point 1 of Mr. Churchill's memorandum, and I stated that it seemed to me that it was hardly appropriate for me to undertake to interpret what seemed to be a very clear and concise statement of the British First Lord of the Admiralty. I said that it seemed that there could only be one interpretation given, namely, that the British Government signified its intention to respect the provisions of the Declaration of Panamá provided the other belligerents likewise undertook to respect the terms of the declaration. The Ambassador stated that he had not yet received from his Government copies of the Churchill communications and that his instructions did not go so far as the assertion contained in Point 1 of Mr. Churchill's memorandum.

With regard to the final point, namely, the question of German merchant vessels which had taken refuge in ports of the American Republics, the Ambassador read to me a memorandum sent to him by his Government, of which he promised to furnish me a copy and which copy is attached herewith.⁶ I inquired in this connection what the attitude of the British Government would be in the event that some American government, which had owing to it a considerable volume of blocked marks in Germany which it could not utilize and which it could not take out of Germany in the form of goods, determined to take over German merchant vessels in its ports as payment for such amounts owing to it. The Ambassador replied that he would assume that if such action were taken unilaterally the British Government would respect the transfer of flag resulting from such action, but

⁶ A notation at the bottom of the page reads: "12-22-39. Memo not yet received."

that he would inquire of his Government what their definitive opinion might be and give me a reply accordingly.

S[UMNER] W[ELLES]

740.00112 European War 1939/792

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

[WASHINGTON,] December 6, 1939.

The British Ambassador called to see me this afternoon. I told the Ambassador that there had been brought to my attention certain complaints on the part of the governments of the other American republics that ships plying from one American port to another in the Western Hemisphere, when they stopped at the British possessions of Barbados and Trinidad, had been unduly detained on the ground that the British authorities in those parts desired to assure themselves that no shipments were being made from one American republic to another involving firms or individuals on the British black list. I said that it had also come to my attention that German ships might have been attacked and sunk within the restricted zone proclaimed in the Declaration of Panama. I said to the Ambassador that I was making no representations in the matter and that I would request him to regard this part of our conversation as strictly informal and unofficial, but that I did want to point out that if it was generally understood on the Western Hemisphere that Great Britain had been responsible for a disregard of the zone prescribed in the Declaration of Panama and was undertaking to interfere with ordinary commercial or maritime communications between one American republic and another, I was very confident that there would be a general outburst antagonistic to Great Britain throughout the continent. I said that I was making these observations in a preliminary fashion, and that I had requested an immediate report with regard to the allegations as to the interference with shipments from one American republic to another. I told the Ambassador that if I had any positive information on this point, I would seek an opportunity of speaking with him further.

S[UMNER] W[ELLES]

740.0011 European War 1939/1283

Memorandum of Trans-Atlantic Telephone Conversation¹

[WASHINGTON,] December 14, 1939.

Minister Edwin C. Wilson called Mr. Duggan by long distance telephone on Thursday, December 14, and stated that he would like to give

¹ Between Mr. Wilson in Montevideo and Mr. Duggan in Washington.

him a little information about the naval engagement off the coast of Uruguay yesterday.⁸

MR. WILSON: Briefly, as you will see from the message we are sending up, the best information which we obtained from the British Legation, the local maritime authorities here and other sources, is as follows: About six o'clock yesterday morning off the northeastern coast of Uruguay the British cruiser *Achilles*, the *Ajax* and the *Exeter*, the latter of which was engaged in convoying a French merchant vessel, came into contact with the German pocket battleship *Graf von Spee*. The *Exeter* was damaged and the *Von Spee* made off. Then late yesterday afternoon, between 7 and 9 o'clock, off the place called Punta de Este, well outside Uruguayan territorial waters, two further engagements occurred, in which both the *Graf von Spee* and the *Ajax* were damaged. The *Graf von Spee* came into the port of Montevideo about midnight last night and I was down to see her this morning. She is about 200 yards off shore. One of the secretaries is now out in a launch going around her to look her over. The casualties on the *Von Spee* are 36 dead, 48 wounded on board the ship, and one wounded man has been brought ashore into a military hospital.

The *Ajax* and the *Achilles* pursued the *Von Spee* up to the Uruguayan territorial waters and they are now believed to be lying about twenty-five miles off shore. It is not known whether the *Exeter* is also there or whether she has made off to the Falkland Islands for repairs. She was badly damaged. We have been told in confidence by the maritime authorities here that the *Von Spee* has received permission to remain in port forty-eight hours and that this time may be extended if necessary to make further repairs. It is of interest to note that the Uruguayan law makes no distinction between repairs on account of gunfire damages and those from natural causes.

That is the most reliable information which I have been able to get. I have asked the Naval Attaché to come over from Buenos Aires by plane, if possible, and we will try to check up and let you know more during the day.

There were rumors all day yesterday about the battle, but late yesterday afternoon the Foreign Office and the German Legation were entirely without any knowledge and it was only later in the night that the reports of what seems to have been the most serious engagement off Punta de Este came in.

MR. DUGGAN: What was the first position?

MR. WILSON: The first position was well off the coast. Some people are saying two hundred miles, and the people who perhaps would

⁸ See República Oriental del Uruguay, Ministerio de Relaciones Exteriores, *Antecedentes Relativos al Hundimiento del Acorazado "Admiral Graf Spee" y a la Internación del Barco Mercante "Tacoma"* (Montevideo, Imprenta "El Siglo Ilustrado", 1940).

know the most, the British, are not saying. The first engagement was well out to sea. Whether it was within the zone or not cannot be determined until the exact position of the ship is known. We have no definite information.

The second and third engagements took place not very far off the Uruguayan coast outside territorial waters, but some reports say about twelve sea miles. I do not know whether that is exact or not. The firing could clearly be heard from the shore.

Mr. DUGGAN: We will be interested in having further information with regard to its stay in port.

Mr. WILSON: We shall watch that very carefully.

Mr. DUGGAN: I spoke with Mr. Hackworth⁹ a few moments ago. He told me that under international law he thought that the ship might stay there only for a short time, twenty-four hours.

Mr. WILSON: The reports are that permission has been given for the ship to stay in port forty-eight hours. The information which I just gave you is what I obtained from the Uruguayan authorities. An official here said in confidence that he had told the officer of the German vessel that the ship could remain in port 48 hours and that the time would be extended if necessary to make further repairs. There is no distinction between repairs on account of gunfire and repairs on account of natural causes. This is all pretty preliminary. We will check as we go along.

740.0011 European War 1939/1172a: Telegram

The Secretary of State to the Minister in Uruguay (Wilson)

WASHINGTON, December 14, 1939—3 p. m.

84. Your telephone call today. Article 12 of Hague Convention No. 13 of 1907¹⁰ provides that in the absence of special provisions to the contrary in the legislation of a neutral power "belligerent warships are not permitted to remain in the ports, roadsteads, or territorial waters of the said Power for more than 24 hours, except in the cases covered by the present Convention." The exceptions referred to insofar as they are here material are contained in articles 14 and 17.

Article 14 provides that the stay may be prolonged beyond the permissible time only "on account of damage or stress of weather" and that the vessel must depart as soon as the cause of the delay is at an end.

Article 17 provides that belligerent warships may make such repairs only "as are absolutely necessary to render them seaworthy, and may not add in any manner whatsoever to their fighting force", also

⁹ Green H. Hackworth, Legal Adviser.

¹⁰ *Foreign Relations*, 1907, pt. 2, p. 1239.

that the local authorities of the neutral power "shall decide what repairs are necessary, and these must be carried out with the least possible delay."

Provisions analogous to those contained in article 17 are embodied in article 9 of the Habana Convention of 1928 regarding maritime neutrality.¹¹ The latter article also states that "damages which are found to have been produced by the enemy's fire shall in no case be repaired." An identical statement is contained in the President's Proclamation of Neutrality of September 5, 1939.¹² This rule has been applied by a number of neutral powers including the United States and Germany. The Scandinavian countries adopted rules in 1938¹³ prohibiting the repair of damage inflicted by action of the enemy. As regards the United States see Moore's *Digest*, Volume VII, page 991 and following.

Article 34 of the draft convention prepared by the Research in International Law under the auspices of the Harvard Law School on the subject of the rights and duties of neutral states in naval and aerial war stipulates that "a condition of distress which is the result of enemy action may not be remedied and if the vessel is unable to leave it shall be interned". See volume 33, *American Journal of International Law*, July 1939, Supplement, page 462.

The General Declaration of Neutrality approved at Panama October 3, 1939, provides in paragraph 3 (d)¹⁴ that warships shall not be allowed to remain in port or territorial waters more than 24 hours. While an exception is permitted for vessels arriving in distress this Government does not understand that distress resulting from combat operations would entitle the vessel to prolong its stay beyond 24 hours without internment.

You are privileged to use the foregoing information in any conversations you may have with the Uruguayan authorities, merely as an expression of the views of your government with regard to its own policy.

HULL

740.0011 European War 1939/1177a : Circular telegram

The Secretary of State to Chiefs of Missions in the American Republics

WASHINGTON, December 15, 1939—1 p. m.

You are requested to call immediately upon the Minister for Foreign Affairs and to submit for the consideration of the Government to

¹¹ *Foreign Relations*, 1928, vol. I, p. 604.

¹² Department of State *Bulletin*, September 9, 1939, p. 203.

¹³ League of Nations Treaty Series, vol. CLXXXVIII, p. 293.

¹⁴ See *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panama, September 23-October 3, 1939*, p. 55.

which you are accredited the desirability of the issuance by all of the governments of the American Republics, in accordance with the principles unanimously agreed upon at the recent Consultative Meeting at Panamá, of a joint statement with regard to the naval engagement which took place on December 13 off the coast of the Republic of Uruguay. You may say that your Government submits for such consideration, and as a basis for discussion, the following draft statement:

"On the morning of December 13, 1939, a naval combat took place off the northeastern coast of Uruguay between certain British naval vessels and the German naval vessel *Graf von Spee* after the latter is alleged to have attempted to overhaul the French merchant vessel *Formose* at a time when the latter vessel was plying between Brazilian ports and the port of Montevideo, and after the *Graf von Spee* is alleged to have sunk other merchant vessels in the same vicinity.

There would seem to be no question that all of these activities took place within the zone described in the Declaration of Panamá on October 3, 1939, the first paragraph of which reads as follows:

'1. As a measure of continental self-protection, the American Republics, so long as they maintain their neutrality, are as of inherent right entitled to have those waters adjacent to the American continent, which they regard as of primary concern and direct utility in their relations, free from the commission of any hostile act by any non-American belligerent nation, whether such hostile act be attempted or made from land, sea or air.'

From the evidence so far available it would appear that such interference with merchant shipping plying between the ports of one American Republic and the port of an adjacent American Republic took place within the zone fixed by the American Republics as that area which should be maintained free from belligerent activities in order to insure their own right to self-protection. Such interference has further been followed by engagements between armed vessels of the opposing belligerents within the security zone. The Governments of the American Republics state that as soon as they have clearly ascertained the facts and established the responsibilities involved, they will, through the method of mutual consultation provided in the Declaration of Panamá, determine upon the representations which they should appropriately make, or determine the action to be taken individually or collectively in this case."

You may further state that your Government believes that the security zone established in the Declaration of Panamá, if respected by the belligerents, will afford a very great measure of security to all of the American Republics and is calculated to avoid involvement of the American Republics in controversies arising out of the European war. It further believes that if this first flagrant violation by the belligerents of the Declaration of Panamá is permitted to occur without vigorous protest on the part of all of the American Republics, the Declaration of Panamá will inevitably become a dead letter.

If the Governments of the American Republics are all in accord with regard to the suggested step, the Government of the United

States would recommend that the President of Panamá be requested to issue any statement that may be agreed upon and communicate copies thereof to the governments of the belligerents involved in this incident.

Please telegraph immediately the views of the Government to which you are accredited.¹⁵

HULL

740.0011 European War 1939/1173: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 15, 1939—2 p. m.

[Received 2:22 p. m.]

432. Aranha¹⁶ and Nabuco¹⁷ talked informally with me this morning in connection with the recent naval action off the Uruguayan coast. They showed me a telegram from the Brazilian Ambassador at Montevideo setting out that the Uruguayan Government had decided to consult the American, Brazilian and Argentine Governments as to the course to be pursued at the present juncture, having in mind the Panamá Declaration. Aranha and Nabuco are very anxious to work in close cooperation with the State Department and will not reply to Montevideo until they hear from the Department. Aranha and Nabuco make three suggestions for a reply:

1. In view of the fact that the British insist that their vessels were attacked 180 miles from the coast when convoying merchant ships engaged in normal trade, the German ship can be defined as the aggressor in the case and therefore should be interned for the duration of the war; and the principle be laid down by the American nations that any belligerent naval vessel in the future taking refuge after a naval engagement in an American port be interned for the duration of the war. (Since the conversation I see in the press the S.S. *Exeter* may put into an Argentine port for repairs.) Aranha went on to remark that the United States and Brazil were both voluntarily keeping their ships out of the European danger zone, see my despatch No. 2176, December 6;¹⁸ on the other hand by actions of this sort the blockade was being brought to the South Atlantic to the detriment and hurt of international commercial relations.

¹⁵ Replies generally not printed. See circular telegram of December 18, 4 p. m., to Chiefs of Missions in the American Republics, p. 105.

¹⁶ Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

¹⁷ Mauricio Nabuco, Secretary General of the Brazilian Foreign Office.

¹⁸ Not printed.

2. In case the first suggestion seems too harsh the second suggestion is that all the nations of America protest to both belligerents citing the present instance and expressing the strong hope that similar instances will not occur again; or if it is clear that the German was the aggressor to protest to Germany alone.

3. His third suggestion would be that consultations among the American nations be not held if there is any possibility that common agreement cannot be reached on either of the two previous suggestions because in their opinion a failure to reach an agreement would have "deplorable results". In that case Uruguay should apply its own neutrality laws.

Aranha said he and Nabuco will be awaiting with much interest and expectation the Department's early reply.

CAFFERY

740.0011 European War 1939/1178 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 15, 1939—midnight.

[Received December 16—12:41 a. m.]

434. Department's circular December 15, 1 p. m. Aranha approves "as far as it goes" but feels strongly that this should be only a preliminary step toward stronger action as set out in his first suggestion of my 432, December 15, 2 p. m.

He talked on the telephone this afternoon with Cantilo¹⁹ who is in general agreement with his attitude.

Aranha says he expects arrival here tomorrow of English *Renown* and an aircraft carrier.

CAFFERY

862.857/42 : Telegram

The Vice Consul at Antofagasta (Adams) to the Secretary of State

ANTOFAGASTA, December 16, 1939—9 a. m.

[Received 10:45 a. m.]

Merchant vessel said to be German *Dusseldorf* lying at anchor 5 miles off shore at Antofagasta brought here this morning under custody of British warship believed to be H.M.S. *Despatch* lying in the harbor.

ADAMS

¹⁹ José M. Cantilo, Argentine Minister for Foreign Affairs.

740.0011 European War 1939/1181 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 16, 1939—10 a. m.

[Received December 16—5:57 a. m.]

435. My 434, December 15, midnight. Aranha himself wrote following as result of his conversation with Cantilo:

“Either to (1) (a) allow Uruguay to decide on the *Von Spee* matter in accordance with her laws and interests and support the decision to the extent it may be necessary (b) immediately after the Uruguayan decision to direct a protest along the lines suggested in Department’s circular telegram, December 15, 1 p. m. or to (2) advise Uruguay to adopt an attitude similar to that prescribed in article 22 of the Brazilian Neutrality Laws²⁰ for such cases and request American support in accordance with the Panama Declaration.”

CAFFERY

740.0011 European War 1939/1191 : Telegram

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

BUENOS AIRES, December 16, 1939—noon.

[Received 3 p. m.]

290. Department’s circular telegram December 15, 1 p. m. I conveyed this morning to the Minister for Foreign Affairs the contents of the Department’s telegram. He assured me it would have their immediate attention and promised to give me their answer within the shortest possible time.

Dr. Cantilo agreed that not only a declaration but a strong one should be made and also felt we should then be prepared to discuss what further action might be taken to enforce the terms of the declaration.

ARMOUR

862.8591/598 : Telegram

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

SANTIAGO, December 16, 1939—noon.

[Received 12:05 p. m.]

228. Informed by Foreign Minister late last night that *Dusseldorf* was taken in custody by British and not sunk. He said it will have to be taken to a British port. See telegram this morning from Vice Consul at Antofagasta.

BOWERS

²⁰ See Regras Gerais de Neutralidade, *Bulletin de L’Institut Juridique International*, vol. 42, January 1940, p. 111; Estados Unidos do Brasil, *Diário Oficial* (Secção 1), September 1, 1939, pp. 21265-21266.

740.0011 European War 1939/1178 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, December 16, 1939—2 p. m.

237. From the Undersecretary. Your 432, December 15, 2 p. m., 434, December 15, midnight, and 435, December 16, 10 a. m. Please express to Aranha my appreciation of the very helpful opportunity he has afforded this Government of exchanging views with the Brazilian Government concerning the situation created by the recent naval action off the La Plata River.

Please state that this Government fully agrees that the suggested preliminary statement outlined in the Department's circular of December 15, 1 p. m., should only be regarded as a first step. Our feeling has been that it was desirable that some immediate indication be given by all of the American Republics of the deep concern felt in this hemisphere as a result of the violation of the security zone and that if we should delay taking any action until after all of the facts in this case were confirmed, so much time would have elapsed as to give the impression to the belligerents that the American Republics were tacitly acquiescent to the violation of the zone.

I believe that the proposal contained in the second part of numbered paragraph 1 of your telegram 432, December 15, 2 p. m., warrants the very favorable consideration of the American Republics in the consultation which is now proposed. It may well be that if, after the facts are clarified, it is positively ascertained that molestation of merchant vessels within the security zone by the *Graf von Spee* was the cause of the naval engagement, the best course would be for the American Republics jointly to make a protest to the German Government and state that if any further violation of the zone were undertaken by a German naval vessel, such vessel would be interned if it took refuge in any port of the American Republics.

In view of all the circumstances, and in view of the fact that the Uruguayan Government has already announced its decision with regard to the status of the *Graf von Spee*, it would seem to this Government desirable with regard to the specific case of the treatment by the Uruguayan Government of the *Graf von Spee* to adopt alternative numbered (a) listed in your telegram 435, December 16, 10 a. m.

Finally, this Government fully shares the belief expressed by Aranha that no formal and public consultation take place unless it has been previously ascertained that all of the American governments are in general accord. [Welles.]

HULL

740.0011 European War 1939/1199: Telegram

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

SANTIAGO, December 16, 1939—3 p. m.

[Received 3:49 p. m.]

229. My telegram No. 227, December 16, 10 a. m.²² Saw Ortega²³ 1:00 o'clock following his conference with President. He gives absolute approval to our position; agrees that expeditious action important; and consents to the announcement of the provisional statement by the President of Panama. He favors investigation and further action by the Committee named for the purpose at Panama Conference and thinks this an essential part of agreement there. He is sending me a formal note in reply this afternoon.

He sat down and wrote the following for me:

"With regard to the invitation of the United States we accept it, on the basis of making a preventive declaration to manifest to the belligerents the desirability of respecting the principles of America, in order to avoid a later formal (legal) declaration which could be regarded at a given moment through the contingencies of belligerency as contrary to instructions one or the other of the warring nations."

2. He understands only United States and Mexico are maintaining a patrol in support of the neutrality. He realizes other nations not in position effectively to do so but suggests that some patrol by each nation would be tangible evidence of each one's sincerity in the Declaration of Panama. Would appreciate our views.

3. He expressed much concern over report reaching him that Chile's failure to join in an all-American denunciation of action in Finland²⁴ was critically received in Washington. With evident sincerity and feeling he said with emphasis that Chile's action was in absolute conformity with the clear declaration made at Panama. Chile wishes to go with her fellow American Republics but cannot reconcile a denunciation of one warring party in Europe with the declaration at Panama that our purpose is to keep out of the quarrels of Europe.

BOWERS

740.0011 European War 1939/1192: Telegram

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

BUENOS AIRES, December 16, 1939—4 p. m.

[Received 7:16 p. m.]

291. Department's circular telegram of December 15, 1 p. m., and Embassy's telegram 290, December 16, noon. Minister for Foreign

²² Not printed.²³ Abraham Ortega, Chilean Minister for Foreign Affairs.²⁴ See section entitled "Proposed collective protest by the American Republics against the Soviet invasion of Finland", pp. 128 ff.

Affairs has just handed me a draft statement which he has prepared on the basis of our draft but with certain changes which he feels would make it stronger and more effective. While he agrees that reference should be made to other merchant vessels sunk by the *Graf von Spee* he points out that there have been similar cases of attack within the zone by British war vessels since the Panamá Declaration and that some reference to these should also be made.

Finally he feels that to impress the belligerents with the seriousness of the situation, even in this preliminary declaration reference should be made to steps which the American Republics may find it necessary to take to prevent a repetition of similar incidents in the future.

The Minister asked me to state that of course these were only suggestions and that he would be glad to consider any further observations we might have to make although of course he agrees that the sooner the declaration can be issued the better.

Translation of the text of the Argentine Government's draft declaration follows:

"The American Governments are officially informed of the naval engagement which took place on the 13th instant off the northeastern coast of Uruguay, between certain British naval vessels and the German vessel *Graf von Spee* which, according to reliable reports, attempted to overhual the French merchant vessel *Formose* between Brazil and the port of Montevideo after having sunk other merchant vessels.

On the other hand, the sinking or detention of German merchant vessels by British vessels in American waters is publicly known, as appears, to begin with, from the recent cases of the *Dusseldorf*, *Ussukuma* and others.

All these facts which affect the neutrality of American waters, compromise the aims of continental protection provided for by the Declaration of Panamá of October 3, 1939, the first paragraph of which establishes: (here follows quotation of text)²⁵

Therefore in accordance with the method provided for in that instrument and with a view to avoiding the repetition of further events of the nature to which reference is made above, the American nations resolve to lodge a protest with the belligerent countries and to initiate the necessary consultation in order to strengthen the system of protection in common, through the adoption of rules to prevent belligerent vessels from supplying themselves and repairing damages in American ports, when the said vessels have committed warlike acts within the zone of security established in the Declaration of Panamá."

Dr. Cantilo has just telephoned to ask me whether in view of the death of the President of Panama our Government would not perhaps wish to consider transmitting the declaration to the belligerent powers. I told him that it was my understanding that the declaration would be sent by the Acting President of Panama.

ARMOUR

²⁵ *Ante*, p. 36.

740.0011 European War 1939/1209: Telegram

The Minister in Uruguay (Wilson) to the Secretary of State

MONTEVIDEO, December 16, 1939—10 p. m.

[Received December 17—12:35 a. m.]

138. Guani ²⁶ sent for me at 9 o'clock. He said that he had spent 3 hours this afternoon talking with the German Minister. He had tried to obtain a statement from the Minister that the *Graf Spee* would respect Uruguayan law and either leave by 8 o'clock tomorrow night or be interned. The Minister had refused to commit himself, and had insisted that more time was needed for repairs. Guani had offered to propose on his own responsibility to the President of Uruguay that the committee of naval experts reexamine the question but on the condition that the German Government give assurances beforehand that it would accept the committee's findings and act in accordance therewith. The German Minister also refused to commit himself on this. Guani said that he was convinced that if by 8 o'clock tomorrow night the *Spee* has not found an opportunity to slip away, she will resist internment.

He said that while he was being hammered on one side by the Germans, he was under constant pressure on the other side from the British. He had received numerous visits from the British Minister today, insisting that the time limit could in no case be extended, and trying to obtain assurances as to the steps Uruguay would take if the *Graf Spee* refuses to leave or be interned. Guani said that he felt that the British were trying to build up a case of inability on the part of Uruguay to enforce its neutrality laws, so as to be in a position to claim greater freedom of action for themselves. For instance the British Minister protested today because, so he alleges, the *Graf Spee* had fired one of its anti-aircraft guns at an airplane from the cruiser *Ajax* flying several miles at sea. This was of course absurd.

Guani then said that he wished me to transmit formally a message to my Government from the Uruguayan Government to the following effect: that in the event the *Graf Spee* by 8 o'clock tomorrow night has not left Montevideo and refuses to be interned, the Uruguayan Government will lack the necessary military force to compel the warship to be interned. He intends to transmit similar messages to the Argentine Government and the Brazilian Government. Then, if the contingency takes place and the British protest or try to take matters into their own hands, he will inform them that he is in consultation with governments of the American Republics concerning the matter.

WILSON

* Alberto Guani, Uruguayan Minister for Foreign Affairs.

740.0011 European War 1939/1321

*The Chilean Minister for Foreign Affairs (Ortega) to the
American Ambassador in Chile (Bowers)*²⁷

[Translation]

No. 11555

SANTIAGO, December 16, 1939.

MR. AMBASSADOR: I have the honor to acknowledge the receipt of Your Excellency's note of December 15th,²⁸ conveying to my Government a proposal of the Department of State that my Government join the other American countries in representations to Germany and Great Britain with regard to the situation off the Uruguayan coast between warships belonging to those States and within the Zone of Security created by the unanimous resolution of the Meeting of the Foreign Ministers of the American Republics for Consultation which took place in Panama in September of this year.

Your Excellency adds that your Government suggests that this representation be made through the Government of Panama as soon as information has been received with regard to the exact site in which the battle in question took place and the extent of participation in it of the belligerent countries.

In reply, I have the honor to inform Your Excellency that my Government accepts the suggestion of the Government of the United States that a joint declaration be made to manifest to the belligerents the desirability of respecting the Zone of Security created by the Meeting at Panama with a view to avoiding subsequent legal decisions which might, at a given moment, be construed as in opposition to one or the other of the groups at war.

In this respect, I take this opportunity to inform Your Excellency's Government that a similar act has just been produced off the Chilean coast, also within the Zone of Security under reference.

The British cruiser *Despatch* yesterday captured the German merchant ship *Dusseldorf* 20 miles off the Chilean coast opposite the port of Caldera, thereby committing an act of war which, although permitted by the laws and usages now in force, has taken place within the Security Zone.

Therefore, my Government believes that this same opportunity could be availed of to include in the projected representation the case in question.

I take [etc.]

ABRAHAM ORTEGA

²⁷ Copy transmitted to the Department by the Ambassador in his despatch No. 215, December 18; received December 26.

²⁸ Note was based on circular telegram of December 15, 1 p. m., p. 94.

740.0011 European War 1939/1210 : Telegram

The Minister in Uruguay (Wilson) to the Secretary of State

MONTEVIDEO, December 17, 1939—11 a. m.

[Received 12:35 p. m.]

139. My 136, December 16, 6 p. m.²⁹ In my conversation with Guani last night (my number 138, December 16, 10 p. m.) I asked if he could give me a reply concerning the Department's draft statement. He said that he had had no time to consider it and that in the meantime Cantilo had communicated with him and proposed a counterdraft. Cantilo felt that our draft did not go far enough: he wanted to mention not only the recent incidents but also the British sinking of various German merchant vessels which had left South American ports for Europe. Cantilo also wanted the decision to read that henceforth belligerent warships would not be allowed to take refuge in ports of the American Republics. Guani said he was heartily in favor of this last point, and asked my opinion.

I said that I thought the essential thing was to get out a preliminary protest without delay. After this was done the point about belligerent warships, and any other pertinent questions, could be dealt with in the consultation mentioned in our draft. Guani said he was inclined to agree but was so harried by the Germans and the British on the *Graf Spee* business that he could not find time to consider the question carefully: he would try to do so and give me a definite answer as soon as possible.

I believe that anything that Argentina, Brazil and we agree upon will be satisfactory to Guani.

WILSON

740.0011 European War 1939/1222 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 17, 1939—11 a. m.

[Received December 17—10:43 a. m.]

439. Department's 237, December 16, 2 p. m. Cantilo is urgently requesting Aranha's support for his draft of protest to be made in connection with Declaration of Panama. Aranha says in his opinion Cantilo's note is satisfactory but of course he wants to cooperate with us. Aranha is talking to President Vargas³⁰ on whole subject early this afternoon and will talk to me again later.

CAFFERY

²⁹ Not printed.³⁰ Getulio Vargas, President of Brazil.

740.0011 European War 1939/1197 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 17, 1939—6 p. m.

[Received December 17—5:25 p. m.]

442. My 439, December 17, 11 a. m. Aranha telegraphed Cantilo setting out that in his opinion matter of text of the note *in re* Declaration of Panama is now secondary: that he thinks well of Cantilo's suggested text but in some respects considers your suggested text better. He remarked to me "Why does Cantilo drag in the incident off the Chilean coast which concerns Chile and to which Chile has apparently made no objection".

CAFFERY

740.0011 European War 1939/1219 : Telegram

The Minister in Uruguay (Wilson) to the Secretary of State

MONTEVIDEO [undated].

[Received December 17, 1939—6:30 p. m.]

Graf Spee blown up 7:55 o'clock, 7 miles off shore, both magazine groups exploded.

WILSON

740.0011 European War 1939/1239a : Circular telegram

*The Secretary of State to Chiefs of Missions in
the American Republics*

WASHINGTON, December 18, 1939 — 4 p. m.

Department's circular December 15, 1 p. m. You are requested to call immediately upon the Minister for Foreign Affairs of the Government to which you are accredited and inform him that messages have now been received by this Government from all of the other American governments commenting upon the proposed draft statement transmitted in the Department's circular of December 15, 1 p. m. It has been gratifying to find that all of the American republics were in unanimous agreement that a statement should be issued and that this statement should be made as quickly as possible.

The Argentine Government, using as a basis the original draft, has suggested certain changes which it feels desirable to make the statement more effective. It is hoped that these changes, which meet with the entire approval of this Government, will likewise find favor with the Government to which you are accredited.

The draft statement suggested by Argentina reads as follows:

[Here follows text quoted in telegram No. 291, December 16, 4 p. m., from the Ambassador in Argentina, printed on page 100.]

In as much as the effectiveness of the statement will be heightened by its issuance within the next 24 to 48 hours while the *Graf von Spee* incident is still vivid in people's minds, it is earnestly hoped that the Argentine redraft will be accepted without further modification by the Government to which you are accredited. Please endeavor to expedite a reply.

HULL

740.0011 European War 1939/1227 : Telegram

The Minister in Uruguay (Wilson) to the Secretary of State

MONTEVIDEO, December 18, 1939 — 5 p. m.

[Received 5:18 p. m.]

147. The officers and sailors from the *Graf Spee* who had gone on board the *Tacoma*, as well as the skeleton crew who ran the *Spee* out of the harbor, were transhipped to tugs and lighters sent from Buenos Aires, and are believed to have been taken to Buenos Aires.³¹ Four members of the crew who stayed on the *Graf Spee* to the last moment were picked up by the *Tacoma* which returned to port, and are now detained by the local authorities. So far as is known no lives were lost in blowing up the warship.

The press carries the text of a note addressed by the German Minister to the Foreign Office protesting against the "flagrant" violation of international law by the Uruguayan Government in not affording sufficient time for repairs to make the vessel seaworthy.

German Minister also released to the press a note addressed to him by the commanding Officer of the *Graf Spee* which indicates that the Germans have not lost their aptitude for misjudging the psychology of other peoples. The note criticises violently the attitude of the Uruguayan Government, alleges that it acted under pressure of the British Government and comments that while the commanding officer had means of exerting pressure he had refrained from doing so. Public opinion, which had become sympathetic as a result of the moving scenes at the sailors' funeral and the plight of the warship, has been most unfavorably impressed by this offensive communication.

It is of interest to note that in the communication in question the commanding officer of the German warship states: "On the morning of the 13th of December (*sic*) attacked on the high seas the English cruiser *Exeter*".

WILSON

³¹In telegram No. 302, December 20, 4 p. m., the Ambassador in Argentina reported an Executive Decree ordering the internment of the officers and crew of the *Graf Spee* (740.0011 European War 1939/1273)

740.0011: European War 1939/1251: Telegram

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

BUENOS AIRES, December 19, 1939—10 a. m.

[Received 11:05 a. m.]

297. The Minister for Foreign Affairs informed me last night that the Minister for Foreign Affairs of Brazil had suggested to him an addition to Cantilo's draft declaration submitted in the Embassy's telegram No. 291 of December 16, 4 p. m. This additional paragraph referred to the sinking of the *Graf Spee* and upheld the Uruguayan Government's position in the incident.

Cantilo further informed me that Aranha had suggested the possibility of having the declaration agreed upon submitted to the three belligerents by the Uruguayan Government as further support by the American Republics of Uruguay. I presume these matters have been submitted to the Department by the Brazilian Government direct.

The Foreign Office has confirmed to me the Argentine Government's decision to intern the captain, officers and crew of the *Graf Spee*. They arrived here yesterday and the party numbers 1,040. The Government is admittedly perplexed as to the method of interning so large a number and no decision as to place has as yet been reached.

ARMOUR

862.8591/649

Memorandum by the Acting Liaison Officer (Notter)

[WASHINGTON,] December 19, 1939.

The German cargo steamship *Columbus* (32,581 gross tons) which sailed from Veracruz for Germany on December 14 has been under constant observation by United States naval vessels. Three days ago the ship narrowly missed encounter (200 miles off Norfolk) with the British cruiser in search of her.

I am informed now by phone call from the Navy Department that at one o'clock today the observation of the ship will be discontinued. Her position will then be 480 miles eastward from the most south-eastern point of Cape Cod.

HARLEY NOTTER

740.0011: European War 1939/1258: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 19, 1939—1 p. m.

[Received 3:15 p. m.]

448. For the Under Secretary. Last paragraph of Department's circular telegram of December 18, 4 p. m., and Department's telegram No. 238, December 18, 6 p. m.³²

³² Latter not printed.

Aranha says that, of course, he wants always to be in agreement with you and, if you insist upon it, he will agree to the text as set out in the Department's circular. However, he believes that it will be a "grave mistake" not to take notice of the sinking of the *Spee* as the Germans, in his opinion, undoubtedly would allege in reply that they had sunk the *Spee* only because they did not wish to violate Uruguayan neutrality measures; that on the other hand, the American Governments had taken no steps in connection with the presence of British cruisers in the vicinity of Montevideo.

Regarding the addition of words "among which" (my telegram No. 446, December 18, 1 p. m.³³) he says that he makes that suggestion in view of the fact that article 22 of Brazil's neutrality law goes even further than the suggested "rules to prevent belligerent vessels, et cetera".

In connection with these two matters he received this morning the following telegram from his Ambassador at Buenos Aires

"Cantilo agrees in inserting in the text between the first and second paragraphs a new paragraph reading as follows:

'They also take notice of the departure (and explosion) of the German warship in waters of the Rio de la Plata in compliance with the time limit which, in accordance with the rules of international law, was granted to it by the Government of Uruguay'.

He also agrees upon the addition proposed by Your Excellency in the last paragraph stating 'adoption of rules among which those which prevent, et cetera', which in fact gives greater scope to the consultations."

CAFFERY

740.0011 European War 1939/1244 : Telegram

The Minister in Uruguay (Wilson) to the Secretary of State

MONTEVIDEO, December 19, 1939—2 p. m.

[Received December 19—1: 50 p. m.]

149. Your circular December 18, 4 p. m. I saw Guani at 1 o'clock. He received the Argentine counter-draft late last night. He told me that he was not in agreement with the latter part of the final paragraph. This would mean that a belligerent vessel which defended a merchant vessel within the zone of security against an attack by another belligerent vessel could not supply itself or repair damages thereafter in American ports. This he considers unjust. It would mean that the *Exeter*, which was defending the *Formose*, could not be received in the port of Montevideo. He stated that Uruguayan public opinion would never accept this.

³³ Not printed.

He appreciates the urgency of a declaration and prefers the last paragraph of our original draft. He said that he would study the matter at once to see if he could find a formula to reconcile the Argentine counterdraft with his objection thereto. He will speak with Cantilo by telephone and advise me later.

WILSON

862.8591/650

Memorandum by the Acting Liaison Officer (Notter)

[WASHINGTON,] December 19, 1939.

At 4:05 p. m. today a report was received from Commander Struble³⁴ that the *Columbus* was being scuttled. She had encountered a British destroyer, the *Hyperion*. The *Tuscaloosa*, the United States heavy cruiser engaged in observation of the *Columbus*, was supposed to have been released from such duty at 1 o'clock today, but at the time of the action, approximately 3:30 p. m., the *Tuscaloosa* was present, and the Captain at once reported that he was standing by to pick up the survivors. He was ordered, after having completed that task, to put into the nearest United States port, which in this case would be Boston.

In a subsequent telephone call at 4:25 p. m. Commander Struble informed me that by moving northward the *Columbus* had actually approached nearer to our shores, so that the action occurring at 3:30 p. m. took place only 300 miles, approximately, from our shore. Also, the Commander stated that the White House was informed and desired no release whatever of information until the White House released it.

HARLEY NOTTER

862.8591/648

Memorandum by the Acting Liaison Officer (Notter)

[WASHINGTON,] December 19, 1939.

In a telephone call at 5:05 p. m. today the Navy Department informed that instructions had been issued to the *Tuscaloosa* that when she had completed the task of rescuing the survivors from the *Columbus* she was to put in to the port of New York. While it is not possible as yet to say just when the *Tuscaloosa* will arrive in New York, it is likely that she will arrive late tomorrow afternoon.

Upon being questioned as to whether the *Tuscaloosa* had been released from her observation duty, I was informed that release from such duty was to take place not at a given hour but at a given lon-

³⁴ Comdr. Arthur D. Struble, Department of the Navy, meeting with the Under Secretary in the Liaison Committee. See Department of State, *Postwar Foreign Policy Preparation, 1939-1945* (Washington, 1949), pp. 16-17.

gitude and that the calculations of the Navy Department were on an approximate basis, that that point would have been reached by about 1 o'clock today. It appears that instead of that longitude having been reached at that hour the *Tuscaloosa* was still engaged in observation at the time when the British destroyer *Hyperion* came into view and the crew of the *Columbus* began to scuttle the ship. If the *Tuscaloosa* had completed her observation duty she would have turned about to return to her base in Hampton Roads.

HARLEY NOTTER

740.0011 European War 1939/1264 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, December 19, 1939—6 p. m.

[Received 7: 17 p. m.]

106. Minister of Foreign Affairs has telegraphed the Peruvian diplomatic representatives in Uruguay and Brazil to ascertain if those countries have approved the Argentine draft. The Minister for Foreign Affairs personally favors internment of belligerent vessels instead of action suggested in last paragraph of Argentina draft. A definite reply has been promised by the Minister for Foreign Affairs as soon as he hears from Montevideo and Rio de Janeiro.

DREYFUS

740.0011 European War 1939/1268 : Telegram

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

BUENOS AIRES, December 19, 1939—8 p. m.

[Received 11: 41 p. m.]

299. With reference to the Embassy's telegram 297, December 19, 10 a. m., and the Department's circular December 18, 4 p. m., the Minister for Foreign Affairs has just given me the changes in the draft statement suggested by the Brazilian Government. These consist in the insertion of the following sentence at the end of first paragraph. "They are also informed of the entry and scuttling of the German war ship in waters of the River Plate upon the termination of the time limit which, in accordance with the rules of international law, was granted to it by the Government of the Republic of Uruguay."

Also in paragraph 4 after the words strengthen the system of protection in common "through the adoption of adequate rules among them those which would prevent". In other words this portion of the paragraph to read "strengthen the system of protection in common

through the adoption of adequate rules among them those which would prevent belligerent vessels et cetera."

As already stated it is presumed that these suggested changes have been taken up with the Department by the Brazilian Government. Dr. Cantilo has asked me to state that the Brazilian authorities' suggestions meet with the approval of the Argentine Government.

ARMOUR

740.0011 European War 1939/1263 : Telegram

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

SANTIAGO, December 19, 1939—10 p. m.

[Received 10:51 p. m.]

237. Department's circular December 18, 4 p. m. Chile accepts the declaration. She would prefer that it be modified so that the proposed sanction be applied not merely to the transgressing vessel but to all vessels of the belligerent to which the vessel belongs. If this strengthening of the sanction is not deemed acceptable or is deemed to involve too great delay Chile does not wish to insist but is willing to have the present message constitute an acceptance of the declaration in its present form.

BOWERS

862.8591/645

Memorandum by the Acting Liaison Officer (Notter)

[WASHINGTON,] December 20, 1939.

A telephoned message from the Navy Department at 9:30 a. m. today informs that the *Tuscaloosa* has now on board 579 survivors from the *Columbus*, of whom 9 are women. The *Tuscaloosa* is expected to be at Ambrose Lightship by 3 p. m. today, which should bring her to Ellis Island between 4 and 4:30 p. m. today. It is stated that examination discloses no communicable disease among the survivors.

The *Columbus* was settling slowly at last report, and in the opinion of the captain of the *Columbus* she should have been under water by 9 o'clock last night. All sea valves of the ship were opened. Until the ship has sunk she constitutes a menace to navigation in her present location, which is latitude 38-01 North and longitude 65-41 West, or 540 miles east of Norfolk and 460 miles southeast of New York. Due to the curvature of our coast, this location is only about 320 miles from Cape Cod.

HARLEY NOTTER

862.857 Columbus/8

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

[WASHINGTON,] December 20, 1939.

The German Chargé d'Affaires ³⁵ came in this morning to express the appreciation and thanks of the German Government for the prompt rescue by the U.S.S. *Tuscaloosa* of the officers and crew of the S.S. *Columbus*, which apparently was scuttled by its own officers at a point approximately midway between Cape Hatteras and Bermuda. Dr. Thomsen said that the rescue work of the U.S.S. *Tuscaloosa* had been magnificently performed, and had called forth from the German Government the deepest feeling of gratitude and appreciation.

The Chargé d'Affaires then said that as far as the *Columbus* itself was concerned, he had nothing further to say, as he had not had any official report of the occurrence, but he was under the impression that no belligerent act had been performed in connection with its sinking. He said that he would await the report of the Captain of the ship and any information which might come from the Captain and officers of the U.S.S. *Tuscaloosa*, if such reports were made available to him.

Dr. Thomsen further stated that he thought it was an excellent idea to take the officers and crew of the *Columbus* to Ellis Island, as the immigration authorities there would be organized to take care of such a large number of men. He said that with respect to the disposition of these men, he would await reports from the German Consul General in New York after he had communicated with the immigration authorities at Ellis Island. He said that one thought which had occurred to him was the advisability of sending these men back to Germany by way of the Pacific, as there were no German ships in New York, or, in fact, in any American port which would be capable of maintaining these men. He said, however, any arrangements of that kind would have to await discussions with the American immigration authorities.

Dr. Thomsen asked that an expression of the appreciation of the German Government for the rescue of the officers and crew of the *Tuscaloosa* be conveyed to the Secretary of the Navy.

JAMES CLEMENT DUNN

³⁵ Hans Thomsen.

740.0011 European War 1939/1274 : Telegram

The Minister in Panama (Dawson) to the Secretary of State

PANAMA, December 20, 1939—1 p. m.

[Received 2:03 p. m.]

164. Department's confidential telegram of December 18, 4 p. m. The Panamanian Minister for Foreign Affairs informs me that his Government accepts the Argentine redraft and that the President of Panama will issue the statement as soon as the Department advises that the various American Governments have approved the text. The Minister for Foreign Affairs would like to know whether it is desired that copies of the statement be communicated by the President of Panama to the French Government or only to those of Germany and Great Britain.

DAWSON

740.0011 European War 1939/1287a : Circular telegram

*The Secretary of State to Chiefs of Missions in Argentina,
Brazil, and Uruguay*

WASHINGTON, December 20, 1939—2 p. m.

Department's circular of December 18, 4 p. m. For your information the draft statement suggested by Argentina has been approved by the following republics: Bolivia, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico and Venezuela, and by Brazil in principle.

The following message has been received from the American Chargé d'Affaires at Lima:

"Minister for Foreign Affairs has telegraphed the Peruvian diplomatic representatives in Uruguay and Brazil to ascertain if those countries have approved the Argentine draft. The Minister for Foreign Affairs personally favors internment of belligerent vessels instead of action suggested in last paragraph of Argentina draft. A definite reply has been promised by the Minister for Foreign Affairs as soon as he hears from Montevideo and Rio de Janeiro."

It is the belief of the Department that the reference in the Argentine statement to "the adoption of rules to prevent belligerent vessels from supplying themselves and repairing damages in American ports" is sufficiently general to permit of a careful study by the American republics of all the methods which may be open to them to attain the objectives set forth in the Declaration of Panama, and that it would not be desirable to delay the issue of the statement now under consideration pending a definition of those methods.

HULL

740.0011 European War 1939/1263 : Telegram

*The Secretary of State to the Ambassador in Chile (Bowers)*⁸⁶

WASHINGTON, December 20, 1939—7 p. m.

175. Your 237, December 19, 10 p. m. It is the belief of the Department that the reference in the Argentine statement to "the adoption of rules to prevent belligerent vessels from supplying themselves and repairing damages in American ports" is sufficiently general to permit of a careful study by the American republics of all the methods which may be open to them to attain the objectives set forth in the Declaration of Panama, and that it would not be desirable to delay the issue of the statement now under consideration pending a definition of those methods.

This opinion has been communicated to our Embassies in Rio de Janeiro, Montevideo and Buenos Aires and may be communicated informally in your discretion to the Chilean Minister for Foreign Affairs. The Department is gratified to note that the Chilean Government is in agreement as to the urgency of issuing this statement.

HULL

740.0011 European War 1939/1289 : Telegram

The Minister in Uruguay (Wilson) to the Secretary of State

MONTEVIDEO, December 21, 1939—noon.

[Received December 21—11:35 a. m.]

155. Your circular December 20, 2 p. m. I have just seen Guani. He wrote out in my presence the following which he will telegraph to Cantilo and which he authorized me to transmit to you as his reply to our inquiry:

"I accept your (the Argentine) draft in principle while reserving the right to make an observation on the rules suggested at the end of the draft."

I have informed the Peruvian Minister of the foregoing who tells me that he has just heard that his Government accepts in principle "the United States draft" as modified by Argentina, subject to certain reservations.

WILSON

⁸⁶ A similar telegram was sent on the same date, as No. 74, to the Chargé in Peru in reply to his telegram No. 106, December 19, 6 p. m., p. 110.

740.0011 European War 1939/1292: Telegram

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

BUENOS AIRES, December 21, 1939—2 p. m.

[Received 3:43 p. m.]

304. Department's rush circular December 20, 2 p. m. I brought this matter to the attention of the Foreign Minister late last night. Dr. Cantilo informed me that he is in entire agreement with the Department, that the language referred to in the last paragraph of the Department's telegram is sufficiently general to permit of a careful study by the American Republics of methods which may be open to them to obtain the objectives set forth in the Declaration of Panama and more specifically to permit the consideration later of the Peruvian Foreign Minister's suggestion. Dr. Cantilo felt that this would be even more the case if it is decided to include Dr. Aranha's suggested changes in paragraph 4 (see Embassy's telegram 299, December 19, 8 p. m.).

After my talk with Dr. Cantilo he spoke with the Peruvian Ambassador who was also present at the dinner and then asked me to speak to him, which I did. The Peruvian Ambassador appeared to consider the subject favorably and stated that he would so inform his Government.

ARMOUR

740.0011 European War 1939/1397

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

[WASHINGTON,] December 21, 1939.

The French Ambassador³⁷ called to see me this afternoon. The Ambassador asked me what the status of the anticipated protest on the part of the American Republics to the belligerents might be with regard to the violation of the Declaration of Panama. I informed the Ambassador of the nature of the protest and of the consultation which would thereafter take place. I also indicated some of the practical steps of implementation which would come up for consideration. The Ambassador gave me clearly to understand that he personally had advised his Government to declare its willingness to respect the neutral zone and he seemed to be particularly pleased that the French Government had not been involved in the recent incidents which had occurred in violation of the zone. He hastened to assure me, however, that the British and the French were as one with regard to all questions arising out of the war.

S[UMNER] W[ELLES]

³⁷ Count de Saint-Quentin.

740.0011 European War 1939/1294b: Circular telegram

The Secretary of State to Chiefs of Missions in the American Republics Except Panama

WASHINGTON, December 21, 1939—6 p. m.

Department's circular telegram December 18, 4 p. m. Please inform the Minister for Foreign Affairs of the Government to which you are accredited that this Government is happy to state that all of the other American governments approve the text of the proposed statement transmitted in the Department's circular above referred to. By way of improvement and without introducing new questions of principle, the Governments of Argentina and Brazil have suggested two minor amendments as follows:

(1) That there be inserted between the first and second paragraphs a new paragraph reading as follows:

"They are also informed of the entry and scuttling of the German warship in the waters of the River Plate upon the termination of the time limit which, in accordance with the rules of international law, was granted to it by the Government of the Republic of Uruguay."

(2) That beginning with the words "in order to strengthen the system of protection in common" the next clause read "through the adoption of adequate rules, among them those which would prevent belligerent vessels et cetera".

Inasmuch as these minor changes would seem to be noncontroversial improvements and thus should meet with the favor of the other American governments, and in order to expedite the issuance of the statement, this Government has felt that it could propose to the Government of Panama that that Government transmit the text of the statement to each of the three belligerents on Saturday, December 23, at 5 p. m. E.S.T., if prior to that time no adverse comment has been received by this Government and transmitted to the Government of Panama.

It is desirable that the text of the statement be released to the press in all countries at the time that the text is communicated by the Government of Panama to the three belligerents. Unless you receive a rush telegram in clear from the Department requesting delay for any reason, the text may be released by the Government to which you are accredited on Saturday, December 23, at 5 p. m.

HULL

740.0011 European War 1939/1294c: Telegram

The Secretary of State to the Minister in Panama (Dawson)

WASHINGTON, December 21, 1939—6 p. m.

124. Your 164, December 20, 1 p. m. The following telegram has been sent to all missions in the American republics except Panama:

[Here follows text of circular telegram of December 21, 6 p. m., printed *supra*.]

This Government was very pleased to learn of the acceptance of the redraft by the Government of Panama and of the President's intention to circulate the statement as soon as advised that the other American governments have approved the text. Please inform Dr. Garay that in view of the urgency, the Department took the liberty of suggesting the procedure embodied in the circular telegram in the confident trust that it would be entirely satisfactory to him.

The Government of Panama in dispatching the statement will of course desire to introduce it with some brief statement to the effect that the statement has been drawn up by the governments of all the American republics after consultation in accordance with the provisions of numbered paragraph 3 of the Declaration of Panama.

HULL

740.0011 European War 1939/1302 : Telegram

The Minister in Panama (Dawson) to the Secretary of State

PANAMA, December 22, 1939—11 a. m.

[Received 2:21 p. m.]

165. Department's telegram No. 124, December 21, 6 p. m. Panamanian Minister for Foreign Affairs cordially approves procedure suggested and the President of Panama will transmit statement to the three belligerents tomorrow December 23, 5 p. m.⁸⁸

DAWSON

740.0011 European War 1939/1396

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

[WASHINGTON,] December 22, 1939.

The British Ambassador called to see me this morning at his request. He stated that he had been away from Washington for a day and a half and was anxious to get from me such information as I might care to give him with regard to the action which the newspapers asserted the 21 American Republics are going to take in protesting to Great Britain and to Germany with regard to the recent violations of the neutrality zone.

I gave the Ambassador a summary of the situation, advising him of the nature of the protest which would be made, and making it clear that the precise steps which will be taken by the American Republics

⁸⁸ The statement was released by the Department of State on December 23; for text, see Department of State *Bulletin*, December 23, 1939, p. 723.

in implementation of the Declaration of Panama would only be determined after consultation between them, and that this consultation presumably would be held as rapidly as possible after the protest was delivered.

I discussed with the Ambassador in some detail the nature of some of the steps which might be taken, indicating that this Government would support the taking of such measures as the refusal on the part of all of the American Republics of fuel or provisions, or any other facilities to any belligerent warship which violated the terms of the Declaration of Panama, and to any belligerent merchant vessel which might act as an auxiliary through the furnishing of fuel and provisions obtained in an American port to a warship at sea. I said that it was probable that other further steps would be taken up for consideration but that I felt quite sure that the steps I had mentioned would in any event be taken up in the proposed consultation.

The Ambassador asked me a good many hypothetical questions which I told him I would undertake to answer, not in any official manner, but merely in order to let the Ambassador know how our minds in this Government were running at this juncture. A great majority of these questions, as I reminded the Ambassador, had already been dealt with in my previous conversations with him on this question.

At this juncture the Ambassador said that under international law British warships had a complete right to undertake any belligerent activities they pleased outside of the three-mile limit of the American coastline. I replied by saying that I was not prepared at this juncture to discuss the application of international law to the question at issue, and I added that I should be glad to know whether the Ambassador desired to raise for discussion the application of international law to the recent British Order-in-Council³⁹ asserting the right of the British Government to seize all German exports carried in neutral vessels, destined for neutral countries. The Ambassador replied that he did not.

I went on to say that public opinion in this country recognized that Great Britain was waging a war of a very grave character and had not up to now demanded of this Government that we insist upon the determination of the questions raised by the British Order-in-Council in accordance with generally accepted international law. At the same time, I said that British Government should realize that the Government of the United States as well as the other American Republics felt entirely warranted in asserting their legitimate right of self-protection and their right to secure their non-involvement in the European war, and that it was for that reason as a practical measure

³⁹Of November 28. See telegram No. 2481, November 29, 3 p. m., from the Ambassador in the United Kingdom, vol. 1, p. 783.

that the Declaration of Panama had been proclaimed. I said, moreover, that I thought the Ambassador would realize that public opinion in this country was more and more interested in the preservation of the neutral zone determined by the Declaration of Panama and that unquestionably a great deal of feeling had been created by the alleged violation by British warships of the terms of the Declaration, particularly within the past few days.

I then said that I should like for a moment to drop any official character and speak to the Ambassador quite informally. I said that it seemed to me that the British Government had been singularly stupid, immediately after the occurrence of the *Graf Spee* incident in which it had been clear that the German Government had taken the lead in the violation of the neutrality zone, in permitting British vessels on the Pacific to seize a German steamer only 30 miles off the Chilean coast and to follow that up by firing shots across the bow of a German freighter almost within the territorial waters of Florida, as well as shots across the bow of the *Columbus* within the neutral zone. The Ambassador at once replied that he completely agreed with me, that he had two days ago telegraphed his Government in that sense, and that he had only this morning received a reply from his Government stating that they coincided in his opinion and had issued orders to the British destroyer *Orion* to leave the waters of the neutral zone. I said I was glad to hear it.

The Ambassador reiterated emphatically that the British Government would agree to respect the neutral zone provided Germany agreed to respect it, and that its one chief objective was to avoid any disagreement between the British and the United States Governments on this issue from being so protracted as to involve recrimination and acrimony on both sides. I said I heartily shared this view, and that it seemed to me that a very helpful step in that sense would be for the British Government officially and publicly to announce that it intended to respect the zone provided it was respected by the other belligerents.

Before he left the Ambassador said that if the American Republics determined, as an implementation of the Declaration of Panama, to decree the internment of any British warship that might visit an American port after violating the zone, a very serious question would arise. I merely remarked that it seemed to me altogether premature to discuss what the American Republics might or might not determine, and that while such a course might eventually be determined upon, it seemed to me more likely that the first steps to be agreed upon would be limited to the refusal of fuel and provisions. I emphasized, however, that from all information reaching me, public opinion throughout the continent was becoming more and more determined that every practical means should be found to obtain respect for the zone.

The Ambassador handed me a copy of an affidavit made by the late master of the British motor tanker *Africa* who was a prisoner aboard the *Graf Spee* in which the Commander of the *Graf Spee* is stated to have said that the *Graf Spee* fired the first shot in the naval engagement off the coast of Uruguay. A copy of this affidavit is attached.⁴⁰

S[UMNER] W[ELLES]

740.0011 European War 1939/1296 : Telegram

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

SANTIAGO, December 22, 1939 — noon.

[Received December 22—11:42 a. m.]

241. My telegram No. 229, December 16, 3 p. m. May we have reaction to paragraph No. 2 regarding patrol since Chilean Government formally requested it?

BOWERS

740.0011 European War 1939/1307 : Telegram

The Minister in Uruguay (Wilson) to the Secretary of State

MONTEVIDEO, December 22, 1939—6 p. m.

[Received December 22—5:32 p. m.]

156. Your circular, December 21, 6 p. m. Guani states that the Uruguayan Government in releasing the statement to the press tomorrow at 7 p. m. Montevideo time will add that the Uruguayan Government accepted the statement in principle with reservations.

He states that this is absolutely necessary because the President and the Council of Ministers are flatly opposed to the action suggested in the last paragraph of Argentina draft, and which remains unaffected by the second amendment contained in your circular under reference.

WILSON

740.0011 European War 1939/1304 : Telegram

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

SANTIAGO, December 23, 1939—noon.

[Received 3:25 p. m.]

243. Referring further Department's circular telegram, December 21, 6 p. m., Chilean Government now definitely accepts textually the safety zone statement and will give the text to press this afternoon at 5:00 standard time, 6:00 Chilean time. This acceptance is based on assumption arising from Department's telegram No. 175, December

* Not printed.

20, 7 p. m., that Chile's various suggestions can be given careful study by the American Republics during the consultations which will follow the issuance of the statement. Chile assumes that in the consultation provided for in the Panama Conference the propositions she has made will be given due consideration.

BOWERS

740.0011 European War 1939/1296 : Telegram

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

WASHINGTON, December 23, 1939—1 p. m.

178. Your 241, December 22, noon. The Department agrees with the view set forth by Ortega and reported in your 229, December 16, 3 p. m., to the effect that the establishment of patrols by the American republics would be tangible evidence of their sincere support of the Declaration of Panama and would no doubt result in the accumulation of valuable information in respect thereto.

HULL

740.0011 European War 1939/1316 : Telegram

The Chargé in the United Kingdom (Johnson) to the Secretary of State

LONDON, December 25, 1939—noon.
[Received December 25—9 : 55 a. m.]

2720. Personal for the President from Naval Person :

"We have always conformed to undertaking not to use British submarines inside your zone and I am very sorry there seems to be trouble about recent incidents. We cannot always refrain from stopping enemy ships outside international 3-mile limit when these may well be supply ships for U-boats or surface raiders, but instructions have been given only to arrest or fire upon them out of sight of United States shores. As a result of action off Plate whole South Atlantic is now clear and may perhaps continue clear of warlike operations. This must be a blessing to South American Republics whose trade was hampered by activities of raider and whose ports were used for his supply ships and information centers. In fact we have rescued all this vast area from war disturbances. Earnestly hope this will be valued by South American States who may likely for long periods enjoy in practice not only 300 but 3,000 miles limit. Laws of war gave raider right capture, or sink after providing for crews, all trade with us in South Atlantic. No protest was made about this although it injured Argentine commercial interests. Why then should complaints be made of our action in ridding seas of this raider in strict accordance with same international laws from which we had been suffering? Trust matter can be allowed to die down and see no reason why any trouble should occur unless another raider is sent which is unlikely

after fate of first. South American States should see in Plate action their deliverance perhaps indefinitely from all animosity. Much of world duty is being thrown on admiralty. Hope burden will not be made too heavy for us to bear. Even a single raider loose in North Atlantic requires employment half our battle fleet to give sure protection. Now unlimited magnetic mining campaign adds to strain upon flotillas and small craft. We are at very full extension till the new war-time construction of anti-submarine craft begins to flow from May onwards. If we should break under load South American Republics would soon have worse worries than the sound of one day's distant seaward cannonade. And you also, Sir, in quite a short time would have more direct cares. I ask that full consideration should be given to strain upon us at this crucial period and best construction put upon action indispensable to end war shortly in right way.

"In case you may be interested in details of recent action am sending various reports by first air mail. Damage to *Eweter* from 11-inch guns was most severe and ship must be largely rebuilt. Marvel is she stood up to it so well.

"Magnetic mines very deadly weapon on account of possibility of varying sensitiveness of discharge, but we think we have got hold of its tail though we do not want them to know this.

"Generally speaking think war will soon begin now. Permit me to send you, Sir, all the compliments of the season."

JOHNSON

740.00111 A.R./866

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] December 27, 1939.

The British Ambassador called at his own request. He said that he had already made known in detail to Mr. Welles the British views on the safety zone arising from the Declaration of Panama; that his Government desired that he call and discuss these matters with me. He then proceeded to say that his Government is very much concerned lest the introduction of sanctions envisaged by the protest of the twenty-one American republics to the belligerents really contemplates the use of force. The Ambassador expressed the opinion that such a policy of force would be calculated to lead from one incident to another until the friendly relations between our two Governments might be badly injured in case that another Government desired to bring about such a situation. By way of illustration, he said that, if British naval vessels felt obliged to enter this safety zone to deal with vessels, such as the *Graf Spee*, some of the Governments might consider that such British ships should not be allowed to enter their harbors to secure supplies; or in any event that there might well be incidents where the British Government would be thus precluded. He then said that there was really no international law to justify the designation of the 300-mile boundary around the Americas, thereby making it possible for German merchant ships to carry on business between any Ameri-

can ports and be at all times safe from possible British interference, and also make it possible for German armed vessels to occupy such area without disturbance from the British, so long as they refrained from such hostile or other acts as are expressly prohibited by the Declaration of Panama. He elaborated in an effort to cite other possible situations leading to similar results. He stated that naturally his Government had no desire to send its fleets into American waters with the view to any naval engagement or act of hostility, but that it could not well refrain from doing so without turning over all of these American waters to German merchant vessels and even German naval vessels just so long as they complied with the technical requirements aforesaid.

I replied that, since the Ambassador had talked this matter out in detail with Mr. Welles, I would not undertake to enter into a detailed discussion with him now, and I thanked him for coming in.

C[ORDELL] H[ULL]

740.00111 A.R./888½

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

SANTIAGO, December 27, 1939.

[Received January 5, 1940.]

DEAR MR. WELLES: It occurs to me that you may be interested in reactions here toward the Panama Declaration and particularly toward the fixing of the security zone and the protests against its violation. This especially since I have thought it proper to telegraph the Department concerning the attitude of the Government here. That the agreement at Panama was accepted in good faith by the authorities here I have no doubt. At the time I put the matter up to Ortega he gave clear indications of the importance he attached to the provision whereby problems growing out of the neutrality stand would be submitted to the Committee of Experts on Neutrality representing the various American nations. When the press associations sent from Washington to Chilean papers the latest proposition regarding the protest over the violation of Uruguayan waters, and unintentionally perhaps gave the impression that this was decided upon in conferences between the United States, Brazil and Argentina, I found some puzzlement here and a perceptible cooling of the atmosphere. The fact that this article appeared to find no violation worth mentioning in the capture of the *Dusseldorf* by a British cruiser off the

coast of Chile, and especially after Ortega had submitted to Washington the propriety of including this along with the affair off Uruguay in the protest, was taken, I am afraid, as a slight. The further fact that no comment has come from Washington on Ortega's assumption, officially conveyed, that all such matters would be considered by the Committee of Experts has not failed of notice.

These matters perhaps are not of great importance, but the Chileans are very sensitive where they feel their dignity involved, and especially sensitive when however unintentionally the impression is given that Argentina and Brazil are accepted as the spokesmen of South American policy, with Chile left out. My own belief is that Argentina was the red rag in this instance.

I am sure it is just as well that especial pains should be taken, in view of this jealousy, not to permit the impression to get out that Chile is taken for granted.

The political opposition, acting through *El Mercurio* and its publisher Agustín Edwards, is rather bitterly attacking the extent of the security zone fixed at Panama, and several editorial leaders, not at all friendly to us, have appeared on successive days and especially since the decision about the protest. While not openly attacking the Government here for its adhesion at Panama and its agreement on the protest the attacks nevertheless are calculated to convey the notion that the rights and dignity of Chile are not in very safe keeping in the hands of the Government. Since it is the Government which has made common cause with us on the neutrality policy I am persuaded that the utmost tact should be exercised in dealing with Chile on these matters. It has occurred to me as quite possible that the Department has been in touch with Bianchi, if not the Chilean Ambassador, on all these things but it is evident, in that event, that they have not taken the trouble to inform the Government here.

El Mercurio was distinctly neutral on the war until the return of Agustín Edwards, for some years Chilean Ambassador in London. Since his return the paper has become most militantly pro-Ally, or rather pro-English. I have a feeling that Britain now has two Ambassadors in Santiago, Edwards and Bentinck, and that the former is by odds the more aggressive. He is notoriously an idolator of England and he remains, as during the Spanish war, pro-Chamberlain. I am enclosing an extract from an *El Mercurio* editorial,⁴¹ believed to have been written by him, in which he is a bit nasty toward the United States. This grows out of our attitude on the safety zone, and this reflects the bitter opposition to it of the British Embassy here, members of which openly say they will ignore it.

⁴¹ Not reprinted.

Last night I dined at Cruchaga's in honor of the retiring Peruvian Ambassador and all the guests were outstanding leaders, Senators, of the Conservative Party except Ortega, Minister of Foreign Affairs, who was given a most friendly and considerate reception. The definite news of the ministerial crisis and the resignation of Wachholtz came during the evening and I had the opportunity under the most favorable circumstances to discuss the significance of the change with the opposition leaders of the Right. Both Cruchaga and Senator Walker, leader of the Conservative Party, talked frankly and I think objectively. It was their opinion that the political situation is not changed in the least. Cruchaga thinks that a more serious change may come in about a year. He added that he did not mean to imply that he thought the Rights would come back, and he gave the impression that he thought it quite possible that by then the President will break with the Socialists and try to create a center basis for his government.

I was particularly interested in Walker's estimate of Schnake, the Socialist leader, now Minister of Fomento, after having been the Socialist leader in the Senate. Walker describes him as a man of real ability, of fine political judgment, and not nearly so radical as his talk. He says that Grove, the extremist among the Socialists, has lost greatly in prestige and that Schnake is now the power in the Socialist Party.

Cruchaga spoke with affection of Washington, of Roosevelt, Hull and yourself and I noticed prominently displayed autographed and inscribed photographs of Roosevelt, Hughes and Kellogg.

I got a pleasant impression, after Spain, of the very fine and considerate reception given Ortega who was a guest among his political foes. Such a thing would have been utterly impossible in Spain during my time there before the war. I was also impressed with the sanity and objectivity of the Rightist leaders. In other words, despite the fundamental differences of the parties here, there is an absence in political circles of the fanaticism and hate which made social life in Madrid so trying.

There are rumors today that Wachholtz may be made Ambassador to Washington. I hope it is true. I am sure he would greatly like that post and honor. He has a great admiration for the United States because of its organization in business life. He would be most sympathetic in his dealings with us. I greatly regret his resignation which unquestionably is not good.

Sincerely,

CLAUDE G. BOWERS

740.0011 European War 1939/1366 : Telegram

*The Chargé in the United Kingdom (Johnson) to the
Secretary of State*

LONDON, December 29, 1939—9 p. m.
[Received December 29—7: 12 p. m.]

2749. My 2697, December 21.⁴² While no one in the Foreign Office has made any comment relative to possible implementation of the American 300-mile neutrality zone, staff officers of the Admiralty who have been working on the problem have taken occasion to express to the Naval Attaché serious concern over the unhealthy effects of certain implementing measures reported to be under consideration.

These officers indicated that the British Government had received a definite impression from the highest quarters in Washington that the neutrality zone policy would not be applied in such a way as to hinder the protection of trade. Although the policy had been viewed here with concern from the outset it had been decided on the basis of this impression not to force the issue. The nature of the implementing measures understood to be contemplated however now forced reconsideration of this attitude.

From the practical point of view of naval operations, prohibition upon hitherto legitimate fueling in South American ports or from tankers within the 300-mile limit would force British vessels patrolling the South Atlantic to proceed Capetown, Freetown, Trinidad or the Falkland Islands at frequent intervals. Likewise the [denial of] use of South American ports to vessels which had engaged in hostilities within the 300-mile limit would require a continuous reshuffling of naval forces over very long distances.

It was stated that passing consideration had been given to possible retaliatory measures such as declaring a naval zone around British possessions in the Americas or economic pressure upon South American states but that their government had discarded all idea of retaliation and would be very loath to take any steps which might react unfavorably upon United States public opinion. These officers intimated that the British Government's reply to the note of the American Republics might indicate willingness not to make an issue of the zone provided assurances were given that Germany would be effectively prevented from commerce raiding within the zone. They indicated, however, that any further German raiding within it would force the end of whatever British acquiescence there might be to the policy. They also referred to the possibility that establishment of the principle of a 300-mile zone might at some future time prove embarrassing to the United States Navy.

⁴² Not printed.

The concern with which implementation of the policy is regarded here is indicated in articles appearing yesterday in the *Daily Herald* and the *Manchester Guardian*. Under the headline "Britain will reject United States protest" the diplomatic correspondent of the *Herald* predicts that the reply will be polite but firm. He continues:

"It will no doubt point out that the existence of a 'neutrality belt' for 300 miles of the American Continent has no warrant of International law, that it has not been recognized by this country, that we have never even been invited to recognize it.

"It will no doubt further point out that unless and until the American States are able and willing to give absolute guarantee of the safety of merchant shipping within such a zone, British warships will necessarily continue to fulfill their duty of protecting British shipping there as elsewhere on the high seas, and of fighting any enemy raiders they may find there.

"As to the threat that British warships engaged in commerce protection may be refused the right—recognized by International Law—of obtaining supplies or repairing damage in American ports, that is the affair of the American States.

"If they choose to do this, and by doing so to help German commerce raiders, they have the right to do so.

"In any case, and whatever they may see fit to do, we shall continue to protect our shipping."

The *Manchester Guardian* states editorially:

"The protest is clear enough, but it makes no clearer the means for enforcing the observance of the security zone or, indeed, the legal basis of its existence. There is the breath of a possible sanction in the proposal, as yet undecided, to prevent ships which have committed warlike acts in the area 'from supplying themselves and repairing damages in American ports.' This would come near to ignoring International Law for the sake of a new declaration which has not been internationally accepted. The right of warships to enter neutral ports through stress of weather or damage has long been admitted, and it was confirmed in The Hague Convention of 1907. Internment has been ordered only when warships sought to refit themselves not for sailing but for fighting.

"Nothing in law prevents belligerents engaging each other more than 3 miles from American coasts and, if afterwards they entered an American port in a damaged state, the law would be set aside if they were immediately interned.

"Britain and France well understand the American wish to keep this war, which we deplore as much as they, far from their shores. The safety of the seas anywhere is in our interest, but only when it is assured can we be at ease."

JOHNSON

PROPOSED COLLECTIVE PROTEST BY THE AMERICAN
REPUBLICS AGAINST THE SOVIET INVASION OF FIN-
LAND ¹

760D.61/609 : Telegram

The Chargé in Panama (Muccio) to the Secretary of State

PANAMA, December 3, 1939—noon.
[Received 4: 15 p. m.]

144. Panamanian Minister for Foreign Affairs ² has just shown me a note dated December 2 from the Ecuadoran Minister that his Government has instructed him to suggest that Dr. Garay as ex-president of the meeting of Ministers of Foreign Affairs cable all the American Republics urging them to condemn, as contemplated by section 4 of the declaration for the "Maintenance of International Activities in Accordance with Christian Morality", ³ the invasion of Finland.

Dr. Garay told me that he and President Arosemena are willing to comply with the Ecuadoran suggestion but doubt that such action was contemplated by the declaration cited. Before replying to the Ecuadoran Minister's note they would appreciate an expression of the Department's views as to the advisability of such action and of its initiation by the Secretary for Foreign Affairs as ex-president of the consultative meeting.

MUCCIO

760D.61/609 : Telegram

The Acting Secretary of State to the Chargé in Panama (Muccio)

[WASHINGTON, December 5, 1939—3 p. m.]

118. Your 144, December 3, noon. The Ambassador of Ecuador ⁴ yesterday morning in a conversation with the Under Secretary referred to the possibility of a move to be undertaken upon the initiative of each country based upon the fourth article of the Resolution adopted at Panama. It was not understood that he had in mind the procedure outlined in your telegram.

¹For correspondence regarding the Soviet-Finnish war, see vol. 1, pp. 952 ff.

²Narciso Garay.

³*Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá September 23-October 3, 1939*, p. 60.

⁴Capitán Colón Eloy Alfaro.

In reply to the inquiry made by the Ambassador of Ecuador the Under Secretary stated that the Government of Ecuador had undoubtedly already seen the statement made by President Roosevelt some days ago⁵ condemning the Russian action and that he understood several other governments of this continent had already taken similar official action. Mr. Welles stated, however, that this Government would be glad to join with the other American republics in a joint statement provided all of the republics so desired in order that the declaration might be a continental declaration and not a partial inter-American declaration.

WELLES

760D.61/655 : Telegram

The Panamanian Minister for Foreign Affairs (Garay) to the Secretary of State

[Translation]

PANAMA, December 6, 1939.

[Received 3 : 07 p. m.]

At the initiative of the Government of Ecuador, which the Government of Panama welcomes with the greatest sympathy, and as ex-chairman of the Consultative Meeting at Panama, I have the honor to address Your Excellency in this anniversary of the independence of Finland to recall to you Resolution X^o of the Consultative Meeting, section 4 of which "considers unjustifiable violation of neutrality or the invasion of weak nations as an expedient for the prosecution and winning of wars" and I take the occasion to rouse all American Republics to protest against the invasion and occupation of Finland. I greet Your Excellency with my highest consideration.

NARCISO GARAY

760D.61/701 : Telegram

The Chargé in Panama (Muccio) to the Secretary of State

PANAMA, December 9, 1939—1 p. m.

[Received 2 : 08 p. m.]

150. Panamanian Ministry for Foreign Affairs informs me that favorable replies to its circular telegram of December 6 suggesting joint condemnation of Russian invasion of Finland now received from

⁵ Statement of December 1; for text, see telegram No. 259, December 1, 1939, to the Ambassador in the Soviet Union, *Foreign Relations*, The Soviet Union, 1933-1939, p. 799.

⁶ For Spanish text, see *Diario de la Reunión de Consulta entre los Ministros de Relaciones Exteriores de las Repúblicas Americanas*, Panama, November 23, 1939, p. 55.

all the American Republics except the United States, Chile, Peru, Haiti and Uruguay. Mexico made reservation of its reply that its concurrence would be subject to wording of the joint statement. Dr. Garay expects the statement to be drafted by the Pan American Union.

MUCCRO

760D.61/761

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

No. 198

SANTIAGO, December 9, 1939.

[Received December 15.]

SIR: Referring to my telegram No. 216 of December 5, 1939, and despatch No. 191 of December 5, 1939,⁷ I have the honor to transmit herewith the Spanish text and a translation of the formal communication delivered by Señor Abraham Ortega, Chilean Minister of Foreign Affairs on December 6, 1939, to the diplomatic representatives in Chile of Uruguay, Ecuador, Bolivia and Peru in reply to their suggestion that Chile associate herself with a protest against Russia's attack upon Finland. This statement was officially delivered to the press; and is to the effect, as the Department will note, that Chile must remain aloof from European affairs. Its reception by the press has been diverse, but on the whole not very favorable.

Favorable comment has been made, on the one hand, not only by *La Hora* but also by the important *El Mercurio*. *La Hora* speaks of it as one of the most important developments in Chilean foreign policy which has appeared in recent years, and urges that an attitude of detachment from extra-American affairs should always be maintained by this country. *El Mercurio* refers to it as logical and dignified, since Chile preferably "should take refuge in her Americanism, and show the modesty which becomes her lack of power". *El Frente Popular*, the Communist sheet, of course adopts a laudatory attitude in view of its attachment to Russia.

Adverse comment, on the other hand, has been voiced not only by *El Imparcial* and *El Diario Ilustrado*, but also by the Government's own *La Nación*; and *La Critica*, *La Opinión* and *El Trabajo*, which usually support the Administration in such matters, have maintained a silence which may appear significant. *La Nación* makes the point that previous aggressions in Europe have been by countries opposed to popular government while Russia has hitherto been considered by the elements now in power here as one of the democratic powers. It also alludes to the fact that the other countries of America have in the present instance taken a line which will leave Chile isolated. *El Imparcial* adverts to the danger implicit in the failure of any small

⁷ Neither printed.

nation to protest against aggression on another small nation, and feels that Chile's attitude regarding Spain shows that she does not inevitably keep away from European questions involving international principles affecting the entire community of the world's nations. Similar ideas have been emitted on the floor of Congress by the Democratic Senator Morales and the Conservative Youth (liberalistic) Deputy Boizard.

In conversation with a member of my staff the Foreign Minister stressed the inability of Chile to understand the hidden currents in Europe which may underlie the Finnish situation. The interest of the Communist Party here, which is one of the important assets of the Administration, he said had not figured at all in his decision. He showed great firmness in his determination to maintain this decision, a firmness which may perhaps be intensified by the criticisms to which it is being subjected.

Respectfully yours,

CLAUDE G. BOWERS

[Enclosure—Translation]

*Statement to the Press by the Chilean Minister for
Foreign Affairs (Ortega)*^s

In yesterday's edition we gave full details concerning Chile's reply to Peru, Bolivia, Ecuador and Uruguay, regarding the suggested formulation of a joint declaration on the invasion of Finland by Russia.

The note sent to the representatives of those countries in Santiago reads as follows:

"With reference to the query made by Your Excellency's Government to this Foreign Office regarding the suggestion that the American nations make a joint declaration setting forth the reaction of America to the situation which has developed between Russia and Finland, the Minister of Foreign Affairs of Chile considers it appropriate to make the following statement:

"That his Excellency the President of the Republic has in repeated declarations set forth the line of international policy of the Government of Chile, in his message of May 21st of this year having stated as follows:

'In the spirit of democracy and solidarity which has been evidenced the Government wishes to express its earnest desire to increase the spiritual and material ties uniting Chile with the other nations, especially those of America; this would contribute, proportionately, to the avoidance of any disturbance whatsoever in our relations with old Europe, the mother of our civilization'.

"That, consequently, it is the desire of the Government of Chile to give preference to inter-American relations and, at the same time, to conserve its ties of friendship with the other nations of the world, avoiding any entanglement in European complications.

^s From the Santiago *La Hora*, December 7, 1939.

"That, accordingly, the Government of Chile has decreed its neutrality in the present European conflict and has carefully refrained from expressing opinions on situations or acts of a political character arising from the conflict in question and, furthermore, has made manifest its desire to continue with the nations now at war the same ties of friendship as before the conflict.

"That this policy was followed by the Chilean representatives at the Consultation of Foreign Ministers recently held in Panama, at which meeting, moreover, there was made manifest the will of the countries of America to keep entirely apart from the European conflict, and to try to avoid all questions which might imply pre-belligerency.

"That, at the request of the Government of Finland, the Council and Assembly of the League of Nations have been convoked for the 9th and 11th of this month to discuss the situation which has arisen between that Government and the Soviet Union, and at these meetings the European parties most directly interested will participate.

"That the Government of Chile considers that the pacts, accords and resolutions which it has signed in America are designed to embrace American situations and interests, and that in this sense Chile has been and will always be disposed to maintain its traditional policy of the most scrupulous respect for those provisions.

"That, although the Chilean Government regrets the situation which has arisen with respect to Finland, inasmuch as she made no joint declaration in the cases of Austria, Czechoslovakia, Poland and the Baltic countries, she feels that in the present case, following that same policy, she should refrain from expressing opinions."

760D.61/718

The Panamanian Ambassador (Boyd) to the Secretary of State

[Translation]

Number D-302

WASHINGTON, December 11, 1939.

MR. SECRETARY: I have the honor to advise Your Excellency that I have received a radiogram from my Government in which it is communicated to me that Brazil, Mexico, Cuba, the Dominican Republic, Guatemala, Honduras, El Salvador, Costa Rica and Nicaragua have replied that they are in full agreement with the idea launched by Ecuador and adopted by the Panamanian Foreign Office, of formulating a Pan American declaration or protest against the violation of the neutrality of Finland and the invasion of her territory on the part of the Union of Soviet Socialist Republics. The replies of Haiti, Peru, Chile, the United States and Uruguay only have not been received.

With the new adherences, the number of American nations supporting the idea has risen to sixteen, and it forms a large and respectable nucleus in support of this plan for a solidary protest.

Consequently my Government considers that the time has come for giving shape to this continental desire to formulate a collective Decla-

ration or Protest through the medium of its permanent organ of expression, which is the Board of Governors of the Pan American Union.

Transmitting the foregoing information to Your Excellency, and the wishes of my Government that Your Excellency will lend your enlightened attention to this matter, I have [etc.]

AUGUSTO S. BOYD

760 D.61/655 : Telegram

*The Secretary of State to the Panamanian Minister
for Foreign Affairs (Garay)*

WASHINGTON, December 12, 1939.

I desire to acknowledge receipt of Your Excellency's telegram of December 6, 1939, in which reference is made to Section 4 of Resolution 10 adopted at the meeting of the Foreign Ministers of the American Republics regarding "the invasion of weak nations as an expedient for the prosecution and winning of wars" and in which you undertake to rouse all the American Republics to protest against the invasion and occupation of Finland.

Consonant with the spirit which motivated President Roosevelt in the issuance of his statement of December 1 condemning the Soviet resort to military force against Finland, this Government is prepared to associate itself with the governments of the other American republics in a joint statement of vigorous protest against the invasion of Finland.

Accept [etc.]

CORDELL HULL

760D.61/701 : Telegram

The Secretary of State to the Chargé in Panama (Muccio)

WASHINGTON, December 12, 1939—noon.

120. Your 150, December 9, 1 p. m. The following message has been sent to the Minister for Foreign Affairs:

[Here follows text of telegram of December 12 to the Panamanian Minister for Foreign Affairs, printed *supra*.]

It is desired that you find early opportunity discreetly to inform Dr. Garay that it would seem preferable that concurrence in the statement be arranged by direct communication of Panama with the other American Governments on the basis of the text which he might draw up. In as much as the Pan American Union has never been granted political functions it would not seem proper to trust to the Governing Board the drafting of or action upon the proposed statement.

HULL

760 D.61/809

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] December 13, 1939.

Mr. Gazitúa^a left with me the attached memorandum summarizing the reasons for the Chilean decision not to join with the other American countries in issuing a statement condemning the Soviet invasion of Finland. Sr. Gazitúa inquired whether this Government had yet replied to the circular telegram from the President of Panama.

I informed Sr. Gazitúa that on December 12 this Government had replied to the Secretary of Foreign Relations of Panama informing him that it was prepared to join with the other American countries in the issuance of such a statement, after recalling that the President of the United States had on December 1 already issued a similar declaration.

LAURENCE DUGGAN

[Annex—Translation]

The Chilean Embassy to the Department of State

1. The draft Joint Declaration by the American countries violates the spirit of the Panama Conference whose object was to secure neutrality in the presence of the European war and its possible effects.
2. The situation produced between Finland and the Soviet Union is a clear consequence of said war.
3. The position we say American countries are to adopt contrasts with the cautious attitude of the interested principals, France and Great Britain, and with the rest of the European neutrals.
4. The purpose of Argentina and the other American countries to universalize principles and doctrines adopted in view of the situation and special interests of our continent, will create an untoward precedent and involve the American countries in European complications from which we ought to keep ourselves aloof.
5. The action of the said countries in support of the League of Nations is sufficient to satisfy their doctrinaire postulates.

DECEMBER 13, 1939.

760D.61/837

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

No. 210

SANTIAGO, December 16, 1939.

[Received December 22.]

SIR: Referring to my despatch No. 198 of December 9, 1939, I have the honor to report that the declaration of the Chilean Foreign Minis-

^aGuillermo Gazitúa, Counselor of the Chilean Embassy.

ter with regard to the Russian attack on Finland has aroused active criticism in both houses of the Chilean Congress, but that no change is contemplated in the attitude of the Chilean Government.

In the House of Representatives at least two secret sessions have been held to discuss the attitude of the Foreign Office toward the Russo-Finnish situation, and the Foreign Minister has appeared to explain his policy. The motion introduced by the representative of the Conservative Youth Movement, Deputy Boizard, is still pending, but there seems to be a probability that it may remain dormant.

In the Senate the criticism has been even more acute, and on the 12th instant a motion was passed to send a resolution of sympathy to the Finnish Senate declaring the "solidarity" of the Chilean Congress "against the invasion of Finland by the Soviet Union". According to the press the only vote cast against this motion was by the Communist Senator, Lafferte. The Radical Senators, members of the President's own party, abstained from voting, but the Socialist Senators voted for the motion and thus disapproved the Government's attitude.

Subsequently, however, on the 15th instant, at a joint meeting of the Foreign Affairs Committees of the House and Senate, the Foreign Minister again discussed the question in detail, in confidence, and the session issued the following statement:

In a joint meeting of the Ministry of Foreign Affairs with several members of Congress, after a tentative examination of the facts and documents as to the guidance of the foreign policy of Chile, especially with regard to the question of Russia and Finland and of the neutrality of American countries, those present took cognizance of the ideas and action of the Government, inspired exclusively by the superior national interest in maintaining its neutrality, without any relation to the Communist Party or with any other particular party.

There are grounds for regarding this as terminating the discussions, at least for the time being; although on its face it appears to be no more than a recognition that the Government has not been motivated by political considerations. There are statements in this morning's press that the discussion of the broad issue will be continued in Congress next week, but such discussions will presumably be contingent upon other developments.

The attitude of the various organs of the press has remained unchanged, the greater part of the criticism coming from the Rightist newspapers. While *La Consigna*, which has been regarded as the official organ of the Socialist Party, is against the Government on this point, the attitude of *La Opinion*, the rather influential Radical Socialist organ of Rossetti, supports the declaration of December 6th. *El Trabajo*, the Vanguardista (Nazi) organ, approves a policy of absolute neutrality, but finds the official declaration illogical and

unconvincing. *La Hora* has left the question severely alone, but in a semi-editorial letter asserts that any declaration in favor of Finland would violate Chile's pledges at the Panama Conference to observe entire neutrality.

In conversation with the Foreign Minister last evening he informed me that he and his Government are wholly resolved to maintain their position, as he feels that Chile's interest, as well as the interest of the American Republics in general, lies in abstaining from entanglements in European affairs.

Respectfully yours,

CLAUDE G. BOWERS

760D.61/822

Memorandum of Telephone Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] December 17, 1939.

Mr. Silva¹⁰ telephoned during the day that the Ambassador had requested him to get in touch with me following the receipt of a telegram from the Foreign Office at Santiago relating to the proposed declaration condemning the Soviet invasion and occupation of Finland. The telegram said that the Chilean Government was determined to stand fast in its point of view because of the attitude towards Russia manifested in Geneva of certain of the European neutrals such as the Baltic countries with a more direct interest in the situation between the Soviet Union and Finland than any of the American countries; moreover, because certain of the other American countries had indicated that they shared at least to a certain degree the Chilean point of view. The Ambassador requested Mr. Silva to ascertain what the attitude of the United States would be under these circumstances.

I informed Mr. Silva that our attitude was perfectly clear, namely, that this Government was prepared to proceed with the other American Governments in the issuance of a declaration condemning the Soviet invasion of Finland. I again recalled to him that this country had already taken that step unilaterally in the issuance by the President of a statement on December 1. Our attitude remained, therefore, that this Government was ready to go ahead with the collective declaration, but was not taking any initiative in the matter.

LAURENCE DUGGAN

¹⁰Abelardo Silva, First Secretary of the Chilean Embassy.

760D.61/804: Telegram

The Chargé in Panama (Muccio) to the Secretary of State

PANAMA, December 19, 1939—3 p. m.

[Received 9:05 p. m.]

161. Department's telegraphic instruction No. 120, December 12, noon. Panamanian Minister for Foreign Affairs proposes that he telegraph the following message to Helsinki:

"His Excellency, the Minister of Foreign Relations of Finland, Helsinki:

The Republics of Argentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba, El Salvador, United States of America, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, the Dominican Republic, Uruguay and Venezuela have been consulted by this Chancery at the initiative of the Republic of Ecuador with a view to the formulation of a collective American protest against the aggression of which the Republic of Finland has been the object on the part of the Union of Soviet Socialist Republics. All of those nations have responded favorably to that suggestion and consequently I have the honor to inform Your Excellency that 20 American republics including those of Ecuador and Panama have agreed to apply the principles laid down in resolution No. 10 of the recent consultative meeting of Panama over which I had the honor to preside, to condemn unanimously and with the greatest energy the resort to force which a great power has just made use of for the solution of its differences with a small nation, jealous of its independence and security.

On this occasion please accept, Excellency, the assurances of my highest consideration, Narciso Garay, Secretary of Foreign Relations of the Republic of Panama."

Dr. Garay feels this draft should be acceptable to all the countries names [*named*]. But in an abundance of precaution proposes to submit the text hereof to all diplomatic representatives accredited here for their approval and possible reference to their governments. Dr. Garay would appreciate any comments or suggestions the Department might care to make. Kindly expedite reply.

MUCCIO

760D.61/922

*Memorandum by the Chief of the Division of the American Republics (Duggan)*¹¹

[WASHINGTON,] December 20, 1939.

With respect to the suggested message to the Minister of Foreign Relations of Finland, as suggested by Dr. Garay, Secretary of Foreign Relations of Panama, it would seem advisable to delay a day or so prior to indicating the Department's comments or views.

¹¹ Addressed to the Secretary of State, the Under Secretary of State, and the Chief of the Division of European Affairs.

It will be noted that the Government of Chile is not included among those that have responded favorably to the suggestion made by the President of Panama that the Soviet invasion of Finland be condemned. The Chilean Government has circularized all of its diplomatic missions instructing them to clarify before the governments to which they are accredited the reasons why Chile has not seen fit to join in this initiative. The result of this action of Chile may be to cause certain defections among the countries that have already assented. The Ambassador of Brazil informed me yesterday that he had received word from his Government that it would not join in the *démarche* unless there is unanimity. The Chilean circular telegram also indicated that Mexico and Peru were lukewarm to the idea.

It would therefore be my suggestion that no reply be made to Dr. Garay's telegram for a day or so or until we know more exactly what the attitude of Brazil and possibly certain other countries is.

LAURENCE DUGGAN

760D.60/922

Memorandum by the Under Secretary of State (Welles) to the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] December 21, 1939.

I thoroughly agree. Furthermore, I think there is nothing less desirable at this juncture than to give the impression to the rest of the world that the American Republics are not united in all questions of policy, and the message suggested by Dr. Garay would make it perfectly clear that the proposed declaration was not supported unanimously.

My own judgment is that unless Chile changes her mind, which I suppose is doubtful, it would be better to issue no declaration. You may remember that in my first reply to the Government of Ecuador I stated that we would be glad to join if *all* of the other American Republics likewise joined.

760D.61/804: Telegram

The Secretary of State to the Chargé in Panama (Muccio)

WASHINGTON, December 27, 1939—5 p. m.

125. Your No. 161, December 19, 3 p. m. Please inform Dr. Garay that the Department, while in full agreement with the text of the proposed message to Helsinki, is strongly of the opinion that such a message should only be sent in the name of all of the 21 American republics, and that the consequences of action in which one or more of these republics does not participate might be detrimental to the development

of that spirit of continental solidarity which has been so valuable to all the American Republics in facing the problems created by the current world situation. Furthermore, in this particular case, the governments of a number of the American republics, including the Government of the United States, have given adequate expression to their protest against the aggression of which the Republic of Finland has been the object on the part of the Soviet Union. It would seem, therefore, that the opportune moment for collective action in this case has passed. You should take this opportunity of expressing my personal appreciation and that of the Under Secretary for the splendid services which Dr. Garay has rendered the American republics since the close of the Panama meeting.

HULL

760D.61/891 : Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMA, December 30, 1939—noon.

[Received 3:10 p. m.]

167. Department's telegram No. 125 of December 27, 5 p. m. The Panamanian Minister for Foreign Affairs has just told me that Chile persists in its refusal and that through the Ecuadoran Minister here he has consulted the Ecuadoran Government concerning its wishes as to whether the matter should be dropped or the message should be sent to Helsinki on behalf of the 20 republics which have approved.

He says that since the aggression continues he does not feel that the opportune moment for a protest has passed but that he does recognize the great desirability of unanimous action. He says that while he has no personal interest in the matter he feels that as intermediary he cannot [refuse?] it if Ecuador as sponsor and the other governments which have approved the action desire that the message be sent. The Department may wish to make its views known to the Government of Ecuador. If Ecuador requests Garay to send the message he will wish to know whether the United States is to be included and I should appreciate the Department's instruction on the point.

DAWSON

760D.61/891 : Telegram

The Secretary of State to the Ambassador in Panama (Dawson)

WASHINGTON, December 30, 1939—10 p. m.

126. Your 167, December 30, noon. Our acceptance of the Ecuadorian initiative as well as the Panamanian draft was contingent upon adoption by all the American Republics. For the reasons indicated in

Department's telegram No. 125 we are, however, strongly of the opinion that in the absence of unanimity it would be better to abandon the project.

In expressing renewed appreciation to Doctor Garay you will therefore please explain that, inasmuch as the proposal does not appear to have been accepted by all of the American nations, we would be unable to subscribe thereto.

We shall take occasion tomorrow again to explain our position to the Ecuadorian Ambassador.

HULL

BOUNDARY DISPUTES

ECUADOR AND PERU¹

722.2315/1280: Telegram

The Ambassador in Peru (Steinhardt) to the Secretary of State

LIMA, January 4, 1939—4 p. m.

[Received 5:10 p. m.]

1. From Duggan.² The Ecuadoran Foreign Minister³ and Dr. Ponce Borja⁴ returned to Quito by plane Monday. Prior to leaving Dr. Ponce Borja gave me an oral résumé of Dr. Concha's⁵ remarks to Dr. Tobar Donoso as follows:

President Benavides has a sincere desire to settle the boundary controversy; Peru cannot accept however the two-point formula proposed by Dr. Tobar Donoso for renewal of negotiations followed by mediation if the negotiations do not reach a satisfactory result within a stipulated period; nor can Peru accept an alternative proposal recently advanced by Dr. Tobar Donoso that two friendly countries such as the United States and Brazil, make a careful independent study of the boundary problem for the purpose of informing themselves during the period that direct negotiations are being carried out; nor will Peru agree to resume direct negotiations in Washington or Rio; however, Peru is ready at any time to resume direct discussion in Lima and is prepared to state formally, but apparently not in writing, to some friendly third country that if the negotiations fail to reach a satisfactory conclusion Peru will then invoke one of the conciliation instruments to which both Ecuador and Peru are parties.

The Ecuadorans profess to see no value in the Peruvian counter-proposal claiming that under the conciliation treaties Ecuador could invoke at this moment the conciliation procedure on the ground that direct negotiations have been exhausted and secondly that the conciliation procedure will not advance a solution since the non-national members of the committee of investigation would sit as individuals and not as agents of government.

Full report follows by air mail letter. [Duggan.]

STEINHARDT

¹ Continued from *Foreign Relations*, 1938, vol. v, pp. 217-245.

² Laurence Duggan, Chief of the Division of the American Republics, and Adviser to the American delegation to the Eighth International Conference of American States, Lima, December 9-27, 1938.

³ Julio Tobar Donoso.

⁴ Alejandro Ponce Borja, member of the Ecuadoran delegation to the Eighth International Conference of American States, Lima, December 9-27, 1938.

⁵ Carlos Concha, Peruvian Minister for Foreign Affairs.

722.2315/1280: Telegram

The Acting Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, January 5, 1939—3 p. m.

4. I have received today the following report from Duggan who is still in Lima:

[Here follows text of telegram No. 1, January 4, 4 p. m. (except last sentence) from the Ambassador in Peru, printed *supra*.]

Please communicate the substance of this report to Aranha ⁶ and tell him that I should be grateful for his opinion regarding the situation. My own judgment is that if Dr. Concha is prepared to state to Dr. Mello Franco ⁷ that if within a specified and reasonably short period direct negotiations between Ecuador and Peru for settlement of the controversy should not prove successful, Peru would then be willing to invoke one of the conciliation instruments to which both Ecuador and Peru are parties and which instrument is satisfactory to the Government of Ecuador, an agreement on the part of Peru to accept mediation in the event that direct negotiations prove unsuccessful will to all intents and purposes have been obtained. Before discussing the matter any further with the representatives of Ecuador, however, I should necessarily wish to have Aranha's own point of view and the benefit of any suggestions which he may be good enough to make.

Please telegraph me the result of your conversation.

WELLES

722.2315/1283: Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, January 6, 1939 — 3 p. m.

[Received 3:06 p. m.]

5. For the Acting Secretary. Your 4, January 5, 4 [3] p. m. Aranha informs me that he received a telegram from Mello Franco prior to the departure of the latter from Lima stating he had had a private conversation with President Benavides and was optimistic about finding a solution of the problem. Mello Franco counseled, however, taking no further action for at least one month in order to avoid the impression that pressure had been brought to bear by the

⁶ Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

⁷ Afranio de Mello Franco, Chairman of the Brazilian delegation to the Eighth International Conference of American States, Lima, December 9-27, 1938, who had remained in Lima at the request of Mr. Welles to endeavor to obtain an agreement between the Peruvian and Ecuadoran Ministers for Foreign Affairs. See telegram No. 147, December 27, 1938, 1 p. m., to the Chargé in Brazil, *Foreign Relations*, 1938, vol. v, p. 243.

Conference itself. Aranha added that upon Mello Franco's return here in about one week he will send you a full exposé of the situation.

SCOTTEN

722.2315/1284 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, January 23, 1939 — 9 a. m.

[Received 5:50 p. m.]

6. From Duggan:

"The Minister for Foreign Affairs told me today in the greatest confidence that Aranha had informed the Ecuadorian Minister in Rio that Mello Franco might return to Peru in connection with the boundary dispute with Ecuador."

Duggan left here Friday afternoon, crossed into Colombia about 3 p. m. Saturday.

LONG

722.2315/1298

The Minister in Ecuador (Long) to the Secretary of State

No. 556

QUITO, July 7, 1939.

[Received July 12.]

SIR: I have been confidentially informed from a reliable source that the Government of Ecuador is actively negotiating with the Government of Brazil to open Ecuadoran-Peruvian boundary settlement discussions in Rio de Janeiro. It is said that the Brazilian Foreign Minister views the proposal with sympathy and that Dr. Homero Viteri Lafronte, President of the Ecuadoran Delegation at the Washington negotiations, will be appointed Ecuadoran Minister to Brazil in order to work with the Brazilian Government towards this end. Dr. Viteri Lafronte has requested his Government to send him to Rio de Janeiro via Washington, presumably to obtain the opinion of the United States Government on the subject.

In this connection it is observed that Dr. Antonio J. Quevedo, Ecuadoran Minister to London and Geneva has been appointed Minister to Lima. Dr. Quevedo is one of Ecuador's ablest diplomats and lawyers. He was considered an excellent Minister for Foreign Affairs and is probably the most competent person that could be sent to Lima to try to persuade the Peruvian Government to accept the proposal.

Of course, it is feared that Peru will be very reluctant to accept such an invitation. However, the Government of Ecuador appears to be optimistic about this attempt to renew negotiations and is leaving no stone unturned to carry out its plan.

Respectfully yours,

BOAZ LONG

722.2315/1299 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, July 19, 1939—noon.

[Received 1:45 p. m.]

54. Official communiqué published today announces that Ecuadoran soldiers in command of an officer, who were on left bank of Zarumilla River opened fire treacherously on Peruvian police force killing two. When the Peruvian police returned the fire the Ecuadoran regulars withdrew. Peruvian regulars arrived on the scene but did not participate in the clash, one Peruvian soldier reported missing.

Minister for Foreign Affairs has protested to Ecuadoran Minister here and has instructed Peruvian Chargé d'Affaires at Quito to request Ecuadoran Government to disavow the attack and violation of *status quo* declining Peruvian responsibility for consequences and claims that may arise therefrom.

Local press makes no comment on the incident.

DREYFUS

722.2315/1303

The Minister in Ecuador (Long) to the Secretary of State

No. 581

QUITO, July 21, 1939.

[Received July 28.]

SIR: I have the honor to report that on July 19th *El Comercio* of Quito published a press despatch stating that an incident had taken place on the Ecuadoran-Peruvian frontier between Ecuadoran and Peruvian troops. The incident occurred at 10 o'clock on the morning of July 18th in the Province of El Oro south of a point called Aguas Verdes in the Pocitos region. The press reported that several persons had been killed and wounded.

Further details published on July 20th indicated that although no one had been killed or wounded, the Peruvians claimed that Ecuadoran troops had fired on members of the Peruvian Civil Guard, whereas the Ecuadorans stated that they had been fired on first.

The Ecuadoran Minister in Lima was instructed to present a formal protest to the Peruvian Government for this violation of the *status quo* and invasion of Ecuadoran territory by the Peruvian Army. The Government of Peru likewise instructed its Chargé d'Affaires at Quito to present a protest to the Ecuadoran Foreign Office.

An official communiqué of the Foreign Office, a translation of which is enclosed, gives a complete account of the Ecuadoran version of the incident.

Respectfully yours,

BOAZ LONG

[Enclosure—Translation]

Official Communiqué of the Ecuadoran Foreign Office Regarding the Incident on the Ecuadoran-Peruvian Frontier

According to a telegram sent by the Chief of Security of the Frontier to the Governor of the Province of El Oro, yesterday morning there occurred an incident between Ecuadorans and Peruvians a little distance south of the place called Aguas Verdes, in the region of Pocitos, situated in the jurisdiction of Huaquillas, at the time when a group of four men from our garrison was patrolling as usual that region. When the Ecuadoran picket drew near the Peruvian Civil Guards fired on them and obliged our soldiers to fire back.

The same telegram adds that a verbal agreement has been reached by the Chief of the Ecuadoran Garrison and Captain Sevilla of the Peruvian Civil Guard in order to remove from that region the troops from both sides.

Since the Peruvian Foreign Office has made an official statement in which it declares that the Peruvian Civil Guards have been the victims of a surprise attack, the Ministry for Foreign Affairs of Ecuador wants to put on record the fact that according to information available up to the present time the attack was made by those Guards and that the Ecuadoran soldiers have found themselves obliged to repel them.

Consequently, the Ecuadoran Minister in Lima has been instructed to present an appropriate protest and to demand that the boundary authorities maintain a proper attitude for the benefit of American peace.

The place where the attack took place is in territory which in fact and right belongs to Ecuador. In fact, the *de facto* boundary is the Zarumilla River, which has never changed its course, as Peru arbitrarily maintains in order to claim jurisdiction over the Pocitos region, which is between the two river beds. Aside from obvious juridical titles, Ecuador has shown Peru the reports of learned foreigners such as Messrs. Shepperd and Sauer, who after a detailed study of the geological formations have arrived at the conclusion that the Zarumilla River has always flowed over its present river bed and that the hypothesis of the double river bed is merely a myth which cannot be held in the light of science. The report of the foreign geologists agrees with those of other scientific authorities and with the statements of the inhabitants of the region.

In the hope of a radical solution of the boundary question, Ecuador has tried to prevent frontier incidents from altering the atmosphere necessary for that solution in spite of the fact that in every case the Ecuadorans have been victims of bloody attacks.

It is therefore surprizing that the Peruvian Foreign Office instead of following a similar course, and without awaiting a careful investigation of the facts should have issued an accusation of attack against Ecuador. But as has been shown such an attack came from the Peruvian National Guard which had invaded without right Ecuadoran territory.

722.2315/1300 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, July 22, 1939—10 a. m.

[Received 12:15 p. m.]

55. Referring to the Embassy's telegram No. 55 [54?].⁸ Second official communiqué published today rebuts statements in Ecuadoran official communiqué. Asserts that Aguas Verdes has always been and continues under Peruvian sovereignty and a police post has always existed at that site. Dismisses as irrelevant Ecuadoran contention referring to geological survey of river beds. Reasserts its version that two Peruvian police were killed. Declares Ecuadoran statements untrue that Peruvian forces have withdrawn from their positions at Zarumilla. Adds that Ecuadoran forces have withdrawn from territory held by Peruvian forces.

La Cronica and *Prensa* carry editorials reaffirming the Peruvian standpoint.

Incident not considered grave in Government and public circles.

DREYFUS

722.2315/1311

The Peruvian Embassy to the Department of State

[Translation]

MEMORANDUM

As the Chancellery of Ecuador has issued and made public a communiqué relative to the occurrences of the morning of the 18th instant in the neighborhood of the Peruvian post situated on the left bank of the Zarumilla River, called "Aguas Verdes", the Department of Foreign Relations of Peru finds itself obliged to refute it, in view of the inexact statements contained in the text thereof.

The Ecuadoran Chancellery affirms, indeed, that "Aguas Verdes", situated in the region of Pocitos, is under the Ecuadoran jurisdiction of Huaquillas, notwithstanding that Peru has maintained, does maintain and will continue maintaining a post of the Civil Guard with which it exercises effective sovereignty over all that region and in

⁸ Dated July 19, noon, p. 144.

which Peruvian farmers have always cultivated and still cultivate tobacco. Peru has put all these facts on record in various notes of the Department of Foreign Relations.

This discards the possibility that an Ecuadoran patrol "was keeping watch as usual" over those places, as the Ecuadoran communiqué says. In that case, the incident must have occurred long before, because our detachment would not have failed to discharge its duty of enforcing respect for our possession and according protection to the Peruvians established in that sector of the national territory.

The allegation of pretended rights on the part of Ecuador to the region included between the two channels of the Zarumilla River, and the arguments of a geological character which are adduced do not justify the penetration of its forces into territory which it perfectly well knows is under the effective dominion of Peru and has been since before the *status quo* of 1936.

For the purpose of giving an honest appearance to the aggression and eluding responsibility, the Ecuadoran communiqué affirms that there was one killed on each side, suggesting the false idea that a combat was carried on. The inexactitude of this is proved by the personal identity of the two Peruvian casualties, whose burial has just taken place in the Peruvian city of Tumbes.

It is likewise inexact that a verbal agreement was reached to remove from the place the troops of both sides. The commander of the Ecuadoran detachment, Yepes, in a conference held on the 15th instant with the captain of the Peruvian Civil Guard, Sevilla, promised that his soldiers would not again cross the boundary. Notwithstanding this, three days afterwards the Ecuadoran forces entered and made a surprise attack on the Peruvian detachment which was patrolling the farm of a colonist, Villadares, being repulsed to the other side of the boundary.

After these events and on the request of the Ecuadoran officer mentioned, another meeting was held with Captain Sevilla, in which the former stated that he was ready to withdraw his forces and hoped that the latter would do the same. The Peruvian officer answered that he had no reason to withdraw from the place where he was, inasmuch as he had not advanced from his usual post, and he expressed his determination to remain there.

Ecuadoran troops are the only ones who withdrew to their own territory, after having committed a bloody attack. The Peruvian troops remained and will remain at "Aguas Verdes".

WASHINGTON, July 31, 1939.

HONDURAS AND NICARAGUA⁹

715.1715/1378: Telegram

The Assistant to the Representative of the President (Ocheltree)¹⁰ to the Secretary of State

SAN JOSE, January 6, 1939—11 a. m.

[Received 2:11 p. m.]

98. The Honduran Minister of Foreign Affairs in a communication dated December 31 addressed to the President of the Mediation Commission¹¹ in reply to the latter's note of November 26¹² proposing an aerial survey of the region of the Segovia River stated in part:

"I regret to inform Your Excellency that my Government deplores (the fact) that it is unable to consent to a new discussion over territorial rights already absolutely defined by the civilized means of arbitration; that I am obliged most respectfully to make this declaration here because in the opinion of my Government the work and operations for the construction of a reconnaissance map of the region of the Coco or Segovia River which the Mediation Commission in accordance with its Governments considers to be advantageous to execute, presupposes the abandonment of the juridical position of Honduras."

Complete copy by air mail Sunday. Press not informed.

Respectfully suggest that a meeting of the Commission might be arranged to take place in Panama on the return of the President of the Commission from Chile.

OCHELTREE

715.1715/1378: Telegram

The Acting Secretary of State to the Representative of the President (Corrigan)¹³

WASHINGTON, January 7, 1939—3 p. m.

31. [1] Reference Ocheltree's telegram No. 98, January 6, 11 a. m. The action of the Government of Honduras in rejecting the proposal

⁹ Continued from *Foreign Relations*, 1938, vol. v, pp. 245-271.

¹⁰ John B. Ocheltree, Foreign Service Officer, Member of the Permanent Secretariat of the Mediation Commission in the boundary dispute between Honduras and Nicaragua.

¹¹ Tobías Zúñiga Montúfar, representative of Costa Rica.

¹² Not found in Department files.

¹³ Frank P. Corrigan, special representative of the President on the Mediation Commission, in the boundary dispute between Honduras and Nicaragua, was also Minister to Panama. On August 14, 1939, he presented his credentials as Ambassador to Venezuela.

of the Boundary Commission for an aerial survey of the Segovia basin is of course regrettable from every point of view but I feel emphatically that it should not be allowed to terminate the efforts of the Commission to reach a solution of the problem. I feel that it is now more imperative than ever that the Commission proceed to carry out the long-projected visits to Managua and Tegucigalpa to confer with the two Presidents and that this should be done without delay. When news of the Honduran action becomes public, we may be confronted with a renewal of tension between the two countries. The visit would emphasize to the public in Honduras and Nicaragua that mediatory efforts have not been abandoned and through direct discussions with President Carias it should be possible to convince him of the desirability of the aerial survey as a preliminary step which would facilitate an ultimate solution.

Please consult with the other members of the Commission at once with regard to the visit and inform me of developments. It is hoped that at least one of the other members can accompany you as it would not be desirable for you to go alone.

Repeated to Ocheltree.

WELLES

715.1715/1879 : Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, January 9, 1939—2 a. m.

[Received 9:23 p. m.]

2. Referring to Department's telegram No. 1, January 7, 3 p.m., I have sent messages to other members of the Commission asking their agreement to announcement of an approximate date for projected visits to Managua and to Tegucigalpa. The Costa Rican member of the Commission is now in Chile and possibly may visit Buenos Aires on invitation of Argentine Government.

CORRIGAN

715.1715/1380 : Telegram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, January 10, 1939—11 a. m.

[Received 5:42 p. m.]

1. Referring to telegram No. 98, January 6, 11 a. m., from Ocheltree at San Jose. Discreet inquiry reveals reasons the Honduran Government took the position mentioned was apparently because the same proposal as to survey was made in 1930¹⁴ under another administra-

¹⁴ See *Foreign Relations*, 1930, vol. 1, pp. 361-377.

tion. After mature consideration decision was reached that approval now would be subject to political misrepresentation in Honduras and apparent change of policy could be used to inflame population. Division among President's advisers with group represented by Silverio Lainez, Julian Lopez Pineda, and Romulo Duron, supported by the Foreign Minister, convincing the President against acceptance of the proposal.

Repeated to Dr. Corrigan at Panama City.

ERWIN

715.1715/1384 : Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, January 15, 1939—noon.

[Received 3:53 p. m.]

6. Reply received from Dr. Rodríguez, the Venezuelan member of the Mediation Commission, who considers that the trip suggested in my telegram is not advisable at present. He believes that Zúñiga Montúfar will be opposed to such a visit and if made by us only will create friction with the Costa Rican Government.

The following is a portion of the telegram from the Legation at Bogotá transmitting Rodríguez's answer to my telegram.

"Rodríguez personally considers that the best method for the present is for the representatives of Costa Rica and Venezuela in Washington to try all possible means with the Department of State to persuade the Government of Honduras of the advisability of accepting the plan of mediation which is now being discussed. In this way he considers that the Governments of Venezuela and the United States would not expose themselves to the possibility of being in an equivocal position in the event that the visit to the two capitals should prove ineffective. He considers that as you will soon be in Caracas a final decision can then be reached between you and Gil Borges."¹⁵

No reply has been received from Costa Rican Foreign Minister.

CORRIGAN

715.1715/1384 : Telegram

*The Secretary of State to the Representative of the
President (Corrigan)¹⁶*

WASHINGTON, January 18, 1939—6 p. m.

4. Your telegram No. 6, January 15, noon. It is not believed that discussions with the Honduran diplomatic representative in Washing-

¹⁵ Venezuelan Minister for Foreign Affairs.

¹⁶ Text of telegram was repeated on the same date as No. 4 to the Legation in Costa Rica for the information of Mr. Ocheltree.

ton, as suggested by Doctor Rodríguez, would be of value in inducing the Honduran Government to recede from its position on the question of the aerial photographic survey. I feel that the only hope of prevailing upon the Honduran Government to modify its views in respect to a continuance of the work of the commission is from personal conversations between the members of the commission and President Carías. If Dr. Zúñiga Montúfar should for any reason be unable or unwilling to proceed to Managua and Tegucigalpa in the near future, it is greatly to be hoped that he will give his support to having the visits carried out by you and Dr. Rodríguez.

HULL

715.1715/1336 : Telegram

The Representative of the President (Corrigan) to the Secretary of State

PANAMA, January 20, 1939—3 p. m.

[Received 6:51 p. m.]

8. Referring to the Department's telegram No. 4 of January 18. Under the present circumstances it is unlikely that Doctor Rodríguez or his Government would agree to proposed visits unless accompanied by Zúñiga Montúfar or some other Costa Rican representative. Zúñiga Montúfar, now traveling in South America, has not yet answered my telegram of January 9.¹⁷ When his reply is received, if the Department perceives no objection, I would like to suggest to him and Rodríguez a meeting of the commission in Panama coincident with the date of his return here with the object of determining a plan of procedure in line with Department's instructions.

I am in complete agreement with the Department's view that the best hope of prevailing upon the Honduran Government to modify its views would be through the effective method of personal conversations between the members of the commission and President Carías. However, in view of the danger that delay and difficulties in getting the commission together and securing their agreement to the program may lose us the advantage of the present dry season (the only time of the year in which aerial reconnaissance is possible) and since according to my information there is division amongst President Carías' advisers I have a strong feeling that other efforts to modify the Honduran Government's ill-advised decision should be continued by means of all possible channels.

CORRIGAN

¹⁷ See telegram No. 2, January 9, 2 a. m., from the Representative of the President, p. 149.

715.1715/1386 : Telegram

*The Secretary of State to the Representative of the President
(Corrigan)*

WASHINGTON, January 24, 1939—6 p. m.

7. Your telegram of January 20, No. 8, 3 p. m. There is no objection to your plan for the Commission to meet in Panamá upon the arrival there of Dr. Zúñiga Montúfar.

Careful consideration will be given to the suggestion contained in the second sentence of the last paragraph of your telegram.

HULL

715.1715/1388 : Telegram

*The Representative of the President (Corrigan) to the Secretary
of State*

PANAMA, January 27, 1939—4 p. m.

[Received 6:47 p. m.]

11. Referring to the Department's telegram No. 7, January 24, 6 p. m., Dr. Rodríguez after consultation with his Government states that he will be unable to leave Bogotá to come to Panama at this time owing to the delicate status of negotiations which he is conducting with the Colombian Government or to visit the disputant countries "even should it be determined that it is advisable".

I shall confer with the Costa Rican member on his arrival here and communicate his views to the Department.

CORRIGAN

715.1715/1390 : Telegram

*The Representative of the President (Corrigan) to the Secretary
of State*

PANAMA, February 3, 1939—6 p. m.

[Received February 4—12:32 p. m.]

15. At a conference in the Legation this afternoon the President of the Commission drafted a note for the Honduran Government. The note gives assurance that no juridical question is involved and again asks for cooperation in making the necessary geographic studies. I agreed to the general tenor of the note which will be submitted to the Venezuelan member before being despatched by Zúñiga Montúfar after his return to Costa Rica tomorrow.

CORRIGAN

715.1715/1391 : Telegram

The Representative of the President (Corrigan) to the Secretary of State

PANAMA, February 6, 1939—2 p. m.
[Received 4:55 p. m.]

18. With reference to my telegram No. 15 dated February 3, 6 p. m., Zúñiga Montúfar and I discussed the advisability of having the note referred to therein delivered in person by Ocheltree acting for the Permanent Secretariat. I am inclined to favor this as he could informally explain the technical features of the matter with a view to allaying Honduran objections to the aerial reconnaissance.

CORRIGAN

715.1715/1391 : Telegram

The Secretary of State to the Representative of the President (Corrigan)

WASHINGTON, February 8, 1939—4 p. m.

11. Your telegram No. 18, February 6, 2 p. m. There is no objection to having Ocheltree deliver the note from the Commission to the Honduran Government. However, it is felt that this could be done by you and Dr. Zúñiga Montúfar if the suggested visits to Managua and Tegucigalpa are to be made in the near future. Please report by telegraph the decision reached with regard to this question.

HULL

715.1715/1392 : Telegram

The Representative of the President (Corrigan) to the Secretary of State

PANAMA, February 9, 1939—noon.
[Received 3:13 p. m.]

20. Referring to the Department's No. 11, February 8, 4 p. m. There is no possibility that Zúñiga Montúfar would accompany me to Honduras and Nicaragua without Dr. Rodríguez and no possibility that the Venezuelan member can be persuaded to make the visits while Honduras persists in present attitude.

I consider it desirable that Ocheltree proceed alone but after consulting with me at Panama. Authorization for his travel and per diem is requested.

CORRIGAN

715.1715/1392: Telegram

*The Secretary of State to the Representative of the President
(Corrigan)*

WASHINGTON, February 17, 1939—8 p. m.

14. Your No. 20, February 9, noon. Ocheltree being authorized to proceed Panama for consultation with you and thence to Tegucigalpa on business of Commission.

HULL

715.1715/1400: Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, March 6, 1939—10 a. m.

[Received 2:14 p. m.]

24. The following message has been received from the American Ambassador at Bogotá:

"Venezuelan Ambassador¹⁸ submitted to his Government draft note proposed by Minister for Foreign Affairs of Costa Rica to be sent by Mediator Commission to Honduran Government. Gil Borges replied following telegram which Dr. Rodríguez requests that you transmit to Hornibrook¹⁹ together with your comments in order that he may inform Zúñiga:

"Zúñiga's proposal note might create friction between Honduras and Mediator Commission. It seems more prudent to me to continue conversations between representatives mediators Nicaragua and Honduras in Washington or San José. I spoke to Duggan²⁰ on this matter. It is desirable you exchange ideas with Corrigan'.

Venezuelan Ambassador would appreciate your keeping him informed."

CORRIGAN

715.1715/1400: Telegram

*The Secretary of State to the Representative of the President
(Corrigan)*

WASHINGTON, March 7, 1939—5 p. m.

18. Your No. 24, March 6, 10 a. m. What do you suggest?

HULL

¹⁸ Dr. Rodríguez, Venezuelan member of the Mediation Commission.

¹⁹ William H. Hornibrook, Minister in Costa Rica.

²⁰ Laurence Duggan, Chief of the Division of the American Republics, and Adviser to the American delegation to the Eighth International Conference of American States, Lima, December 9-27, 1938. On his return from Lima, Mr. Duggan visited Caracas, February 12-20.

715.1715/1403 : Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, March 8, 1939—noon.
[Received 2: 11 p. m.]

27. Referring to the Department's telegram No. 18, March 7, 5 p. m., I immediately informed Dr. Rodríguez by telegram of my willingness to consider any suggestions for changes which would make the note to Honduras acceptable to his Government. I shall communicate his reply to the Department.

CORRIGAN

715.1715/1408 : Telegram

*The Representative of the President (Corrigan) to the Secretary
of State*

PANAMA, March 20, 1939—4 p. m.
[Received 6: 48 p. m.]

29. The following telegram has been received from Bogotá:

"Dr. Rodríguez requests you be informed that he shares your view referred to visit of Ocheltree to Tegucigalpa. Braden."²¹

As all three mediators now concur I shall instruct Ocheltree to proceed to Tegucigalpa as authorized in telegraphic instruction number 14, February 17, 8 p. m., for purpose suggested in my despatch 683 dated March 16²² without the note unless Department instructs otherwise.

CORRIGAN

715.1715/1408 : Telegram

*The Acting Secretary of State to the Representative of the
President (Corrigan)*

WASHINGTON, March 22, 1939—11 a. m.

21. Your telegram no. 29, March 20, 4 p. m. Ocheltree's trip should be deferred. Further instructions will be sent by cable as soon as possible.

Repeated to San José for Ocheltree.

WELLES

²¹ Spruille Braden, Ambassador in Colombia.

²² Not printed. It was proposed that Mr. Ocheltree go to Tegucigalpa with technical information to dispel any doubts in the minds of Honduran officials as to the justice of the Mediation Commission's request.

715.1715/1408: Telegram

*The Secretary of State to the Representative of the President
(Corrigan)*

WASHINGTON, March 25, 1939—noon.

23. Your telegram no. 29, March 20, 4 p. m. It is believed that for obvious reasons the exposition of the point of view of the Commission with regard to the desirability of carrying out the proposed aerial survey could be presented to the Honduran Government much more effectively by you and Dr. Zúñiga Montúfar than by Ocheltree acting alone. I am confident that if Dr. Rodríguez should be unable to accompany you he would not interpose any objection to a visit to Tegucigalpa by you and Dr. Zúñiga Montúfar. I suggest therefore for this purpose as well as for the reasons outlined in the Department's telegrams no. 1 of January 7, 3 p. m. and no. 4 of January 18, 6 p. m. that you sound out Dr. Zúñiga Montúfar on the question of making the visit with the least possible delay. If he is not able to make the visit with you, consideration can then be given to the suggested visit to Tegucigalpa by Ocheltree for technical discussions on behalf of the Commission.

I believe that the meeting of the Commission suggested in your despatch no. 683 of March 16,²⁴ could be held more advantageously after the visit to Tegucigalpa by you and Dr. Zúñiga Montúfar when the attitude of the Honduran Government toward the future work of the Commission would presumably have been clarified. However, in order to avoid any misunderstanding, it is believed that the meeting should be held in San José.

Please refer to Ocheltree's despatch no. 113 of March 15,²⁴ page 2, reporting Dr. Zúñiga Montúfar's statement that the decision to request the Honduran Government to reconsider its stand on the aerial survey had been made on the basis of assurances given to the Department by the Honduran Chargé d'Affaires in Washington that the request would receive favorable consideration. You are requested to inform Dr. Zúñiga Montúfar either directly or through Ocheltree that no such assurances have been given to the Department. You may wish to inform Ocheltree of the foregoing.

HULL

* Not printed.

715.1715/1411 : Telegram

*The Representative of the President (Corrigan) to the Secretary
of State*

PANAMA, March 28, 1939—1 p. m.

[Received 3 : 22 p. m.]

30. I have informed Ocheltree of the contents of the Department's telegram No. 23, March 25, midnight [noon], and asked him to sound out Licenciado Zúñiga Montúfar regarding an early visit with me to Tegucigalpa.

CORRIGAN

715.1715/1413 : Telegram

*The Representative of the President (Corrigan) to the Secretary
of State*

PANAMA, April 7, 1939—11 a. m.

[Received 5 : 29 p. m.]

34. Referring to the Department's telegram No. 26, April 6, 4 p. m.²⁵ Zúñiga Montúfar is opposed to visiting Tegucigalpa with me at this time. He is definitely of the opinion that the Commission has to meet at San José before further action of any kind can be taken. The question of visits would have to be taken up by the Commission at its meeting. He wants to deal "categorically" formally with the question of the meeting by addressing letters to Dr. Rodríguez and myself inquiring when it would be convenient to come to San José. For us this would be a formality since our readiness to convene has been made clear, see page 10 Legation's despatch No. 683, March 16,²⁶ but the procedure which he contemplates does not take into account Rodríguez's views as expressed. The next move must depend upon the attitude of the Venezuelan representative. Panama was only suggested as a place of meeting with the idea that it would be easier to get Rodríguez to come here than to San José.

CORRIGAN

715.1715/1414 : Telegram

*The Representative of the President (Corrigan) to the Secretary
of State*

PANAMA, April 8, 1939—3 p. m.

[Received 7 : 21 p. m.]

35. Supplementing my telegram No. 34, April 7, 11 a. m. Since Zúñiga and myself are agreed upon the advisability of an early meet-

²⁵ Not printed; it inquired regarding Dr. Zúñiga Montúfar's attitude (715.1715/1411).

²⁶ Not printed.

ing of the Commission I have asked Ocheltree to suggest to the President of Commission that he send a (not categorical) letter or telegram to Dr. Rodríguez apprising him of our feeling and asking what would be the earliest date that he could join us.

CORRIGAN

715.1715/1414 : Telegram

*The Secretary of State to the Representative of the President
(Corrigan)*

WASHINGTON, April 10, 1939—4 p. m.

27. Your telegrams No. 34, April 7, 11 a. m., and No. 35, April 8, 3 p. m. It is believed that the proposed meeting of the Commission in San José might serve the purpose of clarifying the course of the mediation for the near future and would moreover constitute an indication that the mediation has not been abandoned. However, it is believed that the meeting should not be permitted to result in any categorical action which would tend to place responsibility for the continuance of mediation on either of the parties to the dispute. Experience has shown, as exemplified recently in the final settlement of the Chaco controversy,²⁷ that the exercise of unremitting patience on the part of the mediators over a long period of time can lead to successful termination of difficulties which at times may appear insurmountable. It is my opinion that the members of the Commission should continue to be guided in their efforts by these considerations.

HULL

715.1715/1417 : Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, April 16, 1939—2 p. m.

[Received 8:40 p. m.]

38. Referring Legation's telegram No. 34, April 7 and No. 35 of April 8, on April 12 the President of Mediation Commission sent a telegram in clear to the Venezuelan member indicating my agreement that the Commission should meet at San José to discuss pending questions and requesting him to indicate the earliest date when he could meet in order "to communicate it to the foreign Governments of Honduras and Nicaragua". On April 15 Dr. Rodríguez acknowledged receipt of this telegram stating that he had referred it to his Government.

²⁷ See *Foreign Relations*, 1938, vol. v, pp. 89 ff.

Zúñiga Montúfar explained to Ocheltree that he had not used wording suggested by me as Rodríguez might seek a way out. The wording used apparently contemplates plenary sessions with the delegations instead of an executive meeting of the Commission only.

This would be, in my opinion, inadvisable until after proposed visit to Tegucigalpa.

CORRIGAN

715.1715/1418 : Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, April 21, 1939—4 p. m.

[Received 7:27 p. m.]

39. I have received the following telegram from Braden:

“For your advice and with request that you please inform Licenciado Zúñiga Montúfar, Dr. Rodríguez states that he will depart in a few days for Caracas on Embassy affairs and he will there decide date of departure for San José in agreement with Venezuelan Chancellery.”

Ocheltree informed.

CORRIGAN

715.1715/1417: Telegram

*The Secretary of State to the Representative of the
President (Corrigan)*

WASHINGTON, April 22, 1939—3 p. m.

31. Your telegram 38, April 16, 2 p. m. It has been our understanding that it was the intention of Dr. Zúñiga Montúfar to arrange an informal meeting of the Commission, without the presence of the representatives of the disputant parties, primarily for the purpose of deciding on the most suitable procedure to obtain the agreement of the Government of Honduras to the carrying out of aerial photographic surveys. It was also understood that the meeting was intended to prepare the ground for visits by members of the Commission to Tegucigalpa and possibly Managua.

The necessity for the presence at this time of representatives of Honduras and Nicaragua is not apparent. On the contrary it is believed that the calling of “plenary sessions” in the absence of a very definite understanding with regard to the program to be followed would only result in confusion and might tend to impede the course of the mediation.

While it is not desired to take a categorical stand on this question, it is suggested that you may consider it desirable to communicate informally with Dr. Zúñiga Montúfar in the sense of the foregoing observations.

HULL

715.1715/1421 : Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, April 25, 1939—3 p. m.
[Received 6:46 p. m.]

40. As suggested in Department's confidential telegram No. 31, April 22, 3 p. m., I communicated observations to Zúñiga Montúfar through Ocheltree. The latter replies as follows:

"Referring to the Department's telegram regarding the next meeting of the Mediation Commission, the President of the Commission has no intention of convening the delegations for this meeting. If Dr. Rodríguez is unable to meet at an early date the President of the Commission intends to inform the Governments of Honduras and Nicaragua of this fact as the explanation of the delay on the part of the Commission in dealing with the mediation.

He has never shown any enthusiasm for the proposed visits to Tegucigalpa and possibly Managua and when this is suggested he may favor instead the sending of a note to the Government of Honduras requesting that Government to reconsider its note of December 31, 1938²⁸ regarding the survey. However, he has stated that the question of visits should be taken up when the Commission meets."

CORRIGAN

715.1715/1430

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

[WASHINGTON,] May 17, 1939.

The Venezuelan Ambassador²⁹ called to see me this morning. The Ambassador said that in his last conversation with the President the latter had expressed his urgent desire to visit Venezuela once more and that he hoped that his program would make it possible for him to make such a visit before long. The Ambassador told me that he had communicated this statement of the President to President López-Contreras and that he had now received a message from his President

²⁸ See telegram No. 98, January 6, 11 a. m., from the Assistant to the Representative of the President, p. 148.

²⁹ Diógenes Escalante.

saying that nothing would give the Government and people of Venezuela greater satisfaction and pleasure than to have the President visit Venezuela and that he earnestly hoped that the President would find it possible to make such a visit in the near future. I told the Ambassador that I would be happy to transmit this message to the President.

The Ambassador then said that he had had the occasion the other day of talking with the Nicaraguan Foreign Minister and that Dr. Cordero Reyes had expressed the feeling of the Nicaraguan Government that the mediation proceedings between Nicaragua and Honduras were dragging on in a very unsatisfactory way and asked whether it would not be possible for negotiations to be resumed and expedited. The Ambassador said that of course, as I knew, certain difficulties had now arisen because of the bad feeling which existed between the Venezuelan and Costa Rican Foreign Offices as a result of the failure of Costa Rica at the Lima Conference to abide by the assurances which it had given Venezuela to support Caracas as the seat for the next inter-American conference. The Ambassador said that as a result of this incident the Venezuelan Legation in Central America had been moved from Costa Rica to Guatemala and the Venezuelan representative on the Mediation Commission, Dr. Rodríguez, had been told not to attend the meeting of the Mediation Commission were such meeting to be held in San José. The Ambassador further said that when Dr. Rodríguez and Dr. Corrigan had expressed their desire to have a meeting of the Mediation Commission held in Panama, the Costa Rican Foreign Minister had refused to attend the meeting in that city on the pretext that until the boundary incident between Panama and Costa Rica had been settled he could not appropriately visit Panama.

The Ambassador then inquired what my feeling in the matter might be. I said that in the first place I deeply regretted to learn of the friction which had arisen between the Venezuelan and Costa Rican Foreign Offices and that if there were anything this Government could do to smooth matters over in order that the misunderstanding might be eliminated, we would be only too happy to do what we could in the matter. The Ambassador seemed much pleased with this suggestion and said that he would communicate with his Foreign Minister, Dr. Gil Borges, and advise me of the latter's feeling with regard thereto.

I then said that with regard to the procedure of the Mediation Commission I had myself talked at some length with President Somoza and Dr. Cordero Reyes and had obtained the very definite impression that President Somoza felt that when he visited Honduras next month some basis for an agreement between the two countries might arise from his personal conversations with President Carias and it seemed consequently that we might let matters rest until we learned whether these conversations gave any ground for optimism as to the finding

of a solution. I said that it seemed to me that immediately thereafter the members of the Mediation Commission should have a meeting and that I hoped they then would agree to make personal visits to Managua and Tegucigalpa which I had always believed was the proper procedure to follow. The Ambassador then inquired whether this Government would be willing to have a meeting of the Mediation Commission held in Washington. I said that of course in principle the hospitality of this Government was always available for meetings of this kind which were intended to find solutions by pacific methods of difficulties arising between the various American republics, but that in this case I thought it would be very unwise for such a suggestion to be made unless the Government of Costa Rica sincerely desired that such a step be taken and officially advised us that they desired that a meeting be held in Washington. I said I knew by experience that Costa Rica was very jealous of her prestige in having her own capital the seat for the mediation conferences and that I thought it would be inexpedient for this Government to give any indication with regard to its willingness to have Washington as the seat of the next meeting until and unless Costa Rica informed us that she so desired. The Ambassador said he understood this situation fully and thought we had better await the results of President Somoza's visit to Honduras before deciding anything further.

As he left the Ambassador again urged that the experts desired by the Venezuelan Government for customs and related questions be selected and sent to Venezuela without further delay. He said that the Venezuelan Congress adjourned the 4th of July and that as he had told me before it was indispensable that these experts be selected and if possible be present in Venezuela before that date. I told the Ambassador I would look into the matter at once and do what I could to expedite a solution.

S[UMNER] W[ELLES]

715.1715/1426 : Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, May 19, 1939—11 a. m.

[Received 4:04 p. m.]

53. Reference the Legation's despatch No. 741, May 6,³⁰ the Venezuelan member, after consultation with his Government, approves sending Ocheltree to Tegucigalpa on a technical errand for the Mediation Commission to familiarize Honduran Government officials with geographic studies now in the hands of the Permanent Secretariat at

³⁰ Not printed.

San José. President of the Commission has been informed through Ocheltree.

CORRIGAN

715.1715/1427: Telegram

*The Representative of the President (Corrigan) to the
Secretary of State*

PANAMA, May 22, 1939—4 p. m.

[Received 6:54 p. m.]

55. Reference Legation's telegram No. 53. The President of the Commission is in full agreement that Ocheltree visit Tegucigalpa at this time to present to the Government of Honduras the geographic data which he suggests be referred further to as "some points which have been considered by the Commission." Department's approval of Ocheltree's travel requested.

CORRIGAN

715.1715/1427: Telegram

*The Secretary of State to the Representative of the President
(Corrigan)*

WASHINGTON, May 24, 1939—7 p. m.

46. Your telegrams No. 53, May 19, 11 a. m., and No. 55, May 22, 4 p. m. In view of reports that President Somoza intends to visit Tegucigalpa in order to discuss with President Carías a possible solution of the boundary problem, I do not consider it wise for the Commission or Mr. Ocheltree to take any action at this time. Ocheltree's proposed visit to Tegucigalpa should therefore be deferred.

I think that the Commission should bear in mind the possibility of carrying out the visit following the conversation between the two presidents if it then appears that the visit should be desirable.

HULL

715.1715/1431: Telegram

*The Secretary of State to the Representative of the President
(Corrigan)*

WASHINGTON, May 27, 1939—2 p. m.

48. The following message has been sent to the Embassy at Bogotá:

"It will be recalled that the Venezuelan Government has been reluctant to authorize Dr. Rodríguez to confer in San José with Dr. Zúñiga Montúfar and Dr. Corrigan regarding the Nicaraguan-Honduran boundary dispute. The Department has just been informed by the Venezuelan Ambassador here that the Venezuelan Government now has no objection whatever to a meeting of the mediators in San José whenever deemed necessary, and has been requested to communicate this information to the interested parties.

"Would you please take suitable occasion to inform Dr. Rodríguez

of the foregoing, adding, however, that in the judgment of this Government it would seem preferable to defer a meeting of the mediators until after outcome of the visit of President Somoza to Honduras is known."

You may desire to communicate this information to Dr. Zúñiga Montúfar.

HULL

715.1715/1440b : Telegram

The Secretary of State to the Minister in Nicaragua (Nicholson)

WASHINGTON, July 6, 1939—7 p. m.

43. We are of course greatly interested in learning of the results of President Somoza's discussions with the President of Honduras regarding the boundary situation. If you have not already done so, kindly take an early opportunity to inquire informally of President Somoza and submit a telegraphic report.

This telegram is being repeated to Tegucigalpa with the following additional paragraph:

"Although I question whether it would be desirable to seek an interview with President Carias for the purpose of inquiring along the foregoing lines, the Department would appreciate a report by telegraph on any results of the meeting which you can discreetly obtain."

HULL

715.1715/1441 : Telegram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, July 7, 1939—10 a. m.

[Received 1:08 p. m.]

19. Department's telegram No. 15, July 6, 7 p. m.³¹ On July 3 when I called on President Carias to invite him to the Fourth of July reception at the Legation we discussed informally the visit of President Somoza to Tegucigalpa. The President told me that the boundary controversy between Honduras and Nicaragua was touched only in general terms in his conversation with the President of Nicaragua and no agreements were reached.

ERWIN

715.1715/1443 : Telegram

The Minister in Nicaragua (Nicholson) to the Secretary of State

MANAGUA, July 10, 1939—4 p. m.

[Received 9 p. m.]

72. Referring to the Department's telegram No. 43, July 6, 7 p. m. In informal conversation yesterday Somoza stated that he had dis-

³¹ Not printed, but see telegram No. 43, July 6, 7 p. m., to the Minister in Nicaragua, *supra*.

cussed the question with both Ubico ³² and Martinez ³³ and obtained from each a guarantee that he would protect his own boundary with Honduras and that no revolutionary anti-Honduran troubles would originate in his own country.

Somoza said he knew that Carías was responsible for the lack of attention in the Honduran press to his visit and just prior to his arrival had repeatedly published the laudo ³⁴ to induce the Honduran citizen to recognize no other stand. During the visit Carías had apparently avoided offering an opportunity to discuss the boundary question but Somoza seized the occasion to discuss it fully with him at the Government banquet. Carías said at once that Honduras stood by the laudo. Somoza stated to him that the Nicaraguan postage stamp had answered Honduras but had not asserted territorial claim in the same manner that both Ubico and Martinez gave guarantees above to which he added Nicaragua.^{34a} He promised the President of Honduras that Nicaragua would not make war on its neighbors. (He amended this later in the same conversation reiterating what he has frequently said to me by adding "unless Honduras provokes us") The award of the Commission, Somoza said to Carías, would doubtless be such as to give neither country all it claimed. It might be necessary for Nicaragua to accept less than it claimed and for Honduras to do the same.

Somoza says that Carías merely replied that perhaps some acceptable settlement could be reached but did not commit himself nor repeat his earlier reference to laudo. Somoza feels that Carías fears for his ability to retain office and is inaccessible to informed advisers. His opinion of Carías appears not to have changed since my personal letter of August 19, 1938 ³⁵ to Mr. Duggan reporting a conversation with Somoza on the boundary question. To my direct question in yesterday's conversation Somoza replied unequivocally that he supports the Mediation Commission and is prepared to accept its decision.

Somoza will inform the Under Secretary fully through his Minister of his interview with Carías.

He plans to visit Costa Rica at some time as yet undetermined and will discuss this question fully when there.

Please instruct if you wish any part of this telegram repeated to other posts.

NICHOLSON

³² Jorgé Ubico, President of Guatemala.

³³ Maximiliano Hernandez Martinez, President of El Salvador.

³⁴ Award of December 23, 1906, *British and Foreign State Papers*, vol. c, p. 1096.

^{34a} Sentence apparently garbled in transmission.

³⁵ Not found in Department files.

715.1715/1445b: Telegram

The Secretary of State to the Minister in Costa Rica (Hornbrook)

WASHINGTON, July 11, 1939—7 p. m.

34. For Ocheltree. Please convey the following message for Corrigan to Licenciado Zúñiga Montúfar and report his reply by telegraph.

"Are you agreeable to having Ocheltree proceed now to Tegucigalpa on the technical errand (i. e. explanation of geographic data to the Honduran Government) which we agreed to postpone until after President Somoza's visit with President Carias?"

If you see no objection I should like to have him proceed at once and then come to Washington for a conference before I depart for Venezuela.

A similar message has been sent to Dr. Rodríguez."³⁶

If neither commissioner objects (Bogotá will inform you direct), you are instructed to proceed at once to Tegucigalpa for the purpose indicated and proceed thence to Washington.

The Department plans to assign you temporarily to the Legation at Port-au-Prince, Haiti, for a period of about 2 months while the Minister is on leave enabling you to return to San José before date of reconvening the Commission.

Ascertain Zúñiga's reaction to setting October 1 as a tentative date for a preliminary meeting of the Commission (without the delegates) to formulate a program.

HULL

715.1715/1447: Telegram

*The Assistant to the Representative of the President (Ocheltree)
to the Secretary of State*

SAN JOSÉ, July 13, 1939—11 a. m.

[Received 1:30 p. m.]

7. Referring to Department's telegram No. 34, July 11, 7 p. m., Licenciado Zúñiga Montúfar has consented to my visiting Tegucigalpa in connection with the mediation and has agreed to setting October 1st as a tentative date for an executive session of the Commission.

I am proceeding to Tegucigalpa by plane tomorrow.

With reference to the Department's telegram No. 35,³⁷ please inform me at Tegucigalpa whether airplane travel to Washington is authorized.

OCHELTREE

³⁶Not printed. The Ambassador in Colombia replied that Dr. Rodríguez was entirely agreeable.

³⁷Telegram No. 35, July 12, 7 p. m., contained travel orders (715.1715/1445b suppl.).

715.1715/1449: Telegram

*The Assistant to the Representative of the President (Ocheltree)
to the Secretary of State*

TEGUCIGALPA, July 15, 1939—11 a. m.

[Received 5:05 p. m.]

9. For Corrigan. Before leaving San José the President of the Commission furnished me with a letter to the Honduran Foreign Minister and notified him by telegram of my expected arrival. He also explained the purpose of the visit to the Minister of Nicaragua at San José.

At the airport at Managua Dr. Cordero Reyes said he was writing an air mail letter to the Under Secretary regarding President Somoza's visit to Tegucigalpa. Dr. Cordero Reyes stated that it had always been his opinion that the boundary question with Honduras could not be settled by bilateral action and that the recent visit of the President of Nicaragua to Tegucigalpa had confirmed this opinion.

In an interview this morning with the Minister of Foreign Affairs of Honduras he said that President Carías would give me an opportunity to present the geographic data on Monday at an hour to be indicated later.

OCHEL TREE

715.1715/1450: Telegram

*The Assistant to the Representative of the President (Ocheltree) to
the Secretary of State*

TEGUCIGALPA, July 17, 1939—5 p. m.

[Received 8:42 p. m.]

10. For Corrigan. The geographic data was presented under favorable circumstances to President Carías and other officials of the Honduran Government this afternoon in the Casa Presidencial. I was accompanied by Secretary of Legation Salter.

The Chief of Protocol has stated on several occasions that if any result is to be expected from the presentation of the material I should also stop over at San Salvador to make similar presentation to Dr. Lainez³⁸ in whom the President has largely confided Honduras' relations with the Mediation Commission. In view of this the Department's authorization is requested to stop over at San Salvador. I am leaving Tegucigalpa by plane on Wednesday and would leave San Salvador on Friday.

OCHEL TREE

³⁸ Chairman of the Honduran delegation to the mediation conference and Minister of Honduras in El Salvador.

715.1715/1450: Telegram

The Secretary of State to the Minister in Honduras (Erwin)

WASHINGTON, July 18, 1939—6 p. m.

18. For Ocheltree. Your No. 10, July 17, 5 p. m. Authorization granted for stopover in San Salvador to make presentation to Dr. Lainez, but before leaving Tegucigalpa you should satisfy yourself that this action will be entirely agreeable to the Honduran Government.

HULL

715.1715/1453: Telegram

The Assistant to the Representative of the President (Ocheltree) to the Secretary of State

SAN SALVADOR, July 20, 1939—11 a. m.

[Received 1: 15 p. m.]

11. For Corrigan. Referring to the second paragraph of the Department's telegram of July 18 to Tegucigalpa, the Honduran Minister of Foreign Affairs furnished me with a letter to Dr. Lainez.

This morning Dr. Lainez carefully studied the geographic data with considerable interest but refrained from making any comment.

I am leaving by plane on Friday direct to Washington.

OCHELTRREE

715.1715/1454

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

[WASHINGTON,] July 20, 1939.

Dr. Cáceres, newly appointed Minister of Honduras, called to see me today to present his respects in his new capacity. I told him what great pleasure it gave me to welcome such an old friend, who had been in Washington for so many years, as Minister of his country.

I asked Dr. Cáceres if he had any information with regard to the boundary dispute between his country and Nicaragua because I wondered whether he felt that any satisfactory progress had been made during the course of the visit to Tegucigalpa in conversations between the President of Nicaragua and the President of Honduras. Dr. Cáceres professed complete ignorance of what might have transpired in those conversations. He said, however, that he believed from communications that he had received from his Government that any formula for a solution that might be proposed, provided it evaded the difficulty of declaring void the arbitral award of the King of Spain, would offer a ground for solution not unacceptable in principle to his

Government. I asked the Minister who in his opinion was really in charge, on behalf of his Government, of these boundary negotiations. He told me that while Señor Lainez had a good deal to say about it, he nevertheless believed that the final authority was the present Foreign Minister, Señor Aguirre. I told the Minister that I hoped he and his Government would bear in mind the fact that this Government was always ready to do whatever it could, provided both Nicaragua and Honduras so desired, to facilitate a friendly solution and that we were gladly continuing our participation in the Mediation Commission with the hope that the Commission might prove successful in assisting the two Governments in reaching a final and equitable adjustment of the controversy.

S[UMNER] W[ELLES]

715.1715/1459

The Chargé in Honduras (Salter) to the Secretary of State

No. 768

TEGUCIGALPA, August 12, 1939.

[Received August 17.]

SIR: I have the honor to report that Don José Augusto Padilla, the Honduran engineer who was a technical adviser to the Honduran delegation to the San José Mediation Conference and who is now permanently employed in an advisory capacity in the Foreign Office, called voluntarily at the Legation a few days ago and had a brief conversation with me.

Mr. Padilla spoke principally about the recent visit to Tegucigalpa of Mr. John B. Ocheltree, the Secretary of the American member of the Mediation Commission. As the Department is aware, Mr. Ocheltree visited Tegucigalpa during the middle of July for the purpose of exhibiting to President Carias and other interested Honduran officials certain slides which had been made in the Department. The President, as Mr. Ocheltree informed the Department, viewed the slides at the Casa Presidencial on July 17, 1939.

Mr. Padilla told me that he enjoyed seeing Mr. Ocheltree again and took advantage of the opportunity to talk very frankly with him about the Honduras-Nicaragua border controversy. He said that the effect of showing the slides was to bring home clearly the fact that existing maps of the territory in dispute are inaccurate. This, however, he hastened to point out, was already known to the Hondurans.

Mr. Padilla intimated that the Government of Honduras is very much opposed to a new map of the region until it is agreed before the Mediation Commission to accept the validity of the Award of the King of Spain. Then, he added, Honduras will be ready to aid in the preparation of an accurate map of the area in dispute.

He concluded his remarks by stating that it must not be forgotten that the thesis of Honduras in the controversy is the validity of the Award, and the Honduran Government cannot and will not agree to take any steps which might tend to weaken this stand. An aerial survey of the territory, undertaken before the validity of the Award is agreed to, might tend to weaken Honduras' position, he observed. He pointed out that he realized Honduras may lose territory by a survey and drawing of an accurate map, if the boundary is fixed according to the Award of the King of Spain, but the Government is willing to take this risk in order to have its contention accepted.

Respectfully yours,

FRED K. SALTER

715.1715/1465 : Telegram

The Chargé in Honduras (Salter) to the Secretary of State

TEGUCIGALPA, October 25, 1939—3 p. m.

[Received 9:15 p. m.]

42. Lardizabal, the Chief of Protocol, today informed me in strict confidence and on his own initiative of the following contemplated action by the Honduran Government in connection with the Honduran-Nicaraguan boundary question.

Lardizabal said that the technical adviser of the Honduran delegation to the Mediation Conference was told recently in Panama City by Señor Montúfar that Dr. Corrigan and Montúfar would meet soon to discuss question of ending the mediation.

My informant stated that Honduras would prefer not to have the mediators meet now. The Foreign Minister has drafted a note to Montúfar asking for a postponement of the projected meeting of the commission, but the protocol chief persuaded him not to send it.

The Foreign Office has now called the Ministers of Honduras in Salvador and Managua to Tegucigalpa for consultation on the subject. Lardizabal stated that the Government plans to persuade their [Minister?] at San Salvador and head of the Honduran delegation to the Conference at San José, to make a special trip to Washington to suggest to the Department that projected meeting be postponed and that no steps be taken for the present by anyone concerned with the dispute. Lardizabal will oppose sending the Minister to Washington. He has asked me to ascertain whether the meeting is actually scheduled to take place. If the Department can supply any pertinent information which I may give to my informant, I should appreciate being informed thereof as soon as possible.

SALTER

715.1715/1466: Telegram

The Chargé in Honduras (Salter) to the Secretary of State

TEGUCIGALPA, October 27, 1939—10 a. m.

[Received 1:18 p. m.]

43. Reference is made to the Legation's telegram No. 42, October 25. I have just been advised confidentially that in his conversation with Montúfar at Panama City the Honduran technical adviser asked whether the mediators would affirm the validity of the Alphonso award in their final report, and he was told that the view of Nicaragua on the King's decision must be considered by the Commission. This reported statement by Montúfar has considerably disturbed Honduran officials, and they hope that no action will be taken by the Mediation Commission at this time. Foreign Office official informs me that, in view of the European situation, it would be most unfortunate for the boundary dispute to flare up again and be discussed in the press and radio. Honduras desires that the *status quo* in the matter be maintained for the present.

SALTER

715.1715/1465: Telegram

The Secretary of State to the Chargé in Honduras (Salter)

WASHINGTON, October 27, 1939—6 p. m.

31. Your telegram no. 42, October 25, 3 p. m. It is our understanding that Dr. Corrigan and Dr. Zúñiga Montúfar have exchanged correspondence with regard to the possibility of holding a meeting of the Mediation Commission sometime in December without the presence of representatives of Honduras and Nicaragua, for the purpose of considering the future course of the mediation.

The Department is convinced that the mediation proceedings afford perhaps the most effective means of bringing about a solution of this long-standing dispute and has never entertained the thought of recommending their termination. Moreover, the Department has received no intimation from any source that there is a disposition on the part of the other members of the Commission to terminate the mediation. Please communicate the foregoing informally to the Chief of Protocol or other appropriate officials of the Honduran Government.

It is hoped that with this explanation the Honduran Government will desist from any efforts to oppose the proposed meeting, but in the event that it maintains contrary views, it is believed that any communication or consultation on the subject should appropriately be held with the President of the Commission in San José rather than with the Department.

For your confidential information the Department considers that it would be highly undesirable for any special representative of the Honduran Government to come to Washington in this connection and if this proposal is again brought to your attention, you should endeavor discreetly but firmly to discourage it.

Please keep the Department closely informed of all developments.

HULL

[No further meeting of the Mediation Commission was held in 1939.]

DISPUTE BETWEEN GUATEMALA AND THE
UNITED KINGDOM ¹

714.44A15/48

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] March 1, 1939.

The Minister of Guatemala called on his own request. He said that he had called to keep this Government reminded of the suggestion that it informally confer with the British Government in an effort to promote progress in the settlement of the boundary controversy between Great Britain and Guatemala. He also handed me a large bound volume called the *White Book*,² which, he said, contained the entire record in the controversy. I thanked him for this book and added that naturally since I had been suffering from an attack of influenza during the past three weeks and more, I was able to give attention only to the emergency matters arising in the Department. I then said that recalling my conferences with Dr. Salazar, the Foreign Minister of Guatemala, on the subject, I had planned to discuss the matter in an entirely informal way, not on its merits, of course, but from the standpoint of endeavoring to facilitate the settlement of the controversy. The Minister said he appreciated the situation as did his Government and that they would be very appreciative of anything I might thus say to the British.

C[ORDELL] H[ULL]

714.44A15/49

*The Chairman of the Senate Committee on Foreign Relations
(Pittman) to the Secretary of State*

WASHINGTON, March 14, 1939.

MY DEAR MR. SECRETARY: I have the honor to transmit to you herewith, for your consideration and any recommendation or report you may feel disposed to make, the resolution (S. Res. 100) requesting information concerning the territorial rights of the Republic of Guatemala.

With expressions of respect, I am
Sincerely,

KEY PITTMAN

¹ Continued from *Foreign Relations*, 1938, vol. v, pp. 202-209.

² Ministry of Foreign Affairs, Republic of Guatemala, *White Book, Controversy Between Guatemala and Great Britain Relative to the Convention of 1859 on Territorial Matters: Belize Question* (Guatemala, October 1938).

[Enclosure]

Senate Resolution 100, 76th Congress, 1st Session

IN THE SENATE OF THE UNITED STATES

March 13, 1939

Mr. Reynolds submitted the following resolution; which was referred to the Committee on Foreign Relations

RESOLUTION

Resolved, That the Senate of the United States requests that the Secretary of State submit to it (if not incompatible with the public interest) information as to what, if anything, is being done by our Government toward protecting, as a part of the Monroe Doctrine, the alleged territorial rights of our sister Republic of Guatemala in its dispute with Great Britain over Belize (British Honduras), as evidenced by the *White Book* recently released by the Guatemalan Government protesting the procedure of Great Britain and appealing to the universal concurrence of civilized nations to come to her aid; and in which the Guatemalan Government has unsuccessfully urged that Great Britain accept President Franklin D. Roosevelt as arbitrator.

714.44A15/51

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 841

GUATEMALA, March 15, 1939.

[Received March 20.]

SIR: Referring to previous correspondence from this Mission with respect to the British Honduras-Guatemalan boundary dispute, I have the honor to enclose herewith copies and translation of a note addressed to this Legation³ during my recent absence in the United States. Foreign Minister Salazar points out in his note that pursuant to conversations which he held with the Secretary of State and Assistant Secretary Adolf A. Berle at the recent Lima conference,⁴ during which both expressed the "desire to know the question in detail", he has sent instructions to the Guatemalan Minister at Washington, Dr. Adrián Recinos, which are to be communicated to the Department. A copy of these instructions (a translation³ of which is enclosed herewith) was attached to the note under reference with the suggestion that they be transmitted to the Department.

A few days ago the Minister for Foreign Affairs sent the Chief of Protocol of the Foreign Office to the Legation to inform me of the continued interest of his Government in the question, and at the same time to leave with me a draft memorandum which refers in part to his note of February 11, and which reads in translation as follows:

³ Not printed.⁴ See *Foreign Relations*, 1938, vol. v, pp. 1 ff.

Memorandum for the Legation of the United States

The Ministry for Foreign Affairs of Guatemala has the honor to inform the Honorable Legation of the United States of America:

I

On February 8, 1939, the Ministry for Foreign Affairs addressed the Guatemalan Legation in Washington in order that, in conformity with the conversation which Secretary Salazar had the honor to have with the Honorable Cordell Hull on board the S. S. *Santa Maria*, he approach the Secretary of State and beg his friendly cooperation in the Belize matter which is being discussed between the Chancelleries of Guatemala and London.

II

The Government of Guatemala desires that experts of the Department of State study the problem of Belize, together with our Minister in Washington, as presented in the historic and diplomatic documentation which is contained in the official publication called *The White Book*: and that the Government of the United States give us its friendly advice in conformity with the results of the study.

III

The Ministry for Foreign Affairs gave instructions to Minister Recinos and a copy of these instructions was handed to that Honorable Legation in order that, through its means, it come to the attention of the Secretary of State.

IV

The Ministry for Foreign Affairs, duly instructed by the President of the Republic, begs of the Minister of the United States his valuable influence in the Department of State in order that, whenever it may be possible, the wishes of President Ubico be acceded to.

I have the honor further to report that in a recent interview with President Ubico, he spoke at some length on the British Honduras dispute, taking the occasion to state his belief, as he has done before, that England would immediately settle the dispute if the United States Government would manifest an interest in the matter. At the same time he informed me that the Guatemalan Government would be perfectly satisfied if an agreement could be reached whereby "the territory up to the Sibún river would be returned to Guatemala".

Respectfully yours,

FAY ALLEN DES PORTES

714.44A15/49

The Acting Secretary of State to the Chairman of the Senate Committee on Foreign Relations (Pittman)

WASHINGTON, March 23, 1939.

MY DEAR SENATOR PITTMAN: I have received your letter of March 14, 1939 with which you transmit a copy of Senate Resolution 100

with regard to the dispute between the Republic of Guatemala and Great Britain over the territory of British Honduras.

This dispute was referred to the Department in a note dated September 10, 1936⁵ from the Acting Minister of Foreign Affairs of Guatemala in which it was asked that "the United States would be so kind as to interpose its moral prestige . . .⁶ in favor of the right of Guatemala in this matter". The reply of the Department stated that

"It is assumed that Your Excellency's request contemplates the extension of good offices on the part of the United States to the end that a solution of the controversy satisfactory to Guatemala and Great Britain may be reached. Should this assumption be correct, I am glad to state that the Government of the United States will make available its good offices in the event that the British Government joins with that of Guatemala in requesting such good offices.

"If Your Excellency had in mind the submission of the controversy to arbitration by the United States, my Government would of course be glad to consider the possibility of acting as arbitrator in the matter, provided Guatemala and Great Britain jointly requested its assistance in that sense.

"I shall be glad to give further consideration to Your Excellency's note of September 10, 1936, upon a reply from Your Excellency clarifying the scope of the request which Your Excellency wishes to make."

Subsequently the Guatemalan Government in a note dated July 21, 1937 proposed to the British Government the arbitration of the dispute by the President of the United States. The British Government accepted the proposal of arbitration but in view of its opinion that the dispute was essentially legal in character, proposed that the problem be submitted to the Permanent Court of International Justice of The Hague. When the Guatemalan Government declined to accept arbitration by the Permanent Court, the British Government stated to the Guatemalan Government "that it would serve no useful purpose to pursue the matter further and that they have therefore no option but to treat the present boundary of British Honduras . . .⁶ as constituting the correct boundary."⁷ The reply of the Government of Guatemala, as published on page 432 of the *White Book* referred to in Senate Resolution 100, stated that it

"renews its demand for integral compliance with the Convention of 1859,⁸ maintains the reservation of its rights, and rejects responsibilities for the consequences of non-compliance with a treaty, respect

⁵ *Foreign Relations*, 1937, vol. v, p. 121.

⁶ Omission indicated in the original.

⁷ See Guatemala, *White Book*, p. 431.

⁸ Convention between Great Britain and Guatemala relative to the boundary of British Honduras, signed at Guatemala, April 30, 1859, *British and Foreign State Papers*, vol. XLIX, p. 7.

for which has been continuously solicited precisely by the Government of Guatemala.”

I wish to assure you that this Department has a very real interest in the settlement of pending boundary controversies in this hemisphere, whether between two American Republics or between one of the American Republics and a European state, and that it continues to stand ready to contribute in any practicable and proper manner to the early conclusion of a pacific settlement of this dispute.

Sincerely yours,

SUMNER WELLES

714.44A15/51

The Secretary of State to the Minister in Guatemala (Des Portes)

No. 291

WASHINGTON, June 8, 1939.

SIR: With reference to your despatch No. 841 of March 15, 1939 and previous correspondence concerning the controversy between Great Britain and Guatemala over matters relating to the boundary between British Honduras and Guatemala, you are requested to deliver the enclosed memorandum personally to President Ubico. You may inform him that a similar memorandum is being handed to the British Ambassador in Washington.⁹

Very truly yours,

For the Secretary of State:
SUMNER WELLES

[Enclosure]

Memorandum To Be Handed to the President of Guatemala (Ubico)

The Government of the United States has had its attention drawn on a number of occasions to the controversy which has unfortunately existed for many years between the United Kingdom and the Republic of Guatemala over matters relating to the boundary between that country and British Honduras. It is understood that the controversy is concerned primarily with the application and interpretation of the Treaty of 1859 between the two Governments, in which connection it is recalled that an agreement for carrying out certain of the provisions of that Treaty was entered into in 1863¹⁰ between representatives of the Government of the United Kingdom and of Guatemala, but that it was never ratified by either party.

In October, 1938, the Government of Guatemala published a *White Book* relating the history of this controversy and giving the texts of

⁹ Handed by the Under Secretary of State to the British Ambassador, June 15.

¹⁰ For text of the convention signed August 5, 1863, between the Plenipotentiaries of Guatemala and of Her Britannic Majesty to give compliance to article VII of the convention of April 30, 1859, see Guatemala, *White Book*, p. 245.

documents and official correspondence including notes exchanged at various times between His Majesty's Government and the Guatemalan Government with respect to the possibility of a settlement. The most recent correspondence on that subject apparently began on February 21, 1933, on which date the British Chargé d'Affaires ad interim in Guatemala City addressed a note to the Guatemalan Minister for Foreign Affairs regarding the desire of His Majesty's Government that the delimitation of the boundary between British Honduras and Guatemala be undertaken. In the exchange of notes which ensued there was discussed likewise the question of the fulfillment of the provisions of Article 7 of the Treaty of 1859 regarding the establishment of a means of communication between British Honduras and Guatemala City. Unfortunately the two Governments were unable to reach an agreement concerning the questions at issue, and no recent progress appears to have been made toward a settlement.

The Government of the United States naturally has no desire to express any opinion either as to the merits of the issues involved or as to possible methods of adjustment. It has, however, a very genuine interest in the friendly settlement of any dispute the existence of which tends to impair the cordial relations now prevailing in this hemisphere, and it accordingly could but view with the most profound satisfaction the initiation of practical steps toward an equitable solution of the present problem.

During recent years very notable progress has been made in the settlement of boundary disputes in the New World.

The solution of the Tacna Arica problem¹³ occurred in 1929 after fifty years of controversy between Chile and Peru. Incidents in the Leticia area between Colombia and Peru brought those countries almost to the verge of hostilities before an amicable settlement was effected in 1934.¹⁴ The solution of the Chaco controversy between Bolivia and Paraguay¹⁵ was one of the most important achievements for peace during the past year and as a result the relations of the two countries are now on a cordial and satisfactory basis. In 1933 the Governments of Guatemala and Honduras accepted a mutually satisfactory arbitral settlement of their frontier, which has since been delimited.¹⁶ Although territorial problems still exist as between Peru and Ecuador,¹⁷ and between Nicaragua and Honduras, these controversies have recently been the subject of amicable negotiation, giving rise to the hope that final settlements may not be impossible of attainment.

¹³ See *Foreign Relations*, 1929, vol. I, pp. 720 ff.

¹⁴ See *ibid.*, 1934, vol. IV, pp. 321 ff.

¹⁵ See *ibid.*, 1933, vol. V, pp. 89 ff.

¹⁶ See *ibid.*, 1932, vol. V, pp. 372 ff.

¹⁷ See pp. 141 ff.

The Government of the United States would look with especial pleasure upon a renewal of efforts on the part of the Governments of Great Britain and Guatemala to obtain a satisfactory adjustment of the problems relating to the British Honduras-Guatemala frontier, and it is the earnest hope of the Government of the United States that steps in that direction may be undertaken at an early date. A friendly solution of this long-standing controversy would be a signal example, particularly timely in view of present world conditions, of the value of the pacific method of settlement of international differences.

A similar memorandum is being transmitted to the British Government.

WASHINGTON, June 8, 1939.

714.44A15/66

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 966

GUATEMALA, August 12, 1939.

[Received August 17.]

SIR: I have the honor to report a very interesting conversation which took place here in the Legation a few days ago with Don Delfino Sanchez Latour, Chief of Protocol . . .

Mr. Sanchez Latour informed me that President Ubico asked him to let me know that he was becoming very much fed-up over the inaction and delay in the negotiations with the British Government regarding the "Belize dispute". Mr. Sanchez Latour further informed me that the President had decided to wait one month longer, and that if the negotiations were still at a standstill, he, President Ubico, would then send a note to every American Republic, asking for their cooperation in the settlement of this dispute. He further informed me that after sending this note to the different American Republics and, if he failed to get action or cooperation from them, that he, the President, expected to withdraw any further cooperation of the Guatemalan Government in the other Conferences of American Republics. Mr. Sanchez Latour then went on to say that Guatemala had withdrawn from the League of Nations for this same reason, that is, that the President had seen no good that the small nations of the world were receiving from the League, and that when Guatemala withdrew from the League of Nations quite a few other nations did likewise, and that he believed if Guatemala withdrew its cooperation from the Conferences being held by the American Republics, that there would be other nations which would do the same.

I told Mr. Sanchez Latour that I was very sorry that the President felt this way.

Following this, Mr. J. P. Armstrong, President of the International Railways of Central America, a British subject, and a very close friend

of President Ubico, came to call on me day before yesterday, and in the conversation he informed me that President Ubico had sent Mr. Sanchez Latour out to his home a few days ago, and Mr. Sanchez Latour had told him practically word for word the same story the President sent me. It occurs to me that this may only be a threat that President Ubico is making to try and force our Government to aid him in forcing the British Government into action, but still he may carry out his threat, and it could probably have some very serious consequences.

Respectfully yours,

FAY ALLEN DES PORTES

714.44A15/66

*The Under Secretary of State (Welles) to the Minister in
Guatemala (Des Portes)*

WASHINGTON, August 25, 1939.

MY DEAR MR. MINISTER: I have read with interest your despatch no. 966 of August 12, 1939, in which you report a conversation with the Chief of Protocol of the Guatemalan Foreign Office with regard to the intention of President Ubico of enlisting the support of the other American republics in the controversy with Great Britain over the territory of Belize.

I believe that it would be highly regrettable for the contemplated action to be taken at this time, as the intervention of other American republics in the controversy might make it difficult for this Government to continue to take active interest in the conclusion of an amicable settlement of the dispute. Furthermore, such intervention might be considered by the British Government as constituting grounds for declining to resume negotiations.

I do not wish to suggest that you should make any representations to the Guatemalan Government with regard to this question, but it occurs to me that if the Chief of Protocol or other officials of the Guatemalan Government should again refer to the reported plan of President Ubico, you could be guided in your conversation by the foregoing observations.

With my very kind personal regards, I am

Sincerely yours,

SUMNER WELLES

714.44A15/77

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 994

GUATEMALA, September 13, 1939.

[Received September 27.]

SIR: With reference to my telegram No. 36 of September 12, 7 p. m., 1939,¹⁸ I have the honor to enclose herewith a copy and translation ¹⁸

¹⁸ Not printed.

of a Memorandum, No. 13340, of September 12, which the Legation has received from the Foreign Office, in which the possible inclusion of a resolution regarding the Belize question in the program of the forthcoming Panama Conference¹⁹ is discussed.

As reported in my telegram under reference, I was at pains in presenting the suggested agenda to the Foreign Minister to mention that my Government hoped that the Government of Guatemala would not propose the addition to the agenda of any questions not directly pertinent to the purposes of the Conference. The receipt of this Memorandum consequently came as a complete surprise.

The Department will note that the Memorandum asks whether the United States would be disposed to back a resolution to be proposed by Guatemala at the Conference which would recommend to the study of the American Governments the territorial question between Guatemala and Great Britain, with the eventual purpose of reaching a declaration of continental solidarity in favor of Guatemala in this question.

The Memorandum is, as reported in my telegram, but one more evidence of the determination of President Ubico to get something done in regard to the Belize question in the immediate future. The Legation has received information from a variety of sources in recent weeks (see, for example, despatch No. 966 of August 12, 1939), that this was the case. To a certain extent this may be discounted as having been given to impress the Legation with the President's seriousness, but the President's stubbornness in pursuing his convictions suggests that he must be rebuffed very gently if this is to be done.

I understand that the British Minister called on the President a day or two ago to express his Government's appreciation for the resumption of service on the Guatemalan sterling debt, and tried to impress on him the difficulty of giving adequate consideration to the question in the Foreign Office at the present time. In spite of the obvious truth of this, the President, so I understand, was obdurate that something be done about the matter in the immediate future.

I am also informed that the German Minister called on the President on his return and expressed sympathy for the Guatemalan claims. In this connection the Minister of Finance, Gonzalez Campo, informed a friend that Guatemala would receive Belize within a year—from Germany. The remark was merely a manifestation of Gonzalez Campo's well known German predilections, but the thought behind it might well work on President Ubico's mind if he accomplished nothing by other means.

The Memorandum under reference, then, is but one move in a well planned campaign inspired by the President's determination to get

¹⁹ See pp. 15 ff.

something done in the Belize question. It looks to the recommendation by the Panama Conference that the American Republics study the question, and to an eventual declaration of American solidarity with Guatemala. If the recommendation is sidetracked—as it presumably must be—President Ubico is almost certainly going to be annoyed, and may rock the Pan American boat or take other action which would be detrimental to United States interests. The President is clearly of the opinion that only by making a rumpus can he express his determination to have the matter settled. I therefore respectfully recommend that, if the Guatemalan request is rejected, every effort be made to show consideration for Guatemalan susceptibilities.

Respectfully yours,

FAY ALLEN DES PORTES

714.44A15/75

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 1002

GUATEMALA, September 20, 1939.

[Received September 25.]

SIR: With reference to previous reports regarding the Belize question, I have the honor to inform the Department that several developments have recently occurred in connection therewith, the most notable of which is that the British Minister in this city is reported to have received instructions to begin negotiations to settle it.

As already reported in my despatches No. 966 of August 12, 1939, and No. 994 of September 13, 1939, the President has determined to press for an immediate settlement of the Belize question. In endeavoring to bring pressure he appears to have temporarily abandoned the idea of doing this through financial measures, inasmuch as he has now made good the June 30 default on the Guatemalan sterling debt. His latest idea, as particularly revealed by the memorandum enclosed with despatch No. 994, is to line up the American Republics solidly behind him and thereby embarrass Great Britain to the maximum extent possible in its relations with the Americas. The President is reported to hold the view that, inasmuch as eighty years of polite note writing and dignified protests have not accomplished anything toward remedying the wrong which Great Britain had done Guatemala, it is time to try more vigorous methods, which in similar cases have recently produced results in other parts of the world. There is no reason to suppose that, to a man of the President's temperament, who is in a position at the present critical time to cause a very considerable amount of embarrassment, there will be any reluctance to cause that embarrassment, particularly after the barren results which mildness has hitherto secured. Counsels of prudence do not carry much conviction because of this latter circumstance.

The local press has mentioned several items which show the measure of success which has attended the President's efforts to attain a continental solidarity in favor of Guatemala's claims. Despatch No. 993 of September 12, 1939,²⁰ mentioned two articles recently written in the Costa Rican newspapers regarding the question. On September 18 *Nuestro Diario* transcribed an editorial which had been published in *La Noticia* of Managua supporting the Guatemalan claim. Moreover, *El Imparcial* on September 19 published a speech made by a Chilean Senator before the Congress of that country, upholding the Guatemalan contention. The evidence, taken in conjunction, clearly indicates that Guatemala is conducting a systematic campaign to secure the adherence of the other American nations to the resolution of continental solidarity mentioned in the memorandum sent on September 12, 1939, to this Legation.

I am very confidentially informed that the British Minister has just received instructions from his Government to begin negotiations with the Guatemalan Government regarding the Belize question. Upon what basis these negotiations were to be undertaken was not mentioned. The Minister himself has informed me that he has just recommended to his Government that it accept President Ubico's earlier proposal that the controversy be submitted to the arbitration of President Roosevelt (this recommendation was evidently made subsequent to the receipt of the above mentioned instructions). An official of the Foreign Office has confirmed to me that no negotiations have as yet been undertaken.

I am also confidentially informed . . . that the Foreign Minister . . . did not wish to convey President Ubico's demands to the British Minister upon the latter's arrival in this country, and that therefore the President entrusted this task to his friend. This gentleman (whose information I consider absolutely trustworthy) states that President Ubico demanded all of British Honduras south of the Sibun River, and £1,000,000, with which he agreed to pay off the British sterling debt.

I am under the impression that the British Minister . . . is of the opinion that the only hope of settling the controversy . . . is to accept the earlier Guatemalan proposal of arbitration by President Roosevelt.

The President is thus apparently determined to press for an immediate settlement and to utilize his nuisance value to the full in attaining his ends. For the moment he is invoking the continental solidarity of the Americas in support of his claims. He is evidently backing this by a propaganda campaign. The British Minister has been authorized to start negotiations looking to the settlement of the controversy, but has suggested to his Government that Great Britain

²⁰ Not printed.

accept the earlier Guatemalan proposal to submit the matter to the arbitration of President Roosevelt.

Respectfully yours,

FAY ALLEN DES PORTES

714.44A15/80

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 1003

GUATEMALA, September 22, 1939.

[Received September 28.]

SIR: With reference to my telegram No. 39 of September 21, 4 p. m.²¹ I have the honor to enclose herewith a copy of the note regarding the Belize dispute handed by the British Minister to the Guatemalan Foreign Office on September 20, 1939.²² As reported in my telegram under reference, the Minister gave me a copy of this note the following day. The Department will observe that the note declares it to be the British Government's intention to reopen negotiations regarding the Belize question as soon as the war situation permits.

The British Minister was obviously pleased at having received the instructions to hand in this note. He said that his cabled instructions had arrived two days before, but that they had been so badly garbled that he had been able to deliver the note only on September 20. He wished to inform the local press immediately of the intention of the British Government to resume negotiations, but I pointed out to him that this was the President's pet problem of the moment, and that, being out of town, he might be irritated at having a major development in this matter known to the public before he had heard of it. The British Minister then intimated that, before saying anything to the press, he would make certain that this would be agreeable to the President.

The Minister also mentioned to me that agitation by the Guatemalan Government, either at the Panama Conference, or in the Latin American press, might cause his Government to modify its present intention to reopen negotiations with regard to the question.

The Secretary of the British Legation on the evening of September 21 intimated in a private conversation that prior to the delivery of this note, but evidently subsequent to the first instructions regarding the reopening of the negotiations received by his Minister (See Despatch No. 1002 of September 20, 1939), the Minister's recommendation to his Government that the question be submitted to the arbitration of President Roosevelt, as once proposed by Guatemala, had been rejected

²¹ Not printed.

²² For text, see Ministry for Foreign Affairs, Republic of Guatemala, *Continuation of the White Book . . . Belize Question, III (Guatemala, April, 1941)*, p. 131.

by the British Foreign Office. The Secretary said that the Foreign Office considered one man arbitration out of date. The Secretary also stated that it had been very difficult even to persuade the British Foreign Office to authorize the sending of the note under reference. This of course may have been said for effect, but there are other indications that the Foreign Office is as unenthusiastic about endeavoring to settle this question as President Ubico is zealous to secure a handsome settlement quickly.

This morning the Chief of Protocol personally delivered to me a confidential covering note enclosing a copy of the British note and a copy of the Guatemalan reply thereto. A copy and translation of the Guatemalan reply is enclosed with this despatch.²³ This exchange of notes was published by the Foreign Office this evening. The Department will observe that the Guatemalan note receives the British statement cordially, although its generally friendly tone may perhaps be said to be slightly marred by the reference to the "lapsed Convention of 1859."

I took the occasion afforded by the delivery of this note to mention to the Chief of Protocol that it would be dangerous to the success of the negotiations if an effort was made by Guatemala at the present time to secure the open backing of the other American Republics in this dispute. The Chief of Protocol has now informed me that instructions have been sent to Foreign Minister Salazar, who is now in Panama, informing him of the British note, and directing him to await the arrival of further air mail instructions before taking any action on his earlier instructions. The Chief of Protocol stated in our second conversation that after my talks with him, he had no doubt that the President would cease his efforts to obtain the declaration of continental solidarity in support of Guatemala's claims envisaged by the Guatemalan Memorandum of September 12, 1939.²⁴

The generally cordial tone of the two notes, particularly the British, in conjunction with the sympathetic action of President Ubico in ordering the resumption of service on the Guatemalan sterling debt, should create an atmosphere favorable to the initiation of the negotiations. At the same time, even the British Minister's ideas of generosity in the problem seem to fall far short of the minimum which President Ubico would accept as a direct settlement. There seems unfortunately to be an equal disagreement regarding arbitration. Moreover, it must again be emphasized that President Ubico is impatient for a settlement of this question, and that the more favorable atmosphere which has apparently been created may well be dissipated, so far as the

²³ For text, see Guatemala, *Continuation of the White Book*, III, p. 132.

²⁴ Not printed; see despatch No. 994, September 13, p. 180.

Guatemalan Government is concerned, if the British note is not soon followed up by some concrete proposal.

The British Minister has thus handed the Guatemalan Foreign Office a note stating that the British Government intends to reopen negotiations regarding the Belize question, as soon as the war situation permits, on the basis of proposals already under consideration by the British Foreign Office before the outbreak of the war. This note, and likewise the Guatemalan acknowledgement thereof, were couched in generally cordial terms. President Ubico has evidently been persuaded to desist from his plan to secure a declaration of continental solidarity by the American Republics in support of the Guatemalan claims. The British Foreign Office seems to have rejected the British Minister's recommendation that the question be submitted to the arbitration of President Roosevelt, as earlier proposed by Guatemala. While the atmosphere thus seems to be much improved for starting negotiations, it must not be assumed that it will be easy or even necessarily possible to find a solution which will be satisfactory to both Guatemala and Great Britain.

Very respectfully,

FAY ALLEN DES PORTES

714.44A15/73: Telegram

The Secretary of State to the Minister in Guatemala (Des Portes)

WASHINGTON, September 23, 1939—3 p. m.

37. Your despatch no. 994 of September 13 and telegram no. 39, September 21, 4 p. m.²⁵

Please inform the appropriate officials of the Guatemalan Government that the British Embassy in Washington has communicated to the Department in an *aide-mémoire* dated September 21²⁶ what is apparently the substance of a recent British note on the subject of the dispute over the boundary of Belize. The *aide-mémoire* indicates that the British Government proposes "as soon as the war situation permits, to reopen negotiations with the Guatemalan Government on the basis of new proposals which were in fact actually forming the subject of careful consideration when hostilities broke out".

It would seem appropriate for you to state to the Acting Foreign Minister that in view of the intention of the British Government to reopen negotiations, the matter would seem to be progressing favorably so that its consideration by the 21 American countries at Panama would seem premature. You may state that this Government is informing its delegate at the Panama meeting of the memorandum dated September 12, 1939, presented by the Guatemalan Government and is

²⁵ Latter not printed.

²⁶ Not printed.

confident that he will give sympathetic attention to any views which Dr. Salazar may care to express.

For your confidential information, the Department approves the efforts which you have made to discourage the Guatemalan Government from bringing the subject of this dispute into the Panama meeting, and hopes that on account of the British note the Guatemalan Government will not press the question at Panama.

The foregoing has been repeated to Mr. Welles.²⁷

HULL

714.44A15/79: Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 24, 1939—6 p. m.

[Received 7: 14 p. m.]

11. Your 12, September 23, 3 p. m.²⁸ In a conversation which I had yesterday with Doctor Salazar he informed me that he had definitely determined not to bring up directly or indirectly the question of Belize since in his opinion the present attitude of the British Government made it unnecessary and since in any event he did not consider it a proper subject for discussion at this meeting. I told him that I was heartily in accord with the views he expressed and that he could continue to be assured of our desire to do everything we could to be helpful to the two governments involved in bringing about a satisfactory solution of the controversy.

WELLES

714.44A15/76: Telegram

The Minister in Guatemala (Des Portes) to the Secretary of State

GUATEMALA, September 25, 1939—6 p. m.

[Received 10: 37 p. m.]

40. Department's telegram No. 37, September 23, 3 p. m. The Department will note from despatch No. 1003, of September 22, that I had already apparently dissuaded the Guatemalans from raising the Belize question at Panama. I conveyed the other points in the Department's telegram to the Acting Secretary this afternoon.

The Acting Secretary read to me parts of a despatch from Mr. Salazar stating that Mr. Welles had informed him that the Department had received a note from the British Embassy stating that the British would reopen negotiations after the termination of war. The

²⁷ Sumner Welles, then at Panama, as delegate of the United States of America to the meeting of the Foreign Ministers of the American Republics for Consultation under the Inter-American agreements of Buenos Aires and Lima, held at Panama, September 23–October 3, 1939; see pp. 15 ff.

²⁸ See last paragraph of telegram *supra*.

despatch added that Mr. Welles had spontaneously promised to make vigorous representations to the Embassy upon his return to Washington that there was no relation between this question and the termination of hostilities.

The Acting Secretary said that his Government was disturbed at this because the war might last several years. He added that the British had asked that the matter be omitted at Panama City and that the local propaganda be curbed and also said that the Germans were broadcasting propaganda to the effect that this was a case in which Great Britain had broken a treaty with a weak nation. The Acting Secretary expressed the fear that the British might be merely playing for time.

I point out that neither the British note to the Foreign Office nor the Embassy's note to the Department as quoted in the Department's telegram spoke of the termination of the war. The Acting Secretary was very pleased at this information and again expressed his Government's appreciation for our efforts in the matter.

Repeated to the Under Secretary at Panama.

DES PORTES

714.44A15/81

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 1008

GUATEMALA, September 27, 1939.

[Received October 2.]

SIR: With reference to my telegram No. 40 of September 25, 6 p. m., 1939, I have the honor to discuss the developments in the Belize question which have occurred since September 22 (see my despatch No. 1003 of that date).

As reported in my telegram under reference, I did not immediately call on the Acting Foreign Minister, Licenciado Carlos Fernández Córdova, to discuss with him the points mentioned in the Department's telegram, inasmuch as the major point—the question of whether the Belize dispute should be brought before the Panama Conference—appeared already to have been settled. On Monday afternoon, however, I informed him that the Department had received a note evidently worded in almost precisely the same language as the note which the Guatemalan Foreign Office had received, and that Mr. Welles would be glad to give sympathetic attention at Panama to any views which Mr. Salazar might express.

Respectfully yours,

FAY ALLEN DES PORTES

714.44A15/91

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] November 14, 1939.

The British Ambassador²⁹ called to see me this morning by appointment.

At the conclusion of our conversation the Ambassador said that he was very gratified to be able to inform me that the British Government had determined to propose to the Government of Guatemala the immediate arbitration of the controversy between Guatemala and Great Britain involving the frontier between Guatemala and British Honduras and the provisions of the Treaty of 1856 [1859]. The British Government intended to propose as the arbitral tribunal an *ad hoc* tribunal composed of international lawyers, provided the President of the United States would agree to appoint as umpire on such tribunal an American citizen. The Ambassador said that if the President consented to take such action, his Government trusted that the President would select as umpire some outstanding judge in the United States, preferably an Associate Justice of the Supreme Court.

I told the Ambassador that it would give me much pleasure to submit this information to the President for his decision, and that I believed the determination arrived at by the British Government would be warmly received on this continent and would have very favorable results in stimulating the rapid solution of all existing boundary controversies by means of arbitration.

S[UMNER] W[ELLES]

714.44A15/91

The Acting Secretary of State to the British Ambassador (Lothian)

WASHINGTON, November 15, 1939.

MY DEAR AMBASSADOR: With reference to our conversation of November 14, the President has today asked me to let you know that he will gladly assume the responsibility of designating a citizen of the United States to serve as the umpire on the *ad hoc* tribunal of international lawyers to undertake the arbitration of the controversy between the British and Guatemalan Governments.

Upon notification by you that the preparations have been completed and a final agreement has been reached, the President will be glad to inform you of the name of the individual whom he selects. I communicated to the President the indication of your Government

²⁹ Marquess of Lothian.

that it would favor the designation of some outstanding judge in this country as umpire.

Believe me,

Yours very sincerely,

SUMNER WELLES

714.44A15/85a : Telegram

*The Acting Secretary of State to the Minister in
Guatemala (Des Portes)*

WASHINGTON, November 15, 1939—5 p. m.

51. The British Ambassador yesterday informed me that the British Government was now prepared to propose to the Government of Guatemala the arbitration of the controversy between the two Governments by an *ad hoc* tribunal of international lawyers, provided the President of the United States would agree to select a United States citizen as umpire on the tribunal. The President has today authorized me to inform the British Ambassador that he will be glad to accept this responsibility.

I assume consequently that the British Government will in the immediate future inform the Guatemalan Government of the proposal above mentioned, but because of the conversation I had with Dr. Salazar in Panama, I shall appreciate it if you will inform him of the above for his confidential information, and express to him my great pleasure that arbitration of this dispute will now be possible and that the umpire will be an American citizen. Please extend to him my personal felicitations on the success of his long and patient negotiations in this matter and state that this development appears to me to be a further happy indication that boundary controversies on this continent are susceptible of solution by juridical procedure.

WELLES

714.44A15/89

*The British Ambassador (Lothian) to the Under Secretary
of State (Welles)*

WASHINGTON, November 20, 1939.

DEAR MR. UNDER SECRETARY: Thank you very much for your letter of November 15th in which you informed me that the President had intimated that he would be prepared to nominate a citizen of the United States to serve as umpire on the *ad hoc* tribunal of international lawyers which it is suggested should be set up to arbitrate in the controversy between His Majesty's Government and the Guatemalan Gov-

ernment. As I said at our interview on November 14th the terms of reference to this tribunal would be to arbitrate as to the alleged non-fulfilment by His Majesty's Government of the convention of 1859 between Great Britain and Guatemala. Article 7, I understand, is the question in dispute.

I am naturally very glad to hear of the President's decision, and am most grateful to him for having responded so quickly to our suggestion and to you for your kind assistance in the matter. I am informing the Foreign Office of the President's reply and will of course let you know how matters develop.

Believe me, my dear Mr. Under Secretary,

Yours very sincerely,

LOTHIAN

714.44A15/87: Telegram

The Chargé in Guatemala (Cabot) to the Secretary of State

GUATEMALA, November 27, 1939—1 p. m.

[Received 4: 27 p. m.]

57. The Secretary of the British Legation informs me that his Government will insist upon an important reservation in connection with the proposal outlined in the Department's telegram No. 51, November 15, 5 p. m. to wit: that the arbitration shall be confined to the consequences of the nonfulfillment by Great Britain of the 1859 Treaty. Although he denied that this reservation would absolutely prevent the Arbitral Tribunal from rendering a decision providing for any territorial readjustment his earlier remarks made it reasonably clear that this was the object of the reservation.

It appears from comment made to the Legation by Foreign Office officials that the President would be willing to accept the proposal foreshadowed in the Department's telegram but that he is not enthusiastic about it. It seems improbable, however, that he will accept the British proposal with a reservation excluding the possibility of territorial readjustment inasmuch as Guatemala now holds that the 1859 Treaty is void.

The Department may wish to consider whether the fact that the Guatemalan Government was not informed by this Legation of a reservation which the British Government apparently intends to incorporate in its proposals might not eventually give rise to suspicions which would jeopardize the success of the negotiations.

The British Legation while fully informed of the proposals has evidently not yet been instructed to present them.

CABOT

714.44A15/88: Telegram

The Chargé in Guatemala (Cabot) to the Secretary of State

GUATEMALA, December 5, 1939—6 p. m.

[Received 9:28 p. m.]

60. The Foreign Minister informs me that his Government has as yet heard nothing from the British Legation regarding the forthcoming British proposals outlined in the Department's telegram No. 51, November 15, 5 p. m.

CABOT

714.44A15/92

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] December 5, 1939.

The Minister³⁰ informed me that he had received a letter from Señor Don Carlos Salazar, the Minister for Foreign Affairs, suggesting that he have an informal chat with me to ascertain whether this Government was aware of any new developments with regard to the dispute with Great Britain over Belize or had further information as to exactly the scope of the proposed arbitration. Dr. Recinos stated that naturally Dr. Salazar, having worked for so many years on the dispute, was desirous of pushing its solution as rapidly as possible to a conclusion.

I informed Dr. Recinos that we also did not have a clear idea of exactly what sort of arbitration the British were prepared to accept. In an endeavor to secure a more precise definition, Mr. Welles had decided to approach the British Ambassador again. This would probably be done some time during the week so that we might know more of the British attitude in the near future.

The Minister stated that he knew Dr. Salazar would appreciate this further effort on the part of the United States to advance the matter and that he would deeply appreciate my informing him opportunely of any further information that might be secured from the British Ambassador regarding the intentions of his Government.

714.44A15/89

The Under Secretary of State (Welles) to the British Ambassador (Lothian)

WASHINGTON, December 8, 1939.

MY DEAR MR. AMBASSADOR: I wish to refer to your note of November 20 with regard to the proposal for arbitration of the Belize matter.

³⁰ Adrian Recinos, Guatemalan Minister.

Advices received from Guatemala convey the impression that the Guatemalan Government might be reluctant to proceed to arbitration unless the arbitral compromise include some provision for settlement of the fundamental issues involved in the event that it should be determined that there had not been compliance with Article VII of the 1859 Treaty. I think you will agree that such a provision would facilitate a satisfactory solution of the problem.

I should be grateful therefore if you could confirm my understanding that it is your Government's intention that the arbitral tribunal be empowered to effect a settlement of all of the issues involved.

Believe me,

Yours very sincerely,

SUMNER WELLES

714.44A15/99

The Chargé in Guatemala (Cabot) to the Secretary of State

No. 1103

GUATEMALA, December 28, 1939.

[Received January 2, 1940.]

SIR: With reference to my despatch No. 1056 of November 18, 1939,³¹ I have the honor to enclose herewith two copies of a translation into English of the memorandum concerning the Belize question transmitted with the above mentioned despatch. These two copies were today delivered to me personally by the Chief of Protocol.

The Chief of Protocol informs me that the Foreign Office has as yet heard nothing directly from the British Legation with regard to the forthcoming British proposals respecting the Belize question. He took advantage of the opportunity to mention casually, but with obvious emphasis, the President's intense interest in the Belize question, saying with a laugh that the President had given orders that he was not to be troubled during the next few days except about the Belize matter, "in which case you may call me even in my tomb".

Respectfully yours,

JOHN M. CABOT

[Enclosure]

*The Guatemalan Ministry for Foreign Affairs to the
Department of State*

MEMORANDUM

The Ministry for Foreign Affairs of the Republic of Guatemala has the honor to refer to the courteous Memorandum of the Honorable Department of State of the United States, dated June 8³² of the current year, in which, expressing its legitimate interest in the solution of the controversy existing between the Government of Guatemala and

³¹ Not printed.

³² *Ante*, p. 177.

that of Great Britain relative to the territory of Belize, it states that it would view with profound satisfaction the initiation of practical negotiations for the solution of the question.

The Government of Guatemala has received with the greatest satisfaction this high initiative of the Government of the United States, in view of the fact that it brings the well founded hope that His British Majesty's Government are to agree to and satisfy the unquestionable rights of Guatemala, always sustained by the latter and continually evaded by the Foreign Office and its Diplomatic Representatives. But, as the Memorandum of the Department of State refers definitely to "the frontier adjustment between Belize and Guatemala,"³³ this Government has deemed it pertinent to study the question in a form which definitely and conclusively establishes the origin, circumstances and present state of the question. To afford the maximum veracity to Guatemala's statement, preference has been given, without mentioning the voluminous Guatemalan proofs, solely and exclusively, in so far as possible, to genuine English or United States evidence. Guatemala's right is so absolute, is so founded on truth and justice, that with official documents of the Governments of England and the United States, the whole subject may be reconstructed, with very ample details, giving at the same time the best proof of the Republic's rights, brilliantly defined and defended by the Government of the United States itself. But, because documents other than those of the Government of Guatemala are discussed, the preparation of the book with which it desires to amplify this memorandum has been laborious, and, in view of the period of time which has elapsed without replying to the Memorandum of the Department of State, the Ministry for Foreign Affairs prefers to do so immediately, and will present at an opportune time the above mentioned book.

The controversy between Guatemala and Great Britain does not involve a boundary question only; it involves a territorial matter, as is proved hereinafter.

Lord Palmerston himself, Secretary of State for Foreign Affairs of Great Britain—in a note addressed on July 16, 1849, to the Secretary for Foreign Affairs of Nicaragua, alleging British rights to the possession of Mosquitia—explains the origin of the British occupation of Belize:

It appears from the 6th Article of the Treaty of 1783,³⁴ that several

³³The words used were: ". . . to the boundary between that country and British Honduras."

³⁴For the French text of the Definitive Treaty of Peace and Friendship between Great Britain and Spain, signed at Versailles September 3, 1783, see Georg Friedrich von Martens, *Recueil des principaux traités* (Gottingue, 1791-1801), vol. II, p. 484; Martens, *Recueil de traités*, 2d ed. (Gottingue, 1817-1835), vol. III, p. 541. For an English translation, see George Chalmers, *A Collection of Treaties between Great Britain and Other Powers* (London, 1790), vol. II, p. 229.

English settlements having been formed and extended upon the Spanish Continent, on the pretence of cutting logwood or dyeing Wood; and Great Britain and Spain being desirous of preventing, as much as possible the causes of complaint and misunderstanding, to which this inter-mixture of Spanish and British Wood cutters gave rise, it was thought expedient that the Spanish Government should assign to British subjects for the purpose of wood cutting a separate and sufficiently extensive and convenient district of the Coast of America, and that in consideration of much [such?] Assignment, British Subjects should be restricted from forming settlements in any other part of the Spanish Territories in America, whether Continental or Insular: and that all British Subjects dispersed in those Spanish possessions, would within eighteen months after the exchange of the ratifications of the Treaty, retire within the District specially assigned for their occupation and use.

It seems however that the Treaty of 1783 did not sufficiently accomplish the purpose of preventing complaints and misunderstandings. It was found by Great Britain on the one hand, that the district of the coast of Honduras assigned to British Subjects by the 6th Article of the Treaty of 1783, was too limited in extent; and the enjoyment of it was too much narrowed by the restrictions contained in that Article. It was found by Spain on the other hand, that British Subjects still lingered in parts of the Spanish American Territories . . .

To put an end to these mutual inconveniences, it was agreed by the convention of 1786,³⁵ that a larger extent of territory should be assigned to British Subjects on the coast of Honduras, according to new boundaries described in that convention, and it was also agreed that the enlarged territory, so granted should be occupied by British Subjects with a greater latitude of enjoyment than was allowed by the restrictions of the treaty of 1783; and in return, in order to relieve the Spanish Government from loss by smuggling the British Government again bound itself to recall British Subjects from the Spanish possessions in America; . . .

(William R. Manning: *Diplomatic Correspondence of the United States*, Washington, 1933, III, pages 371 and 372.)

The frontiers of the territory granted by the King of Spain to the British wood cutters, called Honduras by Lord Palmerston, in accordance with the custom of the wood cutters themselves, according to the terms of Article II of the Convention of London, July 14, 1786, were the following:

The English line, beginning from the Sea, shall take the centre of the River Sibun or Jabon, and continue up to the source of the said River; from thence it shall cross in a straight line the intermediate land, till it intersects the River Wallis; and by the centre of the same River, the said Line shall descend to the point where it will meet the Line already settled and marked out by the Commissaries of the 2 Crowns in 1783: which limits, following the continuation of the said Line, shall be observed as formerly stipulated by the Definitive Treaty. (Alder Burdon: *Archives of British Honduras*, London, 1931, I, 154.)

³⁵ Convention Relative to America between Great Britain and Spain, signed at London, July 14, 1786, *British and Foreign State Papers*, vol. I, pt. 1, p. 654.

According to Article VI of the Treaty of 1783, the boundary continues from the last point indicated by the Convention of '86 by the Belize River,

opposite to a Lake or Inlet which runs into the land and forms an Isthmus, or Neck, with another similar Inlet, which comes from the side of Rio Nuevo, or New River; so that the line of separation shall pass straight across the said Isthmus, and meet another Lake formed by the water of Rio Nuevo, or New River, at its current. The said line shall continue with the course of Rio Nuevo, descending as far as opposite to a River, the source of which is marked in the Map, between Rio Nuevo and Rio Hondo; which River shall also serve as a common boundary as far as its junction with Rio Hondo, and from thence descending by Rio Hondo to the sea, as the whole is marked on the Map which the Plenipotentiaries of the 2 Crowns have thought proper to make use of, for ascertaining the points agreed upon, to the end that a good correspondence may reign between the 2 Nations, and that the English Workmen, Cutters, and Labourers may not trespass, from an uncertainty of the boundaries. (*Ibid.*, I, 173 [137]/8.)

Great Britain complied with the Anglo-Spanish Pacts and had them strictly respected by her subjects, who maintained said respect until the time when, in 1798, and by virtue of the defeated attack of the Governor of Yucatan at the mouth of the Belize River—seat of His Britannic Majesty's "settlement",—the wood cutters claimed that they had conquered the territory, which they said they held "by right of conquest". Sir John Alder Burdon, Governor of Belize, in 1931, in his "Historical Note" defines said right:

The inhabitants claimed that the Settlement on the Bay of Honduras was now British by right of conquest. This term may not be strictly accurate as a description of the event; but as it was used in 1882 by Lord Granville, Foreign Minister, in correspondence with the United States, it may be accepted as confirmed by British official authority. (*Ibid.*, I, 29.)

Although the English began about 1825 to speculate with the legend of the "conquest" of 1798, in their treaty recognizing the independence of Mexico³⁶ they agreed to revalidate, in Article XIV, the usufructuary clauses granted in 1786 by the King of Spain, within the same territorial demarcation: Relative to this Treaty, and in the memorable session of the United States Congress, Senator Clayton—who, as Plenipotentiary in his position as Secretary of State, signed the Clayton-Bulwer Pact in 1850,³⁷—said in March, 1853, that Great Britain "gained nothing by the Treaty which Spain had not before granted to her; and as she sought only the grant of the useful domain, or

³⁶ Treaty of Amity, Commerce and Navigation, signed at London, December 26, 1826, *British and Foreign State Papers*, vol. XIV, p. 614.

³⁷ Treaty between the United States and Great Britain, signed at Washington, April 19, 1850, Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 5, p. 671.

merely the rights of an old settler". (Appendix to the *Congressional Globe*, 32d. Congress, 3rd Session.) Thus established by such high authority the fact that subsequent to independence the status of Belize continued in accordance with that agreed upon in the Anglo-Spanish Pacts of 1783 and 1786, it is pertinent to say that when the opportunity was presented (1847) Guatemala, in an official document, protested the Mexican act of signing an agreement relative to Belize, because the latter belonged to Guatemalan jurisdiction. This will be proved farther on.

The inalienable right of Guatemala to her territory of Belize, granted in usufruct to the English by the King of Spain, was again made evident in the session of the Congress of the United States: during the discussion of the Clayton-Bulwer Treaty, Mr. Clayton said that as Secretary of State, he agreed with Mr. King, President of the Committee for Foreign Affairs, that:

We never could, and never would recognize any title to the eminent domain, as existing in Great Britain, in what was called British Honduras or Balize. We concurred exactly with the report of the honorable chairman of the Committee on Foreign Relations, that all the title that Great Britain had in the territory called Balize, was the right of occupancy in the territory pointed out in the treaty of 1786 between Great Britain and Spain. (*Ibid.*, p. 248, Second Column)

In 1853, after the signature of the Clayton-Bulwer Treaty, the Plenipotentiary himself of the United States in that pact, Mr. Clayton, maintained that England, usufructuary of Belize, had no title to sovereignty in that territory.

When Central America won her independence from Spain the Government of Great Britain tried to obtain, in exchange for recognition of the new state, the cession of the zone granted in the usufruct of 1786, enlarged toward the south as far as the Sibun River and to the west as far as the meridian of Garbutt's Falls—this without mentioning other territorial acquisitions in Honduras and Nicaragua.

The Central American Government did not agree to the dismemberment of its territory, nor, subsequent to the dissolution of the Federal Pact, did the governments of the States concerned desire to do so. In so far as Guatemala is concerned, it was not until June 25, 1847, that the Treaty of Amity, Commerce and Navigation was agreed upon which, in accordance with the jurisprudence propounded by Mr. Canning, British Secretary of State, signified recognition of the Republic of Guatemala on the part of the Government of Great Britain. That pact was not ratified, but it did give the Government of Guatemala an opportunity to make, and the Government of Great Britain to accept, a definite reservation of the territorial rights of the Republic. The

Minister for Foreign Affairs said in his note of July 8, 1847, and on the 19th the British Plenipotentiary replied:

Guatemala, July 8, 1847, Consul General and Plenipotentiary of H. B. M. in Central America, City.

Mr. Consul: Although in agreeing upon the Treaty of Amity, Commerce and Navigation, signed under date of June 25 last, between Your Honor as plenipotentiary of H. B. M.'s Government and the undersigned as Minister for Foreign Affairs of the Government of the Republic of Guatemala, it has not been believed that said treaty might affect in any way, or involve the rights of the Republic of Guatemala in the pending boundary question with the British Government, as far as the concessions in the territory of Belize are concerned; this is a point which should be clearly established, the more so because this becomes necessary as a consequence of the contents of Article 14 of the Treaty concluded between England and the Mexican Republic, in which it is given to understand or is supposed that the latter has rights in the territories of the concessions of Belize, which is not exact, and consequently, the Government of Guatemala never has been able to agree to that view, which also should not be passed over in silence when signing an act so solemn and public as is the treaty with England; so that in no case nor at any time can consent or acquiescence relative to that question be interpreted into it or perhaps deduced.

For this purpose, I address the present communication to Your Honor, by order of H. E. the President, in order to record expressly the understanding which we have reached and do reach to the effect that the treaty signed on June 25 in no way involves or affects the rights of the Republic of Guatemala in the boundary matter relative to the concessions in the territory of Belize, to which the treaty of 1783 and the convention of 1786 between H. Britannic M. and H. Catholic M. relate.

Hoping that Your Honor will be so good as to reply to me at your convenience acknowledging this information and stating that you are in agreement with these views, I have the honor to reiterate to you the expressions of courtesy and esteem with which I sign myself, respectfully yours, (s) J. Mariano Rodríguez.

Guatemala, 19 July, 1847. Sr. don José Mariano Rodríguez, etc., etc.

I have had the honour of receiving your Note of the 8th instant upon the boundary of this Republic on the side of Her Britannic Majesty's Settlement in Honduras, which shall be submitted to Her Majesty's Government.

Without instructions I can give no opinion on this subject. Nevertheless I may so far comply with your wish as to say that I conceive that the Treaty of Amity, Commerce and Navigation which we lately signed on the part of our respective Governments need not affect any arrangement which the Government of this Republic may desire to conclude at a future time with Great Britain respecting boundaries.

I have the honor, etc. (f) Fred. Chatfield.

And so the Government of Guatemala, invoking the Anglo-Spanish Pacts of 1783 and 1786, repudiated emphatically the British claims to that territory, and at the same time repudiated the supposition that, by

virtue of the Anglo-Mexican Pact of 1826, it might appear that the Mexican Republic had some title to sovereignty over Belize. The British representative tacitly accepted that Guatemalan reservation, since he did nothing in the name of his Government, then or subsequently, relative to any British right to the aforesaid region. Certainly he said that the Treaty need not affect any arrangement which the (Government) of this Republic might desire to conclude at a future time with Great Britain respecting boundaries; but the patent fact was fully proved that the English could only invoke, while the matter was being adjusted between the Governments of Guatemala and Great Britain, usufructuary rights derived from the concession stipulated in the pacts of 1783 and 1786: on the other hand, the reference to boundaries made by Plenipotentiary Chatfield as a reply to the reservation of territorial rights by the Minister for Foreign Affairs of Guatemala, in accordance with Anglo-Saxon jurisprudence, implied the title of the parties to the disputed region.

Indeed, it was without the Treaty of 1847 having been ratified, although the Guatemalan reservation was in full force—since the English Government did not answer it—that the Anglo-Guatemalan Treaty of Amity, Commerce and Navigation of February 20, 1849³⁸ was signed: the pact contains superabundant stipulations relative to maritime commerce, navigation, guarantees and prerogatives in favor of their respective nationals in the territories of the two parties, but neither Belize nor British Honduras are even mentioned in any article whatever of the sixteen articles of the pact, nor is any mention made of land commerce. The plenipotentiaries signed the pact as if the King of Spain had never granted any territory whatever under Guatemala's jurisdiction.

This fact is of singular importance, since Great Britain had been trying to obtain the territorial cession in exchange for the recognition of Guatemala to such an extreme that the Plenipotentiary Zebadua was in London from 1825 to 1830 without securing reception in his official character as Envoy Extraordinary and Minister Plenipotentiary of Central America: on December 30, 1835, the Government of Guatemala appealed to the Government of the United States, asking aid in face of the growing claims of the Government of Great Britain (Manning, *op. cit.*, III, 87/9), and for this purpose the Central American Plenipotentiary, Colonel Juan Galindo, was negotiating in Washington for that purpose. (*Ibid.*, III.) Colonel Galindo went to London, aided by a letter of recommendation from Mr. Forsyth, Secretary of State, to Mr. Aaron Vail, Chargé d'Affaires of the United States before the English Government (*Ibid.*, VII, 254/5); but Her Majesty's Government, to avoid taking into consideration Guatemala's

³⁸ *British and Foreign State Papers*, vol. xxxvii, p. 32.

rights, refused to receive the Central American delegate, under the pretext that he was of Irish descent. (*Ibid.*, III, 165.)

In 1833, the English Government appointed Mr. Frederick Chatfield as Consul and, by virtue of a consultation of the Foreign Office with the Colonial Office, he brought instructions to discuss the boundaries of Belize to the South on the Sarstoon River and that "the Central American Government should relinquish all claim to such rights of sovereignty over the territory comprised within the boundary of the Settlement as might be supposed to have accrued to them derivatively from Old Spain." (Alder Burdon, *op. cit.*, II, 372.) Mr. Chatfield failed in his attempt: on June 1, 1835, Colonel Galindo, Special Agent of Central America before the Government of the United States, informed the Secretary of State that:

In consequence of the grants of land made of that territory by the State of Guatemala to certain Central American citizens & a European colonization company, the authorities of Belize took upon themselves in November last to declare their limits to be the Hondo on the North, the Sarstoon on the South & on the West a line drawn parallel to the coast through Garbutt's falls in the river Belize, thus exceeding the old grant by at least five fold. At this period the plenipotentiary of H. B. M. at San Salvador proposed the conclusion of a commercial treaty with his nation, but as he distinctly refused the insertion of an article similar to that in the Mexican treaty with Great Britain, limiting the settlers of Belize to their lawful boundaries, his proposal was of course declined. (Manning, *op. cit.*, III, 88.)

The absolute absence of legitimate title to his claims to Belize obliged Mr. Chatfield to omit all reference to Belize in the treaty of recognition of the Central American State, sixteen years after having received instructions to adjust it.

What was the status of Belize or British Honduras when the Anglo-Guatemalan Treaty of 1849—ratified by Her Majesty the Queen of Great Britain on June 9 of the same year—was signed? Aside from the usufructuary concession of 1783 and 1786, none.

The English have talked a great deal about "occupation" of the territory comprised as far as the Sarstoon River; but that occupation was not effected except by acts of pillage at the mouths of the Guatemalan rivers. Colonel Galindo, representative of Guatemala in 1835, so explained to the Secretary of State:

I say too much in using the word "occupation"; the only point that is bona fide in the occupation of the British is the town of Belize, situated at the mouth of the river; & where, in contravention of the Treaty, there is a considerable commercial depot, a detachment of artillery & some black companies of infantry: no agriculture is pursued in the country & the mahogany cutters rove from one water course to another in search of trees: there are not three hundred white inhab-

itants in the whole settlement & its total population does not exceed five thousand: it is however to be remarked that the charibs, natives of our state of Honduras, who cooperated in the royalist insurrection of 1832, have emigrated to about the number of two thousand & have settled a few villages to the Southward of the Javon, within the usurped territory.

The census of December 1835 gave for Belize or British Honduras a total of 222 whites and 2,321 colored people, free negroes and slaves—in all, 2,543 (Alder Burdon, *op. cit.*, II, 382.) Due to the lack of title, the Plenipotentiary of Great Britain could not make any territorial reservation whatever in the Anglo-Guatemalan pact of 1849, and the Government of Guatemala, why did they not do so? The Superintendent of Belize reported in April, 1835: "The effect of sending warships to Belize has been excellent" (*Ibid.*, II, 376); Mr. Elijah Hise, Chargé d'Affaires of the United States, said in December, 1848, "English Men of War constantly hover on the coasts of the country," and added "And I have not known or heard of one American Merchantman or Man of War being in any of the ports of Central America since I have been in the Country or its neighborhood." (Manning, *op. cit.*, III, 294.) Great Britain exercised economic and political domination in Guatemala—and by means of that threat, in view of the fact that it was impossible to execute her instructions relative to obtaining the territorial cession of Belize, she kept silent in this respect in the Treaty of recognition.

But such silence does not signify anything against Guatemala. It does not destroy the violation of the right of the weak; nor does it give it to the aggressor: Mr. Ephraim George Squier, Chargé d'Affaires of the United States in Guatemala, warned Mr. Frederick Chatfield, Chargé d'Affaires of Great Britain in Guatemala, on October 28, 1849: "There is sir, as between civilized nations, but one mode of acquiring territory, viz: by Treaty; and it has come to be understood that, the rights of conquest require to be thus sanctioned, in order to be regarded as permanent." (*Ibid.*, III, 492.) That reticence of Plenipotentiary Chatfield relative to boundaries in the Anglo-Guatemalan pact of 1849 signified nothing against Guatemala, because Great Britain had no title to the possession of the territory usufructed by virtue of the Treaties of 1783 and 1786, and if Guatemala were to consent to maintain it, her boundaries could only be those agreed upon in said pacts by the Kings of Spain and Great Britain: according to the jurisprudence fixed in article IV of the Treaty of Peace and Amity signed in 1814 by Great Britain and the United States (*Treaties, Conventions, International Acts, Protocols and Agreements between the United States of America and other Powers*, Washington, 1910, I, 614/15) Anglo-Guatemalan commissioners should determine the legality of the respective claims, and, in case of difference, the reports of

the two commissioners or of only one as the case might be, should be referred for the solution of the matter to a friendly government.

So clear was the right of Guatemala and the violent injustice of Great Britain, that they were superabundantly proved during the course of the controversy relative to Central American affairs, sustained between Washington and London which culminated in the Clayton-Bulwer Treaty (1850). When the moment arrived to make this treaty effective, England refused to honor her word relative to the evacuation of the points of the Central American Atlantic coast which she held. In a communication of July 26, 1856, Mr. William L. Marcy, Secretary of State, reviewed the entire questions:

We see, in the first place, that England can have no rights of possession or jurisdiction in Central America, except such as her treaties with Spain of 1786 and 1814 accord to her, or except such as she may have acquired by voluntary concession from some one of the Republics of Central America. Anything beyond that will be incipient conquest only, not yet consummated into full right, by treaty recognition.

We see in the second place, that all the matters in dispute between the United States and Great Britain are primarily questions of the sovereign rights of some one of the Republics of Central America. We cannot give to Great Britain, nor she take from us that which neither has to concede. Either of us may agree with the other not to claim anything in Central America, but neither can legitimate any claim of the other there. And if either of us having asserted claim there, is to relinquish the same under conditions, the ultimate decision of those conditions appertains solely to the interested Republic of Central America. We may separately, or in common, use our good offices with such Republic to influence its determination, but we cannot of ourselves make the determination. (Manning, *op. cit.*, VII, 148.)

Notwithstanding such a definite statement—made by Mr. Marcy to Mr. George M. Dallas, Minister of the United States to Great Britain—and without any cognizance whatever of the Republic of Guatemala, three months later the Plenipotentiary of the United States, Mr. Dallas, signed the Convention of October 17, 1856, by virtue of which the Governments of the United States and Great Britain, in section 1 of II of the “separate articles” agreed:

That Her Britannic Majesty’s settlement called the Belize or British Honduras, on the shores of the Bay of Honduras, bounded on the North by the Mexican Province of Yucatan; and on the South by the River Sarstoon, was not and is not embraced in the treaty entered into between the Contracting Parties on the 12th day of April 1850;—and that the limits of the said Belize, on the West, as they existed on the said 19th of April 1850, shall, if possible, be settled and fixed by treaty between Her Britannic Majesty and the Republic of Guatemala, within two years from the exchange of the ratifications of this instrument; which said boundaries and limits shall not at any time hereafter be extended. (*Ibid.*, VIII, 691).

And so Mr. Dallas, in agreeing with Great Britain in the name of the United States to the dismemberment of Guatemala, consummated what Mr. Marcy viewed as absolutely illegal and unjust for the weak Republic. Mr. Marcy set forth in his above mentioned note of July 26, 1856, to Mr. Dallas :

It is the indisputable fact that England possesses no other treaty rights at the Belize except the usufruct conceded by Spain, and which so late as the year 1826, the British Government deemed it important to have confirmed to England by the Mexican Republic, as the presumed sovereign, at that time, of the country in which the settlement of the Belize exists.

It is understood that Guatemala contests the claim of the Mexican Republic in this respect; and it may be that the precise limits of the two Republics on that side are undetermined. However that may be, it is certain that the appellation of Honduras commonly applied in England to the settlement of the Belize is a misnomer originating perhaps in local projects of aggrandizement.

By the correspondence exchanged between Sir Henry Bulwer and Mr. Clayton, the negotiators of the Convention of 1850, it was declared that, according to their understanding, the stipulations of non-occupation made by Great Britain, were not intended to apply to the Belize. Whatever weight this correspondence may have as a contemporaneous exposition of the Convention, it cannot in the judgment of the President, be held to operate as an enlargement either of the limits or the jurisdiction of the British settlement at the Belize.

At any rate, the Dallas-Clarendon Convention, if it could not "legitimate the English claim", gave proof that the weak Republic of Guatemala had lost, for its defense against England, the only hope of maintaining its integrity: the support of the United States. The Congress of the United States approved without reservation the stipulation relative to the boundaries of Belize—and Great Britain constituted herself as absolute arbitrator to settle to her taste her territorial ambitions.

Abandoned by the Government of the United States, there was nothing else for Guatemala to do except submit to the demands of Great Britain: on April 30, 1859, she was obliged to sign the "Boundary" Convention with Belize: in accordance with the instructions given in 1833 to Mr. Chatfield by the English Government, and in accordance with the Dallas-Clarendon Treaty, those "boundaries" were fixed as follows:

Beginning at the mouth of the River Sarstoon in the Bay of Honduras, and proceeding up the midchannel thereof to Gracias a Dios Falls; then turning to the right and continuing by a line drawn direct from Gracias a Dios Falls to Garbutt's Falls on the River Belize, and from Garbutt's Falls due north until it strikes the Mexican frontier.

It was a territorial cession and the Republic refused to grant it without obtaining compensation, even though it was a minimum. Therefore, although "in fact the instructions of Sir Charles Wyke,

who negotiated the Treaty, expressly prohibited him from admitting into it any thing which might bear that construction" as the Secretary of State Lord Stanley affirmed to the Minister of Guatemala in his note of January 3, 1867 (*White Book*, English Edition, p. 292) Lennox Wyke, English Plenipotentiary, had to accept the compensatory clause imposed by Guatemala:

Article 7/. With the object of practically carrying out the views set forth in the Preamble of the present Convention for improving and perpetuating the friendly relations which at present so happily exist between the two High Contracting Parties, they mutually agree conjointly to use their best efforts by taking adequate means for establishing the easiest communication (either by means of a Cart road, or employing the rivers, or both united according to the opinion of the Surveying Engineers) between the fittest place on the Atlantic Coast near the Settlement of Belize and the capital of Guatemala; whereby the commerce of England on the one hand, and the material prosperity of the Republic on the other, cannot fail to be sensibly increased, at the same time that the limits of the two countries being now clearly defined, all further encroachments by either Party on the territory of the other will be effectually checked and prevented for the future. (*White Book*, English Edition, 105.)

But in no way was the act of territorial cession mentioned, and consequently neither was that of the compensation stipulated in the 7th Article: secretly and hurriedly the Plenipotentiaries of England and Guatemala made the agreement, in order to conceal in so far as possible the territorial cession and its compensation, since they flagrantly violated the Monroe Doctrine and the Clayton-Bulwer Convention—and the definite protest of the Legation of the United States, dated October 1, which appears on pages 135/140 of the *White Book* so proves. Why did Guatemala lend herself, to her own detriment, to the English maneuver, without invoking in her favor the powerful arguments presented by the Representative of the United States, Mr. Beverly L. Clarke? Because Lennox Wyke explained to the Government of Guatemala that, for the solution of the disputes pending between the United States and Great Britain, and as compensation for England's concessions, the Government of the United States had agreed to England's taking control of Belize: in the same note number 23 of July 26, 1856, whose above inserted paragraphs prove the absolute absence of English title to any part of Guatemalan territory, Mr. Marcy, Secretary of State, informed the Plenipotentiary of the United States in London, Mr. Dallas:

By the correspondence exchanged between Sir Henry Bulwer and Mr. Clayton, the negotiators of the Convention of 1850, it was declared that, according to their understanding the stipulations of non-occupation made by Great Britain, were not intended to apply to the Belize. Whatever weight this correspondence may have as a contemporaneous exposition of the Convention, it cannot in the judgment of the Presi-

dent, be held to operate as an enlargement either of the limits or the jurisdiction of the British settlement at the Belize.

As to the limits of that settlement on the South, it must be a question of either of the rights of Guatemala or of those of Honduras, while the question of the political tenure of that settlement would seem to belong to Guatemala, or to the Mexican Republic. Of course, in the spirit of the Treaty, the President is prepared to exert the influence of the United States with either of those Republics to assist in promoting the adjustment of those questions in a satisfactory manner.

In a commercial or political point of view it is not of very much moment to the United States, whether the British tenure at the Belize be enlarged or not; but it is in a military point of view, a thing of importance alike to the Central American States, to the Mexican Republic and to the United States.

Nevertheless if serious obstacles occur to obstruct the negotiation on other points either of interest or feeling, the President might consent that you should in the last resort, make concessions on this point, as the means of reconciling Great Britain to other acts which she may be disposed to regard as concessions to the United States.

In the presence of forces infinitely superior to those of Guatemala, there was left for the Government of the Republic only the road of agreeing to the consummated acts. It was human to seek, under such an adverse situation, the best road: the Dallas-Clarendon pact fixed for England "the southern boundary as far as the Sarstoon River;" but it left to the discretion of Great Britain settling the enlargement of the English boundary toward the west,—“the limits of the said Belize on the west, as they existed on the said 19th of April, 1850, shall, if possible, be settled and fixed by Treaty between Her Britannic Majesty and the Republic of Guatemala.” The sooner Guatemala agreed to the decision of Great Britain, the less expansion could the latter give to her western boundary. On his part, the attainment of legitimate title, the Treaty, for British possession of Belize, was urgent for the British Plenipotentiary, and so he consented to Article VII, the stipulation of which was prohibited him, according to the declaration of Lord Stanley transcribed above.

In their diplomatic correspondence, the Government of Great Britain have come to deny the eminently compensatory character of Article VII of the boundary Convention of 1859. Nevertheless, the Government of Guatemala can produce an official English explanation of that compensatory character. In his confidential note of June 29, 1862, the British Minister Mr. George W. Mathew stated to the Minister for Foreign Affairs:

The advantages, which Guatemala will derive from the road, by opening a vast district of rich country, are unquestionable: but there will not be a demand in this capital for one single additional bale of British goods, by their being brought by way of Izabal, instead of by the Cape or Panama, and S. José! We can only look therefore, to some future increase of the wealth of the population along the road,

if it be kept in perfect repairs, and to their consequent demand and consumption for any commercial benefit.

The idea then, of indirect compensation, must be the main reason, that leads Great Britain to incur any expenditure in the matter: and in this view I am willing to concur, although, after some investigation in England, I cannot deny my impression that the "debateable land" was conquered from the Spaniards in war time, by the Belize Colonists, with the aid of Royal forces, and was never restored. (*White Book*, English Edition, p. 206).

This definition of Article VII of the Anglo-Guatemalan Convention of 1859, made by the English Minister precisely in a document directed to discuss the Republic's rights attains special importance: "the idea then, of indirect compensation, must be the main reason, that leads Great Britain to incur any expenditure in the matter," he said, and in that manner agree in an official English statement to the declarations of the Government of Guatemala relative to having concealed in so far as possible, in adjusting the delivery of Belize, the expression territorial cession and corresponding compensation. Seven months later, in his note of January 27, 1863, the English Minister Mr. Mathew ratified that statement, clarifying it in favor of Guatemala:

The uninhabited tract of land in dispute was, it is said, not only claimed by British Honduras and by Guatemala, but also by Mexico, and lastly by Spain; my predecessor, however, agreed with Your Excellency upon the insertion of the 7th article, as I apprehend, in a compensatory view, and, although his action had been unauthorized and unexpected by Her Majesty's Government, they acquiesced in it. (*Ibid.*, English Edition, 224.)

Such statements of the English Minister in Guatemala reiterate, in 1862 and 1863, the declaration of the English Secretary of State, Lord Russell, communicated by his representative in Guatemala at the time of the ratification of the pact of territorial cession of 1859: "Express to the Guatemalan Plenipotentiary as by the particular order of your Government, the high satisfaction which they have derived from the proof of friendship afforded to them by the Republic in the prompt and frank conclusion of that Convention," Lord Russell instructed Mr. Hall, and finally:

You will also state that Her Majesty's Government entirely approve of the article admitted into the convention by Mr. Wyke at the desire of the Guatemalan Government, whereby the two parties engaged to cooperate for the establishment of a line of communication, between the capital of the Republic and the coast of the Atlantic at or near Belice, and they would be glad to be made acquainted with the views of the Guatemalan Government, as to the best means of giving effect to that article. (*Ibid.*, English Edition, 127.)

It is fully proved and with eminently Anglo-Saxon evidence that:

1. In 1859 Great Britain had no title to the possession of Belize demarcated within exact and indelible limits by the Anglo-Spanish treaties of 1783 and 1786;

2. Great Britain had not occupied nor could she allege any jurisdiction whatever beyond these frontiers;

3. The Republic of Guatemala always maintained its sovereign rights and refused to sign an agreement relative to territorial cession: the Convention of 1859 was an obligatory consequence of the agreement of the Governments of Washington and London, to settle amicably the difficulties existing between them, which without even the cognizance of the Republic those Governments adjusted at the expense of the latter in the Convention of 1856, known as the Dallas-Clarendon;

4. The Convention of April 30, 1859, undoubtedly, constitutes a territorial cession by Guatemala in favor of Great Britain;

5. Article VII of that Convention is an eminently compensatory clause, and compliance with it obligatory on the part of Great Britain, unless the entire pact is invalidated, that is to say, the English occupation return to the simple category of usurpation of Guatemalan territory.

English occupation is mentioned above; and it is necessary to prove that there has been no such occupation; two years after the consummation of the territorial cession of Belize, the English Government ordered the taking of a census of the population of the territory, which on April 1, 1861, gave 25,000 persons, distributed as follows: Port of Belize, 5,067; towns of Hondo River, New River and Cerozal, 13,547; Stann Creek 1,113; Punta Gorda, 306. (Aldor Burdon, *op. cit.*, III, 238) The omission of 5,602 inhabitants must refer to those scattered in temporary camps along the lower channel of the rivers, just as they did when in 1835 Colonel Galindo, Representative of Guatemala in Washington, informed the Secretary of State that the English were encroaching in Guatemalan territory. (Manning, *op. cit.*, III, 88.)

Of the towns mentioned, Belize, Rio Hondo, New River and Cerozal are situated within the demarcation of the Anglo-Spanish pacts of 1783 and 1786: to the South of the Sibun are only Stann Creek and Punta Gorda, this latter, the most southern, being many minutes north of the mouth of the Sarstoon. The six towns which the English census of 1861 mentions are directly on the seashores: the interior of the country, even in 1939, is unexplored to such an extent that a modern map of Belize gives large areas in blank.

The *White Book* gives enough British documents to prove that the English Government, after obtaining the permission of the Government of the United States to acquire jurisdiction to Belize, needed title to sovereignty which, classified as a political possession, the Secretary of State Mr. Marcy attributed to the Republic of Guatemala but a few months prior to the signature of the Dallas-Clarendon Treaty. (*Ibid.*, VII, 152). By means of the offer of indirect compensation (Mr. George W. Mathew, Minister of England, *White Book*,

English Edition, 206,) Great Britain attained the desired title, the pact with Guatemala.

In order not to arouse suspicion in the United States, inasmuch as the Convention would violate the Monroe Doctrine and the Clayton-Bulwer Convention, Lennox Wyke secured the most vague wording of the compensatory article: and from the moment of the exchange of ratifications, the English Government began to establish quibbles which, taking into account the antecedents, beginning with the treatment accorded by Mr. Canning to the Plenipotentiary of Central America (1825) up to the controversy of 1859-1933, it is not unwarranted to consider as deliberate. In effect, Article 7 of the Convention of 1859 stipulates the construction of an easy communication "between the fittest place on the Atlantic Coast near the Settlement of Belize and the Capital of Guatemala," that is to say, in Guatemalan territory near the Sarstoon River: in his letter of appreciation, Lord Russell asks details relative to the viewpoint of Guatemala as to "the establishment of a line of communication, between the Capital of the Republic and the Coast of the Atlantic at or near Belize," that is to say, in accordance with British geographical nomenclature, at or near the port of Belize, capital of "British Honduras."

It is not pertinent to enter into explanations or considerations of the delays, pretexts and even offensive statements of the English Government to leave unfulfilled their compensatory engagement of Article VII of the Convention of 1859; the *White Book*, a new copy of the English edition of which the Ministry for Foreign Affairs encloses for the Department of State, contains good evidence of such a pitiful controversy in which a great power, protected by a certain impunity, has humiliated and offended continually a weak nation which does not cease to demand justice before the universal conscience.

Great Britain repudiated the compensatory clause of the treaty of territorial cession of April 30, 1859; the latter, because of non-compliance with the principal clause, has been void since that time: the construction of the road, relative to which the English Minister Mr. Mathew said, because of the unquestionable advantages which it would bring to Guatemala, "the idea then of indirect compensation, must be the main reason that leads Great Britain to incur any expenditure in the matter" was the condition demanded by the Republic, undoubtedly as indispensable, and it was so accepted by Mr. Wyke in the name of his Government in a gentlemen's pact. This is a matter of transparent character and it is unnecessary to resort to experts: Guatemala loyally delivered her territory of the present Belize—obligated by the immensely superior force of Great Britain and the acquiescence of her natural protector, the United States—the Republic granted that title, the boundary Convention which only Guatemala could grant, since "the regulation of the frontier of British Honduras was to be

effected by negotiation with the Government of Guatemala" (Mr. Cass, Secretary of State, to Lord Napier, British Minister to the United States, November 8, 1858). (Manning, *op. cit.*, VII, 195) But, as an elementary principle, in exchange for what she obtained England was obliged to execute a material work which would give compensation in favor of the nation obliged to cede.

Guatemala consented to her dismemberment, it must be repeated, under the imponderable weight of the Anglo-United States agreement, and the sacrifice which she accepted implied transcendancy for the two great nations: "It is of no small consequence either to the United States or Great Britain, that these Central American controversies between the two countries should be forever closed," Mr. Cass states in his note to Lord Napier mentioned in the preceding paragraph (*Ibid.*, VII, 200) and Mr. Wyke surely so explained also to the Government of Guatemala.

Great Britain seemed to forget that the triumph of the English Government over the Government of the defenseless Republic of Guatemala had been attained in a diplomatic controversy with another great power, in face of which the honor of Great Britain obligated her to obtain the title indispensable to territorial sovereignty, which, as a result of that diplomatic controversy, she had to take from the Republic of Guatemala: the English Government, solemnly obligated to reach a settlement with that of Guatemala, perfidiously agreed to the compensatory clause demanded by the latter—and ceased to honor its engagement as soon as its ambition was satisfied.

But before defenseless Guatemala, and precisely because of the circumstances of the entire question, from its turbulent origin up to the arrangement with the Government of the United States and the Boundary Convention with Guatemala, is raised the shield of universal justice and, above time and injustice, the imprescriptible right of Guatemala is maintained undamaged.

Guatemala saw herself under the weight of overwhelming forces which deprived her of freedom of action to consent to her territorial dismemberment. It must be remembered what Great Britain was at the middle of the XIX Century and how imposing her material force was at that time. The rule of brute force was invincible and to violence should be added the cleverness of her diplomacy and the lack of scruples in taking control of the territories which she desired. Guatemala signed the pact of 1859 subject to the engagement made by Great Britain. For eighty years the victim has pleaded that the powerful empire comply with her word and therewith the solemn obligations which she contracted, and never has obtained more than false promises and hard words until the scornful attitude of Minister Birch reached its climax when he declared to the Government of Guatemala in a solemn note, that "it would serve no useful purpose to pursue the mat-

ter further and that they have, therefore, no option but to treat the present boundary of British Honduras . . . as constituting the correct boundary."

England ignored her contractual engagements and her solemn obligations: broke the Convention of 1859 and depended upon her strength to reject the just claims of Guatemala. It was impossible for the Republic to continue in the attitude of passivity and patience. She considered that she could do nothing against the powerful empire, except accept the situation in which England had placed herself and resort to the same reasons invoked by her! If Great Britain ignored her obligations set forth in the Convention of 1859, she rendered that said international pact void; she had broken and nullified it by her own hand; the Convention had ceased to exist, by virtue of the juridical consequences which are deduced from non-compliance with bilateral obligations by one of the contracting parties. Now, Guatemala would no longer beg that England do her the favor of paying her what she owed; now, she will no longer ask for compliance with the Convention which England has ignored and broken; today, Guatemala demands of the powerful British Empire that matters return to the situation in which they were prior to the Convention of 1859, and, consequently, the territory of Belize must return to the sovereignty of Guatemala.

This firm resolution of the Government of Guatemala was expressed in an absolutely clear and explicit manner by the Minister for Foreign Affairs to the new British Minister Mr. Leche in an official conversation held after his reception by the President of the Republic.

Guatemala is determined to make herself heard in the world. She will resort to all the sources of justice; she will knock at the doors of all Foreign Offices; she will ask for moral backing and the support which the Governments of the States of America can give her; she will invoke American solidarity and the principles which protect the rights of this continent, proclaimed in the Conference of Buenos Aires and ratified in the Declaration of Lima in 1938; in short, she will leave unused no legitimate recourse, no reason which she does not invoke, nor support which she does not solicit, until she obtains justice, and therewith, the recovery of the territory ceded to Great Britain in return for the compensation or price which the latter should pay her.

The Ministry for Foreign Affairs, on making the juridical study of the situation created by England, has been surprised by the virtual unanimity of the doctrine sustained by internationalists of all times and of all nations which render homage to the principles of international right thereby affirming that the Convention of 1859 has ceased to exist. The bibliography which supports and backs the resolution adopted by Guatemala is abundant and of great weight. From Grotius and Vattel, Calvo and Riquelme, Fauchille and Foignet,

Heffter and Fiore, Epitacio Pessoa and Ruiz Moreno, Bassett Moore and Bluntschili to Oppenheim and McNair, the latter, the most modern and learned English internationalists, all are in agreement with the principle of caducity which the Government of Guatemala maintains:

It must then be considered as a just motive to legalize suspension that the contracting party violate the treaty. It is in effect unquestionable that when one of the parties does not fulfill the obligations contracted, it places the other in the position of declaring itself freed from the obligation to comply with its (engagements). Hence, if the violation refer to the essence or to one of the more important points of the Treaty, the resolution thereof may be deduced therefrom. (Fiore, *Treaty of International Public Right.*)

What are the effects of a violation of treaty committed by one of the parties on the duration of the Treaty and its executive force? The two following proposals seem to be considered unquestionable and it is not necessary to show the exactitude by arguments: that is, first, the violation of the treaty does not free *ipso facto* the party, who is to blame, from the obligation to execute subsequently the engagements contracted by it in virtue of these dispositions, as neither can take advantage of its own mistake; second, the violation of a treaty does not free *ipso facto* and without express declaration on its part the other party, the party which is the victim, of the obligation contracted in virtue of the dispositions. The effect of a violation (of the kind which we are going to define) is only to give to the other party the right to put an end to the treaty in that which concerns its subsequent execution. If it does not make use of this faculty within a reasonable time, the right to exercise it disappears.

In 1887, the Court of Claims of the United States declared in the case *Hooper vs. United States* that: a treaty in which the duration seems at first sight indefinite and which does not contain some provision relative to its termination, can be annulled by one of the parties under certain circumstances. By its nature, a treaty is a contract between nations. If the counter party does not comply, for example, or if some of the important provisions are violated by one of the parties, the other party has the right to declare the treaty terminated. The United States have sustained this thesis with regard to the Clayton-Bulwer Treaty. Mr. Frelinghuysen, who was Secretary of State at that time, wrote to Mr. Hall, Minister to Central America (July 19, 1884): "The United States have the right to declare lapsed the Clayton-Bulwer Treaty. The basis for this opinion has been fully proved, I believe, by the two following arguments. On the one hand, the counter party having not complied, the purpose of the treaty never having been realized, the United States have not obtained the objects had in view by them when they concluded the treaty: on the other, Great Britain has violated in a persistent manner their engagements not to colonize the Central American coast. There are then clearly two reasons for annulment: noncompliance by the counter party and positive violation of the contract". (Arnold D. McNair, *La Terminaison et la Dissolution des Traités*, Paris, 1929.)

547. Violation of a treaty by one of the contracting States does not *ipso facto* cancel the treaty; but it is within the discretion of the other party to cancel it on this ground. There is indeed no unanimity among writers on International Law in regard to this point, since some make a distinction between essential and non-essential stipulations of the treaty, and maintain that only violation of essential stipulations creates a right for the other party to cancel the treaty. Others oppose this distinction, maintaining that it is not always possible to distinguish essential from non-essential stipulations, that the binding force of a treaty protects non-essential as well as essential stipulations, and that it is for the faithful party to consider for itself whether violation of a treaty, even in its least essential parts, justifies its cancellation. The case, however, is different, when a treaty expressly stipulates that it should not be considered broken merely by violation of one or another part of it. (L. Oppenheim, *A Treatise—International Law*, Vol. I, Peace, Fifth Ed.)

... in face of the declaration of Great Britain, in face of the acts which have already occurred, it (the Republic) can, in its turn, maintain that not only the supplementary convention of 1863 has expired, because of non-compliance by the other party, but also the treaty of 1859, and, in that case, formulate the consequent protest and the reservation of its rights to all of the territory of Belize: this action would create a situation the opposite of the present one; that is to say, although therewith Guatemala would not receive what she understands belongs to her; she would make disappear in agreement with Great Britain, taking into consideration the unilateral declaration of the latter, which now exists, which, according to Guatemala, gave origin to the right which Great Britain has over Belize." (Ruiz Moreno, International Counsellor, Argentine Republic.) (Opinion requested in the case of Guatemala.)

Many other references could be made; but they would make the drafting on this memorandum long and tedious. Furthermore, the Government of the United States does not need technical illustrations, having many learned internationalists. As a simple reference for consultation, there are given at the end of this document the bibliographical references of the treatises studied by the Ministry for Foreign Affairs of Guatemala.

The *White Book* explains the means employed by Great Britain to leave unfulfilled her engagement; the Convention of '59 fixed the English obligation to construct the highway from the capital of the Republic to the Atlantic coast of the country, without any conditional provision relative to cost, since that means of communication, of unquestionable benefit for the country, was the condition for the territorial cession. Nevertheless, the English Government began alleging that the cost of £145,465, estimated by Engineer Wray, was excessive: the pathetic Anglo-United States discussion relative to huge world interests of the Caribbean came to result, once the point in controversy between the two great powers was eliminated, in the ridiculous haggling of a pound more or less between Great Britain

and Guatemala for the satisfaction of the engagement—solemn inasmuch as it was set forth in a pact signed and ratified by the Government of Her Britannic Majesty—contracted by the latter in favor of Guatemala.

On August 5, 1863, the Republic had to sign the Convention of London, in accordance with which the British engagement was reduced to the payment of £50,000, in instalments of £10,000 based on the construction by the Government of Guatemala, for their account, of the aforesaid highway. The period for the exchange of ratifications was fixed at six months counted from the signature of the Treaty. Guatemala was involved in a war with her neighbors and, therefore, the exchange of ratifications could not be made during the period fixed. Great Britain alleged that the absence of the exchange during the period fixed for that purpose had caused the Convention of 1863 to lapse, and, although the latter was only supplementary to that of 1859, the English Government claimed that simultaneously they were exonerated from their compensatory engagement to which clause seven of the document of territorial cession refers, but, of course for London, the territorial acquisition which that compensation was to indemnify remained in full force.

With incredible ingenuity, the English statesmen thought that the nonratification of the secondary pact would leave ineffective the obligation *sine qua non*, the price for what was obtained by means of the principal pact. It is elementary reasoning that, when the clause of modification of any perfect international pact does not come into force, matters return to the former status, to be governed precisely in accordance with the treaty which did not come to be modified. This was the jurisprudence invoked by the Government of the United States when the Dallas-Clarendon Treaty was inapplicable due to the modifications by Congress relative to the proposed dismemberment of Honduras and Nicaragua. The Secretary of State, Mr. Cass, informed the British Minister Lord Napier in his note of November 8, 1858:

The attempts to adjust the Central American questions by means of a supplementary treaty having thus failed of success, and the subjects not being of a character, in the opinion of the United States, to admit of their reference to arbitration, the two Governments were thrown back upon their respective rights under the Clayton-Bulwer Treaty. (Bassett Moore, *op. cit.*, III, 167/8.)

In this manner, the nonratification of the Convention of 1863 made indispensable integral compliance with that of 1859,—and Great Britain was obligated to honor her word relative to the compensatory clause or evacuate all the territory of the Anglo-Guatemalan Boundary Convention. Not because she was a great power could Great Britain conduct herself with respect to Guatemala in a form contrary to In-

ternational Law: "Under the treaty of 1850, while it is binding, the United States have not the right to exercise dominion over or to colonize one foot of territory in Central America", said Mr. Frelinghuysen, Secretary of State, in 1882 to Mr. Lowell, Minister to England: "Great Britain is under the same rigid restriction. And if Great Britain has violated and continues to violate that provision, the treaty is, of course, voidable at the pleasure of the United States". To the arguments of Great Britain which, in the transaction with the United States, tried to follow the same conduct as with Guatemala—to take advantage of the favorable part of the pact and repudiate the engagement—the Secretary of State replied:

The treaty was voidable at the option of the United States. This, I think, has been demonstrated fully on two grounds. First, that the consideration of the treaty having failed, its object never having been accomplished, the United States did not receive that for which they covenanted; and second, that Great Britain has persistently violated her agreement not to colonize the Central American coast. (*Ibid.*, III, 197.)

This was the opinion maintained by the Republic from the very moment when the English Government, abusing their privileged position, and once having obtained the desired object, repudiated compliance with the compensatory clause. In face of the impossibility of a direct understanding with the Government of London, the Government of Guatemala stated her rights and opinions before the Government of the United States and, as in 1835, left on record the energetic reservation of its rights: in a communication of December, 1872, the Minister of Guatemala stated to the Secretary of State:

Under such painful circumstances, the Government of the undersigned is obliged to disregard the Treaty of April, 1859 which they agreed to with Great Britain, because the latter nation has not fulfilled the obligations which were incumbent on it, since the clauses of a treaty are correlative, one with the other, and the rights and obligations which originate therein are mutual, Guatemala cannot recognize the substance of the agreement which she signed when the rights, which are therein stipulated, are denied her.

As a consequence of this abrogation of the Treaty, the recognition which Guatemala had made of Belize as British property, is ineffective, and the territory ceded should return to her possession . . .

The Government of Guatemala understood perfectly the circumstances then governing between the Governments of Great Britain and the United States, inasmuch as they refer to the interests debated relative to the possession of the interoceanic routes, and, therefore, in invoking, because of the lapse of the Boundary Treaty of 1859, the return to the former status of the question, the Guatemalan Plenipotentiary added that:

Great Britain should only conserve the rights which she formerly had in Belize, that is, those which she obtained by her Treaties with the Spanish Government, to cut and export timber, but without being able to erect fortifications or establish any kind of Government, or exercise any act of sovereignty in the country.

In this same letter, the Representative of Guatemala stated that the latter Government had decided to send "a special agent to state to the British Government that Guatemala cannot continue in the difficult situation in which she has been placed, and consent that Great Britain enjoy the advantages derived from the Treaty without complying with the obligations which it imposed on her, and on the other hand neither can she permit that that nation continue invading and absorbing the territory of the Republic and depriving her of extensive and fertile lands". In a separate paragraph those activities will be explained.

The Government of Guatemala, said her Representative in another paragraph of that communication, "understands that Great Britain is not to desire to abandon the advantages which she acquired by the Treaty of 1859, and will ignore their demands while a powerful influence does not oblige her to respect the rights of Guatemala".

The Envoy of Guatemala went to London, but, unfortunately "Without the powerful influence" which might convince the English Government that the abuse of force retards but does not destroy justice. Let us present the *White Book* of Guatemala. Lord Granville, English Secretary for State, declared on August 18, 1880 to the Guatemalan Plenipotentiary that "Her Majesty's Government adhere to the views expressed in the note addressed to His Excellency señor don Juan de Francisco Martin by the Earl of Clarendon on November 15, 1869, and that they cannot admit that there is any ground for submitting the question to arbitration". That is to say, the review of the reasonings of the powerful, which having mocked the good faith of the weak, felt itself protected by perfect impunity in unfair conduct in negotiations between nations or individuals. Lord Stanley had given the Minister of Guatemala, on August 29, 1866, the formula agreeable to Her Britannic Majesty's Government:

This being the case, it becomes my duty to ask you whether, in the opinion of the Government of Guatemala it would not be better that the project of constructing this road should be abandoned by mutual consent between the two parties, between whom the engagements to construct it were entered into?

Should the Guatemalan Government be of this opinion therein and to end all further discussion on the subject; if on the other hand they take a different view, it will be for them to suggest a method of proceeding which shall give sufficient security to Her Majesty's Government for the work being undertaken in an economical manner, for an equal share of the expense being borne by Guatemala, and for the commercial result being such as to justify the large outlay which in any case must be necessary.

During the course of the entire controversy, the English statesmen persisted obstinately in such an ingenuous formula, which logically must be interpreted as follows: with the bait of the road, from which the Republic was to obtain "unquestionable advantages" England obtained title to dominion over Belize and, when the despoliation had been consummated, and in view of the fact that England refused to comply with her word, by mutual agreement the two parties were to abandon the payment of the compensation! Lord Stanley was clever when he revealed that the discussion would be terminated in this manner. But the Government of Guatemala, in the light of absolutely Anglo-Saxon logic, gave instructions to their Plenipotentiary, who, on April 5, 1884, made the following statement to Lord Granville:

The anomaly of this situation obliges my Government, before the country which has entrusted to it its destinies and in compliance with its own duties, to call the attention of Her Britannic Majesty's Government to this and urge its solution. In fact: either the treaty of 1859 is in force or it has lapsed. If it is in force, nothing prevents the two Governments from proceeding with its execution, and in this case Your Excellency will recognize the advantage of interpreting Article 7 in its most practical sense. If the treaty has lapsed, matters shall return to their former status, and consequently, the two contracting parties will be released from the obligations which they then contracted. But what the Government of Guatemala cannot accept and does not accept, is that the consent favorable to Great Britain, granted by it in Article 1 of the Treaty of 1859 remains in force, so long as the compensatory articles are not executed.

Therefore, the Minister for Foreign Affairs of Guatemala has instructed me, by order of the President, to present to Her Britannic Majesty's Government, with the most respectful deference, but at the same time with the greatest clarity, the solemn protest which it makes against the recent *de facto* occupation on the part of Great Britain of an integral part of Guatemalan territory, declaring that while an absolute agreement on this point does not exist between the two countries, said occupation cannot prejudice Guatemala's rights at any time.

Pirates and smugglers founded the British settlement of Belize, at the beginning of the XVII Century, and a source of wealth for the English was the smuggling of European merchandise sent to Central America and Mexico, and the pillaging of the wood cutters in Guatemalan territory.

While the report of Engineer Wray was on its way to London, the latter and the Guatemalan Engineer Cano Madrazo proceeded to fix the boundary posts and mark the frontier in accordance with the stipulation of the second article of the Convention of 1859. They fixed the posts at Gracias a Dios Falls on the River Sarstoon and at Garbutt's Falls on the Belize: when this was done, that is to say, British possession assured by means of the fixing of the two principal vertices

of the western boundary "the British commissioner received orders from his Government to suspend on his part the demarcation of the boundaries between Belize and Guatemala, until he received new instructions" reads the Engineers' report.

Great Britain was in possession of the Guatemalan territory, exactly as her caprice desired, and at the same time, without marking the land frontier, the Guatemalan forest was open to the plundering of the English wood cutters and a cloak for the smugglers, who, far from the fiscal authorities, were at liberty to introduce their illicit commerce by the frontier of Peten to the heart of the country.

It is not pertinent to go into explanations in this respect. Let it suffice to say that the Plenipotentiary of Great Britain before the Government of Guatemala, Mr. John Henry Stopford Birch, in his note of November 13, 1934, offered the Government of Guatemala, as a magnanimous concession, that "if the Guatemalan Government should remove the existing ban on the export of produce from Peten through British Honduras and should refrain in the future from imposing vexatious administrative barriers . . . His Majesty's Government are prepared to cooperate as far as possible with the Guatemalan Government with a view to the suppression of contraband activities on the frontier". These were the activities to which the Minister of Guatemala in his note of 1872 to the Secretary of State of the United States referred.

In the spirit of conciliation which is only understandable in the traditional foreign policy of all the Governments of Guatemala, the Republic sought, on all the occasions offered, the manner of seeing if it were possible to attain some settlement with the English Government within the spirit of the Convention of 1859, even though this had lapsed from the moment when Great Britain repudiated its compensatory clause.

And so, when on February 21, 1933 the British Minister asked if the Government of Guatemala "would be willing to appoint Guatemalan engineers to examine a demarcation of the frontier to be carried out unilaterally by British engineers", the Secretary for Foreign Affairs replied on March 4, that, under instructions of the President of the Republic, he informed him that this Government desired to know before replying whether the Government of His Britannic Majesty, "in compliance with the Convention of April 30, 1859 would be prepared to put into due effect the bilateral stipulations contained in Article 7 of said Convention".

On the 25th of the same month of March, the English representative stated in an "urgent" note, that "the question of Article VII of the Convention of 30th April 1859 will be carefully examined by His Majesty's Government and that instructions upon the subject will be sent me in due course". Naturally His Majesty's Government pre-

sumed "that it is not the intention of Your Excellency's Government to defer the conclusion of the arrangement proposed in my Note No. 14 of 21st ultimo during such time as the question of Article VII of the Boundary Convention is receiving consideration", and, consequently, the English Representative requested "at the earliest possible moment Your Excellency's reply to my note under reference in order that that reply may be regarded as placing on record the understanding arrived at with regard to the demarcation of the frontier between the Colony of British Honduras and the Republic of Guatemala by British engineers, such demarcation to be subsequently examined by Guatemalan engineers". (*Ibid.*, 372/3.) Five days later, on March 29, the Legation presented in a rather accusing tone, as if blaming on the Government of the Republic the lack of loyalty as a motive for this controversy:

His Majesty's Government who were glad to accept the arrangement proposed (?) by Your Excellency to His Majesty's Minister in January last and referred to in my Note No. 24 of the 25th instant, are correspondingly disappointed and surprised that the Government of Guatemala should now raise the question of Article VII of the Boundary Convention of 30th April 1859, with a view, it would appear to procrastinate over the delimitation of the boundary.

I am directed, therefore, to inform Your Excellency that His Majesty's Government must insist on the prompt conclusion of the necessary arrangements for the demarcation of the boundary without regard to, although equally without prejudice to, the question of Article VII.

To the angry tone of the Chargé d'Affaires of Great Britain, Mr. C. C. A. Lee, the Secretary for Foreign Affairs replied:

The good will and friendly zeal with which the Government of Guatemala has received the suggestions of His Majesty's Representatives in order to mark the frontier are evident to His Britannic Majesty's Government; but at the same time it is aware, by the antecedents of the diplomatic correspondence had since 1862, that, if this Government desired to comply with the desires of that of His Majesty, it could not be less interested in that the Convention of April 30, 1859, be faithfully respected in the entirety of its clauses and stipulations. Therefore, my Government cannot understand why the question which I asked you in my note of March 4 last, as to whether His Majesty's Government would be disposed, on its part, to comply with the stipulation contained in Article VII of the Convention should have caused disappointment and surprise to that of Your Excellency, since this was invoked to have effect solely in the part which refers to the demarcation but nothing was said as to Article 7 which imposes a concrete obligation upon His Majesty's Government and in favor of the Republic.

The formula of Lord Stanley (1866) was converted into the refrain of the notes of the English Legation, since Mr. Lee, in his communication of April 7, 1933, stated:

By instructions of His Majesty's Principal Secretary of State for Foreign Affairs that His Majesty's Government in their desire to comply with the wishes of the Guatemalan Government are prepared to give most careful study to any practical proposals which the latter may put forward for the execution of the bilateral stipulations contained in Article VII of the Convention of April 30th, 1859, notwithstanding that in the view of His Majesty's Government subsequent developments, such as the construction of a railway from Guatemala City to the Atlantic Coast of the Republic, have fulfilled for many years past the needs which Article VII was intended to satisfy and thus have rendered its stipulations inapplicable to present conditions. The means of communication contemplated by Article VII would have to benefit both the Colony of British Honduras and the Republic of Guatemala; would have to be economically sound and would have to be constructed at the joint expense of both parties.

In thus giving proof of their anxiety to meet the wishes of the Guatemalan Government His Majesty's Government confidently anticipate that Your Excellency's Government, animated by similar friendly feelings, will proceed forthwith, without awaiting the outcome of the investigation referred to in the preceding paragraph of this note, to an exchange of notes to enable the demarcation of the frontier between the Colony of British Honduras and the Republic of Guatemala to be carried out without further delay.

The study of these paragraphs will be enough to become acquainted with the spiritual atmosphere in which—it being well understood, that it was exclusively in consideration of the desires of Guatemala,—the Government of His Britannic Majesty is acting. Upon agreeing to the unfulfilled bilateral stipulations, the English Government confess that they failed their word given in the compensatory clause of the territorial cession: in mentioning the needs which Article VII was intended to satisfy, His Britannic Majesty's Government recognizes the damages, material and intangible, caused the Republic by leaving unconstructed the highway agreed upon, of which the English Minister Mr. Mathew said on June 29, 1862, that "the advantages, which Guatemala will derive from the road, by opening a vast district of rich country, are unquestionable". The railway to which Mr. Lee refers was opened in 1909, and consequently for a half a century the Republic was deprived of the advantages recognized by Mr. Mathew.

But even if Guatemala had constructed, without the sacrifices which it has cost her, her railway in the year of 1859, the claim of the party guilty of violation of the contractual pact that if the injured party proceeds at his own cost to repair the damage suffered by him, the transgressor is exonerated from responsibility, is truly unusual! It can be taken for granted, without fear of error, that no English tribunal—international or ordinary—would seriously consider such jurisprudence. And still less what is insinuated in the following paragraph of Mr. Lee's note: for Great Britain to satisfy the compensation which, if the Convention of 1859 were in force, she would owe to

Guatemala for the territorial cession of Belize, that compensation "would have to benefit the Colony of Belize!" This atrocity was defined by the Minister Mr. Birch in his note of November 13, 1934:

I am now instructed to put forward, as demonstration of the good will of His Majesty's Government towards the Guatemalan Government, and as their contribution towards the settlement of the above question, the following proposal which, after the most careful study of the economic considerations, appears to His Majesty's Government to be the only one which can satisfy the above requirements. His Majesty's Government propose that the Government of British Honduras should construct a road from Belize to the frontier of Peten and that the necessary continuation on the Guatemalan side should be constructed by the Guatemalan Government.

The "careful study of the economic considerations" must have referred to the precarious economic situation of the Colony, consequent to the energetic suppression of smuggling exercised by the Government of Guatemala, aggravated by the circumstance that the aerial communication between the capital of the Republic and the towns in transit, in fact decreased the commerce in transit and the movement of travellers by the port of Belize: the extensive department of Peten was strangled, without a direct exit to the sea due to the British dismemberment of Guatemalan territory. And so, according to the English Government, the compensation due the Republic from His Britannic Majesty's Government would have to be diverted from its intimate character to favor exclusively His Majesty's possessions. It is, in reality, a strange manner to give satisfaction to the wishes of Guatemala. And furthermore, in his above mentioned note, Minister Birch added that His Majesty's Government considered "as an essential condition to his proposal, that the Guatemalan Government should remove the existing ban on the export of produce from Peten through British Honduras and should refrain in the future from imposing vexatious administrative barriers." And in the same paragraph, the magnanimous promise in exchange for the elimination of the customs tariffs for Belize: "At the same time, I am to inform Your Excellency that His Majesty's Government are prepared to cooperate as far as possible with the Guatemalan Government with a view to the suppression of contraband activities on the frontier".

The Government of Guatemala did not weaken in its extreme spirit of conciliation and, taking into account the antecedents of this unfortunate affair, made the minimum contra-proposals of a modesty excessive, only conceivable in the desire of obtaining, although by means of the renunciation of the most legitimate claims, some legal formula which, with a very reduced advantage for the Republic, would give the impression that within the canons of the international family

the dignity of Guatemala had received, on the part of Great Britain, the consideration which by no concept has she ceased to deserve.

But the Republic had consented, in 1859, to be the propitiatory victim on the altars of English ambition, and this unfortunate memory only serves as a stimulant to the arrogant injustice of the Government of London: no proposal could be satisfactory to them, they were determined not to comply with their engagements, but, on the contrary, to attain new advantages at the cost of Guatemala.

In the impossibility of reaching any direct adjustment whatever, the Government again proposed, as a last recourse, arbitration—and suggested as arbitrator His Excellency Franklin Delano Roosevelt, President of the United States: His Majesty's Government accepted in principle, but according to the note signed by Lord Halifax of August 17, 1937: "they are unable to agree that the arbitrator should be the President of the United States. They could, in fact, only accept arbitration in this case by the Permanent Court of International Justice at The Hague".

Lord Halifax deemed it unnecessary "to explain that this decision is not based on any objection of principle to a single arbitrator in a suitable case, still less to the President of the United States individually".

It rests rather on the conviction that The Hague Court is the proper tribunal to decide such a case as the present. The reasons for this view are as follows. The issues in the present case are essentially of a legal character involving difficult questions of law and interpretation which could not satisfactorily be decided by any tribunal other than a legal tribunal of high standing, and of all possible legal tribunals The Hague Court by reason of the authority of its judges and the length and nature of its experience is, in the opinion of His Majesty's Government, by far the most suitable to decide a question of this kind. Moreover it has been the invariable practice of His Majesty's Government to make use of the machinery of The Hague Court wherever possible, for the settlement of international disputes, save in cases where special considerations warrant a different course, and they see no sufficient reason for a departure from this practice in the present case.

The Ministry for Foreign Affairs replied under date of September 22, 1937:

The noncompliance with Article VII of the Convention of '59 and the non-ratification of the settlement of '63 have caused Guatemala, other than the material loss, intangible injuries of a different character which can be proved by reading the copious correspondence sustained by the two Governments since the middle of the last century; injuries which the arbitrator must take into consideration, precisely because the disagreement, subject of arbitration, refers to something different than the mere legal interpretation of the dead letter of the Convention.

It is not a question of deciding merely juridical issues which involve questions of law and interpretation, and the Government of Guatemala is convinced that that of His Britannic Majesty, animated by the most ample and elevated spirit, will take into consideration this viewpoint. The Government of Guatemala must express first the profound respect and consideration which it has for the Permanent Court of International Justice at The Hague, the competency and integrity of which are beyond discussion; but, at the same time, it considers it necessary to set forth its conviction that the questions at issue are not only of a juridical order and therefore depart from the somewhat rigid regulations of that tribunal which is exclusively *de jure* with strict legal rules to which it must adhere in its decisions.

And since His Excellency Lord Halifax declares that the disagreement of His Majesty's Government as to the arbitrator proposed is not based precisely on objections of principle to a single arbitrator—and still less to His Excellency President Roosevelt—in the most courteous manner I request Your Excellency to take into account the considerations which precede and which are to present to his high sense of justice the regret with which the Government of Guatemala declines to accept the Permanent Court of International Justice at The Hague, because for the pending case it does not have ample jurisdiction to consider equitably the complexity of the matter, the settlement of which, I am certain, His Majesty's Government desires as much as does that of Guatemala.

His Excellency Lord Halifax states that it has been the invariable practice of His Majesty's Government to make use of the Court at The Hague, whenever possible, for the settlement of international disputes; but indicates also the exception of cases in which special considerations warrant a different procedure.

This latter consideration of the Foreign Office and the complexity of the case, explained in the preceding paragraph, as well as the absence of objection on the part of His Majesty's Government to His Excellency President Roosevelt as arbitrator, make the Government of the Republic hope that that of His Majesty, desirous as it is of terminating justly and satisfactorily the controversy, will be so kind as to reconsider its suggestion of the Court at The Hague, and will agree to His Excellency the President of the United States as a competent arbitrator to hear the matter and decide it in justice and equity.

After this note addressed to the Foreign Office, various verbal conversations were held between the Secretary for Foreign Affairs and the Minister of Great Britain, during which the latter sustained the claim that the Government of Guatemala should recognize the part of the frontier demarked unilaterally by British engineers, without awaiting the agreement relative to integral compliance with the Convention of 1859. It was not until March 3, 1938, when the Minister of England, Mr. Birch, in an angry tone and with subterfuge, replied to this Government note:

I am instructed to inform Your Excellency in reply that His Majesty's Government in the United Kingdom regret that they are unable to accept the validity of the contentions advanced in your note under reference. Actuated by a desire to remove all possible points of fric-

tions between Guatemala and the United Kingdom, His Majesty's Government have spared no effort throughout the period of the dispute to find a means of implementing Article VII of the Anglo-Guatemalan Convention of 1859 in a manner acceptable to the Guatemalan Government. They are consequently unable to assume any responsibility for the failure of their attempts to reach a settlement satisfactory to all concerned. As regards the question of the non-ratification of the Anglo-Guatemalan Convention of 1863, to which your note makes special reference, I am directed to remind Your Excellency that, as has been pointed out at previous stages of the controversy, her then Majesty's Government were ready and willing to proceed to ratification in due time, and that it was solely owing to the attitude of the Guatemalan Government that the Convention never entered into force.

In your note under reply, Your Excellency points out that the Guatemalan Government are unable to accept the proposal formulated in the second paragraph of the letter addressed by Lord Halifax to Doctor Matos on the 17th August, 1937, to the effect that the present problem should be submitted for arbitration to the Permanent Court of International Justice of The Hague. His Majesty's Government for their part remain of the opinion that the issue is essentially legal in character, and for this reason regret that they cannot see their way to reconsider their attitude in the sense desired by the Guatemalan Government.

In these circumstances His Majesty's Government consider that it would serve no useful purpose to pursue the matter further and that they have, therefor, no option but to treat the present boundary of British Honduras, which they have every reason to regard as being entirely in accordance with the provisions of the Anglo-Guatemalan Convention of 1859, as constituting the correct boundary. They must, moreover, disclaim all responsibility for incidents which may arise from any failure by the Guatemalan Government to observe the boundary.

The note of the English Minister could not do less than radically change the attitude of the Government of Guatemala: the discussion having returned to the point where it had rested in 1884, when the Minister of Guatemala in London presented the dilemma of integral compliance with the Convention or its caducity, the Government of Guatemala had to repeat its energetic protest and reiterate concretely its reservations. It is clear that, as Minister Birch said in his note of November 13 to the Secretary for Foreign Affairs, circumstances have radically changed because of the 116 years of illegal possession on the part of Great Britain of the Anglo-Spanish Belize of 1786 and the 80 years of usurpation of the additional districts to which the lapsed Anglo-Guatemalan Boundary Convention of 1859 refers. The Secretary for Foreign Affairs stated in his note of March 9, 1938:

In reply, I have the honor to call Your Excellency's attention to the circumstances that the Government of Guatemala in its correspondence of recent years with that Honorable Legation has constantly invited His Majesty's Government to consider the absolute necessity of giving due compliance to Article VII of the Convention, because,

that Article being the only one of the pact which sets forth obligations to it in exchange for the advantages obtained, non-compliance with that compensatory clause, will necessarily invalidate the Articles which favor Great Britain. Whatever may have been His Majesty's Government's reasons for not ratifying the Convention of 1863, it is an undeniable fact that, in rejecting the agreement of modification of the obligations which Article VII of that of 59 imposes on it, the British Government reiterated the recognition of said obligation, agreed upon by it in negotiating and signing the pact and in ratifying it, as well as in considering and proposing the modification of the clause of its obligation.

The Government of Guatemala believes itself firmly assisted in this matter by the Law of Nations, and in face of the declaration that His Majesty's Government—deeming it useless to consider the Guatemalan viewpoint—decides to set aside the obligations solemnly contracted in a perfect international pact, the Government of Guatemala renews its demand for integral compliance with the Convention of 1859, maintains the reservation of its rights, and rejects responsibilities for the consequences of non-compliance with a treaty, respect for which has been continuously solicited precisely by the Government of Guatemala.

Such is the character of the controversy which Guatemala sustains against Great Britain: at the time of the independence of the Republic, in 1821, the usufructuary privileges granted by the King of Spain to English subjects between the Sibun, Belize, Nuevo and Hondo Rivers, belonging to the jurisdiction of Guatemala, ceased,—and the English Government, although pretending to be a friend of the new State, in spite of the latter's protests and by means of the abuse of force, continued in the illegal possession of the territories of the Spanish concessions.

The Government of Guatemala resorted in 1835, to an appeal for the aid of the Government of the United States to bring about the evacuation by the Government of England of the territories which they illegally held, or at least while the question of right was being discussed, that His Majesty's subjects cease the depredations to which they resorted beyond the demarcation of the Anglo-Spanish concessions: in a memorable session of the Congress of the United States, at the beginning of 1853, the abuse of Great Britain and the complete sovereignty of Guatemala over all the territory in dispute were proved without a doubt.

Nevertheless, by the Dallas-Clarendon Treaty (1856) the Governments of the United States and of Great Britain without the knowledge and moreover, without the consent of the Government of Guatemala, agreed that Great Britain should seize upon five times the territorial extension of the English occupation, and in the form of a boundary treaty obtain from the Republic the legal title necessary to give an honest appearance to the violations of the Monroe Doctrine and the Clayton-Bulwer Convention which this dismemberment signified. And so the defenceless Republic was handed over to the dis-

cretion of Great Britain, and Guatemala had to sign the boundary treaty in accordance with the pleasure and taste of the English plenipotentiary.

Nevertheless, and since right is manifested even under the worst circumstances, Great Britain, in face of the impossibility of obtaining the legal title which the United States demanded during the course of the prolonged Anglo-United States controversy relative to Central American affairs, of which Belize formed the principal part, the English Plenipotentiary was obliged to consent to the compensatory clause, perfectly defined by English diplomats, as has been seen in this memorandum.

The English Government, in spite of having ratified said compensatory clause, as soon as they had consummated the occupation of Belize, repudiated compliance with their engagement, and, upon declaring invalid the article of compensation, caused the entire pact of territorial cession, mistakenly called a boundary part, to lapse. Here originated, since 1862, the 80 year old controversy, for whose just solution the Government of the United States have offered their friendly mediation in the Memorandum of June 8, 1938, now under reply.

As in 1835, in December of 1872, the Plenipotentiary of Guatemala stated to the Government of the United States that England had caused the caducity of the boundary Convention of 1859, and that Guatemala, in the material impossibility of securing immediate justice, reserved her rights for an opportune occasion; the Minister of Guatemala made similar declarations before the Government of London in 1884.

In the course of this memorandum, the Government of Guatemala has reviewed the entire history of the question, examined in the light of the opinion of prominent public men of the United States: the Republic no longer need to await the moment when the Government of the United States, natural defender of right and justice in the Western Hemisphere—and the circumstances which in 1856 obliged it to consent to the dismemberment of the weak American Republic by a great European power—now being changed—will use its unquestionable authority to make Great Britain return to Guatemala the territory which she usurped, and indemnify her for the damages resulting from that usurpation, not the least of which are the smuggling carried on by British subjects and the undue exploitation of the forest of Peten.

Great Britain is involved now in an armed conflict for the defense, so say her statesmen, of the sanctity of International Treaties; this is an opportune occasion to prove with acts the validity of the English ideal.

[GUATEMALA, November 15, 1939.]

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Estudio Especial Sobre la Controversia

ARGENTINA

NEGOTIATIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND ARGENTINA ¹

611.3531/737 : Telegram

The Chargé in Argentina (Tuck) to the Secretary of State

BUENOS AIRES, February 10, 1939—5 p. m.

[Received 7:17 p. m.]

30. Accompanied by Consul General Davis and Luis Fiore ² I called on Groppo, Minister of Finance, this morning. I went straight to the point and told him that during the visit to Buenos Aires of Fowler and Sappington ³ a confidential memorandum had been prepared which in our opinion might form the basis for the negotiation of a trade agreement between Argentina and the United States. I said that the contents of this memorandum were known to the experts of the Ministry of Finance and that we had been led to believe that its provisions had aroused their sympathetic interest. I added that we were grateful for the facilities which had been afforded by the Government to Fowler and Sappington in forming their contacts and that an expression of his opinion of the memorandum would be appreciated. The Minister replied that he had familiarized himself with the contents of the memorandum and that it was his intention to instruct his experts to prepare a reply thereto. While at first he showed a tendency to speak with some heat of matters extraneous to the issue and to revert to their past grievances, he ultimately declared that he was a realist in the matter and was prepared to give thoughtful consideration to practical issues.

He declared to begin with that he recognized the need for a trade agreement, spoke disparagingly of Argentina's trade relations with Germany, intimating that while the Germans were promising big things at present, we could never tell what the future held in store. Furthermore that in his opinion the two countries to which Argentina should look for the betterment of its economic situation were Great

¹ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 272 ff.

² Prominent Argentine businessman who frequently acted as an adviser to the Minister of Finance.

³ By instructions of November 29, 1938, William A. Fowler, Assistant Chief of the Division of Trade Agreements, and James C. Sappington III, of the same Division, were directed to proceed to Buenos Aires and Montevideo to discuss trade relations with officials in those capitals (611.3531/692b and /692a).

Britain and the United States. At this point Davis reminded him that the situation today with respect to trade relations between the United States and Great Britain differed materially from that of 1933. To this the Minister expressed lively agreement and added he saw no insuperable obstacle in the way but on the contrary, given the possibility of tariff concessions, including canned meat, he saw no reason why an agreement on the basis of the memorandum should not be possible.

In conclusion he said that he would consult with Louro⁴ and Prebisch⁵ and that he would then arrange another meeting with us at an early date probably on Tuesday or Wednesday next.

TUCK

611.3531/7641

Memorandum by Messrs. William A. Fowler and James C. Sappington III of the Division of Trade Agreements

[Extracts]

[WASHINGTON,] February 18, 1939.

(1) Our commercial relations with Argentina have reached a highly critical stage. For reasons presently to be indicated, a decision regarding them must be reached promptly. This decision is one of first importance since it will influence the future course of our commercial and political relations with Argentina for years to come and is bound to influence for better or for worse our political and economic relations with Uruguay and the American Republics generally.

(2) The Argentine Government is at present drastically curtailing imports of United States products into Argentina, on a bilateral basis, while imports from the United Kingdom, Germany and many other countries, on the same basis, remain free of restrictions. The existing Argentine system of controlling imports on a bilateral, country basis plays into the hands of Great Britain, which has forced exchange advantages from Argentina under threat of cutting down purchases of fresh meat from that country, and also of Germany and other totalitarian countries which can give commitments to purchase specified amounts of Argentine products, particularly fresh meat.

(3) Officers of this Department who recently discussed the matter thoroughly with Argentine officials in Buenos Aires came back with the firm conviction that those officials are by no means satisfied with the present bilateral system and that they would welcome eagerly an opportunity to lessen Argentina's dependence on European markets and obtain release from the conditions imposed by those countries.

⁴Alfredo Louro, Chief of Argentine Exchange Control Board.

⁵Raul Prebisch, General Manager, Central Bank of Argentina.

The disruptive effects of severe import restrictions on the bilateral basis, particularly the recent restrictions on imports from the United States, have caused a rising tide of criticism, on the part of interested business men and the press in Argentina, which has placed the Minister of Finance and other high officials on the defensive. Because of Argentina's large dependence upon the United Kingdom market, Argentina has in the past been forced to yield to British pressure for exchange preference, which makes Argentina feel that it is being treated as a colonial market. With reference to this situation an Argentine official is reported to have remarked that "Argentina would like to regain her sovereignty". In the case of exports to Germany and certain other European markets, there is not only the possibility of expansion but also the constant danger of arbitrary reduction of purchases from Argentina. Furthermore, in those cases in which the proceeds from the sale of Argentine exports can be spent only in the importing country, Argentine buyers are not free to make their purchases where they can do so to the best advantage. Argentine officials are worried now about how accumulated blocked marks can be utilized.

(4) Argentine officials feel that Argentina's only hope of breaking away from dependence upon European markets lies in the possibility of substantially increased trade with the United States. However, they are aware of, and naturally tend to exaggerate, the danger to which Argentina's export trade with Europe would be exposed if Argentina should break away from its bilateral commitments. It is very largely for this reason that we shall have to hold out to Argentine officials the prospect of really substantial tariff concessions if we are to expect them to risk endangering Argentina's exports to Europe.

(5) The foregoing explains the real interest of Argentine officials in an agreement with the United States, on our multilateral basis, provided we could offer concessions which they would consider sufficient. That they are genuinely interested has been confirmed by reports from the Embassy and Consulate General at Buenos Aires, and through the press, since the officers of the Department referred to above left Buenos Aires on January 21, 1939. Among other things, these reports indicate that the Argentine authorities are awaiting with keen interest proposals from this Government along the lines discussed with them by officers of this Department.

(6) The Trade Agreements Committee within the last few days has again examined the whole situation and is impressed with the opportunity now presented to bring about a reorientation of Argentina's trade policy. The Committee realizes that extensive concessions will have to be offered Argentina to bring this about, but not greater concessions than were previously recommended by it as entirely justifiable on economic grounds. The Committee's recommendations when previously submitted were not all approved, it not being clear at that

time how far it would be necessary to go in order to obtain an agreement. Recent conversations with Argentine officials leave no room for doubt that if this important objective is to be attained it will be necessary to make concessions such as those recommended by the Trade Agreements Committee.

(8) . . . Recent discussions with the Argentine authorities have made it clear that any customs quotas, however liberal, would be unacceptable. They emphasized in this connection, as they did on other occasions, that we are proposing that they run the risk of losing part of their export trade with Europe by entering into a trade agreement on our basis. In order to justify such a radical change in their trade policy, involving danger to their European trade, they strongly feel that they must be able to say that in the case of the United States, in contrast to Europe, no limitations are imposed on the extent to which Argentine export trade can be developed.

(9) If our efforts to bring about a reorientation of Argentina's commercial policy are to succeed, we must move forward without delay. We are informed by Argentine officials that the Argentine Government will begin discussions with the British in March or April relative to the question of renewal of their trade agreement with the United Kingdom which could be terminated at the end of this year. If, in advance of these discussions, the Argentine authorities become convinced that a trade agreement with us offers real prospect of compensation for any possible loss of exports to the United Kingdom, the discussions with the British could lead to a termination of Argentina's virtual commitment to accord preferential exchange treatment to British goods. If we do not shortly so convince the Argentine authorities, their agreement with the United Kingdom doubtless will be renewed on the present basis, probably for another three years, and thus postpone indefinitely and beyond the life of the present grant of authority to negotiate trade agreements, an agreement with the United States on our basis.

(10) The question before us now is not the question of the timing of public notice of intention to negotiate; it is the question of finding a basis for eventual negotiations. After we have reached agreement on the basis, we can consider the question of the timing of the announcement of negotiations.

(11) The conclusion of an agreement with Argentina, on the basis of full equality of treatment, would have the most far-reaching benefits both in its trade and political aspects. It would mean a significant change of policy by Argentina, the foremost Latin American exponent of bilateralism. It would end the preferential position enjoyed by the British in Argentina for the past six years and would discourage German trading methods in Argentina. Uruguay, a country which

has been following bilateralistic policies to the detriment of our trade, would undoubtedly follow Argentina's lead. Furthermore, an agreement with Argentina would have a beneficial effect upon the other Republics in this hemisphere, a number of which are either practicing or tending towards bilateralism.

(12) The question which faces us is not merely whether we do or do not obtain advantages for our trade in Argentina. The alternative to finding a basis for a trade agreement is a trade war. The situation would not remain static but would become worse. In view of the present serious and obvious discriminations against our trade and the fact that these discriminations would become even greater if our efforts to find a remedy should not succeed, failure to suspend the application of trade-agreement benefits to Argentina (and Uruguay) would constitute a glaring disregard of the generalization policy laid down by the Congress in the Trade Agreements Act.⁶ Trade warfare with Argentina (and Uruguay) would be a severe blow to the good neighbor policy, the repercussions of which would be felt throughout Latin America, and would tend to throw Argentina (and Uruguay) permanently into the totalitarian, bilateral trade, orbit.

611.3531/7973

*Memorandum of Conversation, by the Assistant Secretary of State
(Sayre)*

[WASHINGTON,] March 23, 1939.

Participants: The President,
Mr. Welles,⁷
Mr. Sayre.

Mr. Welles and I saw the President this afternoon at 3:15 concerning the cotton export subsidy proposal and also concerning the Argentine trade agreement. Regarding the latter, we outlined to the President the critical situation now existing with respect to our trade in the Argentine and briefly described the existing situation. Mr. Welles said that he wanted to ask the President's help in making possible the negotiation of a trade agreement. I said that the wisest plan would be not to make any public announcement of negotiations until about July first but, in the meantime, to enter into confidential conversations with the Argentine Government in order to find a sound basis for negotiations. I suggested that we would then probably be able to conclude the negotiations in September or October. The President replied that he felt that would be too late and that the agreement should be concluded in August.

⁶ Approved June 12, 1934; 48 Stat. 943.

⁷ Sumner Welles, Under Secretary of State.

I showed the President the proposed concessions as outlined in the memorandum dated February 18, 1939 covering canned beef, pickled and cured beef, cattle hides, corn and edible and inedible tallow, oleo oil and oleo stearin. The President agreed to these except that as to canned beef he suggested that we find some way of classifying the canned beef into several grades and giving the concession on those grades which are almost entirely supplied to the United States from the Argentine but which are not produced in the United States. I explained to him that a general concession in canned beef was fully justified on economic grounds and he replied that in spite of this it would be necessary to have some trimmings to prevent complaint that we were giving away our market to Argentina.

The President also said that for similar reasons he hoped we would be able to impose a quota on canned beef.

The President promised to speak to Secretary Wallace⁸ about the trade agreement tomorrow and tell him that he, the President, desires a trade agreement with Argentina.

F[RANCIS] B. S[AYRE]

611.3531/871a : Telegram

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

WASHINGTON, June 28, 1939—4 p. m.

106. In pursuance of the trade-agreement discussions in Buenos Aires and in accordance with the procedure generally followed in trade-agreement conversations, this Government now desires to ascertain what concessions the Argentine Government would expect in return for negotiating a trade agreement on our basis. As a result of exhaustive study of all products of which Argentina is the chief or an important supplier to the United States, this Government is fully prepared to give consideration to any request, within the authority of the Trade Agreements Act, which the Argentine Government may wish to make in regard to the tariff treatment of such products. A memorandum in this sense, which embodies this Government's proposed basis for a trade agreement (which is in line with the Fowler-Sappington suggestions), is being sent you by air mail for transmission to the Argentine Government.⁹ A copy of the memorandum is also being handed to the Argentine Ambassador here.

You should, unless you perceive objection, immediately inform the appropriate Argentine officials of the foregoing. You should strongly impress upon those officials the necessity of avoiding any publicity regarding both the nature of any trade-agreement discussions and the fact that such discussions are in progress.

HULL

⁸ Henry A. Wallace, Secretary of Agriculture.

⁹ *Post*, p. 234.

611.3531/875a

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

No. 6

WASHINGTON, June 28, 1939.

SIR: There is enclosed a memorandum with enclosures embodying certain considerations and questions in regard to the basis for a possible trade agreement with Argentina. You should, unless you perceive objection, present this memorandum and enclosures to the Argentine Foreign Minister ¹⁰ as soon as possible.

It will be noted that the proposed basis for a trade agreement embodied in the memorandum is in line with the suggestions, with respect to the basis for a trade agreement, made to members of the Argentine interministerial committee and to other Argentine officials by officers of the Department during conversations in Buenos Aires. The memorandum contemplates the negotiation of a trade agreement under which, from its effective date, the Argentine Government would accord full equality of treatment to United States trade, as provided in the proposed general provisions, and tariff treatment as indicated for United States products. It is desired to ascertain what concessions the Argentine Government would expect in return for according this treatment to United States trade under an agreement.

This Government does not envisage the negotiation of a conditional agreement or an agreement, such as suggested by Dr. Raul Prebisch (despatch no. 291 of February 24, 1939, from the Consul General ¹¹), which would provide for a transitional period during which the Argentine Government could take such steps as might be necessary in order to accord United States trade equality of treatment. This should be made clear to the Foreign Minister and to other appropriate Argentine officials. You should inform such officials that this Government does not desire to negotiate an agreement of that nature and could not consider granting substantial concessions to Argentina for less in return on the part of Argentina than is contemplated by the memorandum.

You should inform the appropriate Argentine officials that the Department is informing the Argentine Ambassador in Washington that, in the event the Argentine Government is inclined to agree to the proposed basis but considers it necessary to approach the Government of the United Kingdom for the purpose of obtaining a release from existing commitments to that country in order to be free to negotiate an agreement with the United States on the proposed basis, this Government, should the Argentine Government desire, will render all possible appropriate assistance.

¹⁰ José M. Cantilo.

¹¹ Not printed.

A copy of the enclosed memorandum is being handed to the Argentine Ambassador. With respect to the products contained in the attached list,¹² he is being informed that it is extremely unlikely that any reduction could be made in the duty on corn.

Please telegraph the Department any suggestions you may have regarding the contents of the memorandum prior to transmitting it to the Argentine Government, and you will, of course, report promptly to the Department the reaction of Argentine officials.

Very truly yours,

For the Secretary of State:
FRANCIS B. SAYRE

[Enclosure]

Memorandum To Be Presented by the American Ambassador (Armour) to the Argentine Minister for Foreign Affairs (Cantilo)

The Government of the United States, in pursuance of conversations in Washington between officers of the Department of State of the United States and the Ambassador of Argentina and in Buenos Aires between officers of the Department of State of the United States and officials of the Government of Argentina, desires to present to the Argentine Government certain considerations and questions regarding the basis for a trade agreement between the two countries.

Three essential elements comprise the basis for the negotiation of a trade agreement: 1) possible tariff concessions by the United States; 2) the general provisions of the agreement, particularly those relating to quotas and exchange; and 3) possible tariff concessions by Argentina.

With reference to possible tariff concessions by the United States, the maximum reduction in United States import charges permitted by the Trade Agreements Act, under authority of which trade agreements are negotiated, is 50 percent. As the Government of Argentina is aware, the United States customarily grants tariff concessions only in respect of articles of which the other country concerned is the chief or an important source of imports into the United States. In accordance with this principle, the Government of the United States has exhaustively studied all products of which Argentina is the chief or an important supplier to the United States. As a result of this study, the Government of the United States is now fully prepared to give consideration to any requests which the Government of Argentina may desire to make in respect of the tariff treatment of the products contained in the attached list.

In making the above-mentioned study, the Government of the United States has borne prominently in mind the importance attached

¹² Not printed.

by Argentina to the trade in meat, and has reexamined with the greatest care the questions relating to the importation of chilled and frozen meats from Argentina. It has been forced to conclude that circumstances connected with the sanitary laws and regulations of this country are such that no practicable means can be found for effecting any immediate improvement in this situation. However, the Government of the United States, having in mind possible future developments, would be willing to cooperate with interested governments such as those of Argentina, Uruguay and Brazil, should such governments desire, in a study of rinderpest and foot-and-mouth disease. A study of these diseases by an international group of well-qualified scientists, preferably non-governmental, might result, among other things, in a finding that meat prepared in certain ways could not possibly transmit these diseases.

As regards the second element in the basis for negotiations, namely, the general provisions, the Government of the United States could not consider signing an agreement, involving substantial concessions by the United States which would leave products of the United States exported to Argentina at a disadvantage as compared with like products imported from any other country.

The disadvantage to which United States trade in Argentina is now subjected is due to the practice of the Argentine Government of controlling imports on a bilateral basis, by means of prior permits and differential exchange rates, which favors imports from certain countries to the detriment of other countries, particularly the United States.

The Government of the United States fully appreciates that the Argentine Government may be compelled to control imports in order to safeguard foreign debt service and other necessary remittances abroad and to protect the exchange value of the Argentine currency during periods of foreign exchange stringency due to abnormally low returns from exports. However, the Government of the United States believes that any control of imports deemed necessary by the Argentine Government can be exercised more effectively and more fairly on a commodity basis than, as at present, on a country basis.

The control of imports on a commodity basis would permit the control of total imports, whereas the present practice may result in a diversion of imports from a disfavored to a favored nation and thus cause only a change in the source of imports. The control of imports on a commodity basis would be more fair than the existing practice because all suppliers to the Argentine market and Argentine importers would receive equitable treatment with respect to such imports as were admitted and the burden of restrictions would be spread over all export and import interests involved in the trade in the articles subject to restrictions. Even in the worst years, many articles could be per-

mitted to enter without any restriction whatever. In the case of articles subject to restriction Argentine importers would be free to buy where they could buy to best advantage, within the limits determined upon by the Argentine Government.

Under the procedure here suggested, import quotas, applicable to imports of particular products from all countries, could be established when necessary for the protection of the exchange value of the Argentine currency. The maximum quantity of a given product which would be admitted into Argentina during a specified period, including any imports of such product under compensation arrangements, would not have to be allocated among supplying countries. However, if the Argentine Government should allocate a share of any such quantity to any third country, the United States would be allotted a fair share on the basis of its position as a supplier in a previous representative period. The previous representative period upon which the share of the United States in a total quota would be based would not necessarily be specified in the agreement. The Argentine Government would be free to select a base period for each product subject to an import quota on the general understanding that the period selected would be representative with respect to imports into Argentina of the product in question. If shares of a quota are allotted to a third country and to the United States on this basis, the balance, if any, of the quota over and above these shares could, if the Argentine Government so desires, be made available to all other countries without specific allocation to such countries, or be allotted among several countries or even entirely to one other country. It is assumed, however, that the Argentine Government would as a general rule wish to allocate the balance, which in some cases would be a large part of the total quota, among other exporting countries on the same basis as that on which the allocation to the United States would be made.

Such control of imports, based on careful estimates of exchange available for merchandise transactions after the debt service and other necessary remittances have been provided for and with sufficient flexibility for any revision of such estimates as might appear advisable, would insure that imports would not exceed Argentina's capacity to pay. Thus the present basis for differential exchange rates as between countries would be removed and since only an amount of imports would be admitted for which exchange was available, payment could be made promptly for all imports.

There are attached a set of general provisions which the Government of the United States would wish to have included in a trade agreement, together with a memorandum ^{12a} explaining the articles pertinent to the above discussion.

^{12a} Memorandum not printed.

With reference to the third element in the basis for negotiations, the Government of the United States would expect the Argentine Government to grant, under a trade agreement, improved customs treatment to important United States products, including:

- Prunes and raisins
- Automotive vehicles and parts
- Lumber
- Cash registers and office appliances, such as adding, accounting, and calculating machines, and parts
- Paints, enamels, and lacquers
- Apples (on a seasonal basis)
- Automatic refrigerators and parts
- Radio receiving sets, parts, and tubes

and to bind existing customs treatment of other products of which the United States is the principal or an important supplier.

The Government of Argentina, like the Government of the United States, doubtless has been giving intensive study to the possibilities of a trade agreement and is therefore in a position to indicate at an early date the concessions it would expect the United States to grant in a trade agreement. In the meantime, it is obviously desirable that both Governments make every effort to avoid any publicity in regard to any proposals under discussion or to the fact that such discussions are in progress.

WASHINGTON, June 28, 1939.

[Subenclosure]

Draft of General Provisions for Inclusion in Proposed Trade Agreement With Argentina

The President of the United States of America and the President of the Republic of Argentina, being desirous of strengthening the traditional bonds of friendship between the two countries by maintaining the principle of equality of treatment as the basis of commercial relations and by granting mutual and reciprocal concessions and advantages for the promotion of trade, have through their respective Plenipotentiaries arrived at the following Agreement:

ARTICLE I

Articles the growth, produce or manufacture of the United States of America, enumerated and described in Schedule I annexed to this Agreement, shall, on their importation into the Republic of Argentina, be exempt from ordinary customs duties in excess of those set forth in the said Schedule, and shall not be assessed for customs purposes at valuations higher than those specified in that Schedule. The said articles shall also be exempt from all other duties, taxes, fees, charges

or exactions, imposed on or in connection with importation, in excess of those imposed on the day of the signature of this Agreement or required to be imposed thereafter under laws of the Republic of Argentina in force on the day of the signature of this Agreement.

ARTICLE II

Articles the growth, produce or manufacture of the Republic of Argentina, enumerated and described in Schedule II annexed to this Agreement, shall, on their importation into the United States of America, be exempt from ordinary customs duties in excess of those set forth and provided for in the said Schedule, subject to the conditions therein set out. The said articles shall also be exempt from all other duties, taxes, fees, charges or exactions, imposed on or in connection with importation, in excess of those imposed on the day of the signature of this Agreement or required to be imposed thereafter under laws of the United States of America in force on the day of the signature of this Agreement.

ARTICLE III

The provisions of Articles I and II of this Agreement shall not prevent the Government of either country from imposing at any time on the importation of any article a charge equivalent to an internal tax imposed in respect of a like domestic article or in respect of a commodity from which the imported article has been manufactured or produced in whole or in part.

ARTICLE IV

The Schedules annexed to this Agreement, and the notes included in them, shall have force and effect as integral parts of the Agreement.

ARTICLE V

Articles the growth, produce or manufacture of the United States of America or the Republic of Argentina, shall, after importation into the other country, be exempt from all internal taxes, fees, charges or exactions other or higher than those payable on like articles of national origin or of any other foreign origin.

ARTICLE VI

In respect of articles the growth, produce or manufacture of the United States of America or the Republic of Argentina enumerated and described in Schedules I and II, respectively, imported into the other country, on which ad valorem rates of duty, or duties based upon or regulated in any manner by value, are or may be assessed, it

is understood and agreed that the bases and methods of determining dutiable value and of converting currencies shall be no less favorable to importers than the bases and methods prescribed under laws and regulations of the Republic of Argentina and the United States of America, respectively, in force on the day of the signature of this Agreement.

ARTICLE VII

No prohibition, restriction or any form of quantitative regulation, whether or not operated in connection with any agency of centralized control, shall be imposed by the Republic of Argentina 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 Republic of Argentina enumerated and described in Schedule II.

The foregoing provision shall not apply to quantitative regulations in whatever form imposed by the United States of America or the Republic of Argentina on the importation or sale of any article the growth, produce or manufacture of the other country, in conjunction with governmental measures or measures under governmental authority operating to regulate or control the production, market supply or prices of like domestic articles, or tending to increase the labor costs of production of such articles, or to maintain the exchange value of the currency of the country. Whenever the Government of either country proposes to impose or to effect a substantial alteration in any quantitative regulation authorized by this paragraph, it shall give notice thereof in writing to the other Government and shall afford such other Government an opportunity within thirty days after receipt of such notice to consult with it in respect of the proposed action; and if an agreement with respect thereto is not reached within thirty days following receipt of the aforesaid notice, the Government giving such notice shall be free to impose or to alter the regulation at any time, and the other Government shall be free within fifteen days after such action is taken to terminate this Agreement in its entirety on thirty days' written notice.

ARTICLE VIII

No prohibition or restriction of any kind shall be imposed by the Government of either country on the importation of any article the growth, produce or manufacture of the other country or upon the exportation of any article destined for the other country, unless the importation 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.

No restriction of any kind shall be imposed by the Government of either country on the importation from the other country of any article in which that country has an interest, whether by means of import licenses or permits or otherwise, unless the total quantity of such article permitted to be imported during a specified period, or any change in such quantity, shall have been established and made public. If the Government of either country allots a share of such total quantity to any third country, it shall allot to the other country a share equivalent to the proportion of the total imports of such article supplied by that country during a previous representative period, and shall make such share available so as to facilitate its full utilization, unless it is mutually agreed to dispense with such allotment. No limitation or restriction of any kind other than such an allotment shall be imposed, by means of import licenses or permits or otherwise, on the share of such total quantity which may be imported from the other country.

The provisions of the preceding paragraph shall apply in respect of the quantity of any article permitted to be imported at a specified rate of duty.

ARTICLE IX

In the event that the Government of the United States of America or the Government of the Republic of Argentina establishes or maintains a monopoly for the importation, production or sale of a particular article or grants exclusive privileges, formally or in effect, to one or more agencies to import, produce or sell a particular article, the commerce of the other country shall receive fair and equitable treatment in respect of the foreign purchases of such monopoly or agency. To this end such monopoly or agency will, in making its foreign purchases of any article be influenced solely by considerations, such as those of price, quality, marketability and terms of sale, which would ordinarily be taken into account by a private commercial enterprise interested solely in purchasing on the most favorable terms.

In awarding contracts for public works and in purchasing supplies, the Government of neither country shall discriminate against articles the growth, produce or manufacture of the other country in favor of those of any third country.

ARTICLE X

In the event that the Government of the United States of America or the Government of the Republic of Argentina establishes or maintains, directly or indirectly, any form of control of the means of international payments, it shall, in the administration of such control:

(a) Impose no prohibition, restriction, condition or delay on the transfer of payments for imported articles the growth, produce or

manufacture of the other country, or on the transfer of payments necessary for and incidental to the importation of such articles;

(b) Accord unconditionally, with respect to rates of exchange and taxes or surcharges on exchange transactions in connection with payments for or payments necessary and incidental to the importation of articles the growth, produce or manufacture of the other country, treatment no less favorable than that accorded in connection with the importation of any article whatsoever the growth, produce or manufacture of any third country; and

(c) Accord unconditionally, with respect to all rules and formalities applying to exchange transactions in connection with payments for or payments necessary and incidental to the importation of articles the growth, produce or manufacture of the other country, treatment no less favorable than that accorded in connection with the importation of the like articles the growth, produce or manufacture of any third country.

ARTICLE XI

Articles the growth, produce or manufacture of either country shall not be subjected, upon importation into the other, from whatever place arriving, to other or higher duties or charges of any kind or to any rules or formalities other or more burdensome than those to which the like articles the growth, produce or manufacture of any third country are subject.

Articles exported from either country to the other shall not be subjected to other or higher duties or charges of any kind or to any rules or formalities other or more burdensome than those to which the like articles exported to any third country are subject.

Any advantage, favor, privilege or immunity which has been or may hereafter be granted by the United States of America or the Republic of Argentina in respect of any article originating in or destined for any third country in regard to customs duties and other charges of any kind imposed on or in connection with importation or exportation, to the method of levying such duties or charges, to all matters concerning the rules, formalities and charges imposed in connection with importation or exportation, and to all laws or regulations affecting the sale or use of imported goods within the country, shall be accorded immediately and unconditionally in respect of the like article originating in or destined for the Republic of Argentina or the United States of America, respectively.

ARTICLE XII

Laws, regulations of administrative authorities and decisions of administrative or judicial authorities of the United States of America or the Republic of Argentina, respectively, pertaining to the classification of articles for customs purposes or to rates of duty shall be published promptly in such a manner as to enable traders to become acquainted with them. Such laws, regulations and decisions shall

be applied uniformly at all ports of the respective country, except as otherwise specifically provided in statutes of the United States of America relating to articles imported into Puerto Rico.

No administrative ruling by the United States of America or the Republic of Argentina effecting advances in rates of duties or in charges applicable under an established and uniform practice to imports originating in the territory of the other country, or imposing any new requirement with respect to such importations, shall be effective retroactively or with respect to articles either entered for consumption or withdrawn for consumption prior to the expiration of thirty days after the date of publication of notice of such ruling in the usual official manner. The provisions of this paragraph do not apply to administrative orders imposing anti-dumping duties, or relating to regulations for the protection of human, animal or plant life or health, or relating to public safety, or giving effect to judicial decisions.

ARTICLE XIII

If the rate of exchange between the currencies of the United States of America and the Republic of Argentina should vary considerably from the rate obtaining on the day of the signature of this Agreement, the Government of either country, if it considers the change in rate so substantial as to prejudice the industries or commerce of that country, shall be free to propose negotiations for the modification of this Agreement; and if agreement is not reached within thirty days after the receipt of such proposal, the Government making the proposal shall be free to terminate this Agreement in its entirety on thirty days' written notice.

ARTICLE XIV

Greater than nominal penalties will not be imposed in the United States of America or in the Republic of Argentina upon importations of articles the growth, produce or manufacture of the other country because of errors in documentation obviously clerical in origin or where good faith can be established.

The Government of each country will accord sympathetic consideration to, and when requested will afford adequate opportunity for consultation regarding, such representations as the other Government may make with respect to the operation of customs regulations, quantitative regulations or the administration thereof, the observance of customs formalities, and the application of sanitary laws and regulations for the protection of human, animal or plant life or health.

In the event that the Government of either country makes representations to the other in respect of the application of any sanitary law or regulation for the protection of human, animal or plant life

or health, and if there is disagreement with respect thereto, a committee of technical experts on which each Government shall be represented shall, on the request of either Government, be established to consider the matter and to submit recommendations to the two Governments.

ARTICLE XV

The provisions of this Agreement relating to the treatment to be accorded by the United States of America and the Republic of Argentina, respectively, to the commerce of the other country shall apply, on the part of the United States of America, to the continental territory of the United States of America and such of its territories and possessions as are included in its customs territory on the day of the signature of this Agreement. The provisions of this Agreement relating to most-favored-nation treatment shall apply, furthermore, to all articles the growth, produce or manufacture of any territory under the sovereignty or authority of the United States of America or the Republic of Argentina, imported from or exported to any territory under the sovereignty or authority of the other country. The provisions of this Article shall not apply to the Panama Canal Zone.

ARTICLE XVI

The advantages now accorded or which may hereafter be accorded by the United States of America or the Republic of Argentina to adjacent countries in order to facilitate frontier traffic, and advantages accorded in virtue of a customs union to which either country may become a party, shall be excepted from the operation of this Agreement.

The advantages now accorded or which may hereafter be accorded by the United States of America, its territories or possessions or the Panama Canal Zone to one another or to the Republic of Cuba shall be excepted from the operation of this Agreement. The provisions of this paragraph shall continue to apply in respect of any advantages now or hereafter accorded by the United States of America, its territories or possessions or the Panama Canal Zone to one another, irrespective of any change in the political status of any of the territories or possessions of the United States of America.

ARTICLE XVII

Subject to the requirement that, under like circumstances and conditions, there shall be no arbitrary discrimination by either country against the other country in favor of any third country, and without prejudice to the provisions of the second and third paragraphs of Article XIV, the provisions of this Agreement shall not extend to prohibitions or restrictions (1) imposed on moral or humanitarian

grounds; (2) designed to protect human, animal or plant life or health; (3) relating to prison-made goods; (4) relating to the enforcement of police or revenue laws.

Nothing in this Agreement shall be construed to prevent the adoption or enforcement of measures prohibiting or restricting the importation or exportation of gold or silver, or to prevent the adoption or enforcement of such measures as either Government may see fit with respect to the control of the export or sale for export of arms, ammunition, or implements of war, and, in exceptional circumstances, all other military supplies, and it is agreed, further, that nothing in this Agreement shall be construed to prevent the adoption or enforcement of measures relating to neutrality.

The provisions of this Agreement relating to laws and regulations affecting 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 XVIII

In the event that the Government of the United States of America or the Government of the Republic of Argentina adopts any measure which, even though it does not conflict with the terms of this Agreement, is considered by the Government of the other country to have the effect of nullifying or impairing any object of the Agreement, the Government which has adopted any such measure shall consider such representations and proposals as the other Government may make with a view to effecting a mutually satisfactory adjustment of the matter.

ARTICLE XIX

Nothing in this Agreement shall be deemed to affect the rights or obligations arising out of the Treaty of Friendship, Commerce and Navigation signed at San José on July 27, 1853.¹³

ARTICLE XX

The present Agreement shall come into full force on the thirtieth day following proclamation thereof by the President of the United States of America and the President of the Republic of Argentina, or should the proclamations be issued on different days, on the thirtieth day following the date of the later in time of such proclamations, and shall remain in force for the term of three years, subject to the provisions of Article VII and of Article XIII. The Government of each country shall notify the Government of the other country of the date of its proclamation.

¹³ Treaty between the United States and the Argentine Confederation, Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 6, p. 269.

Unless at least six months before the expiration of the aforesaid term of three years the Government of either country shall have given to the other Government notice of intention to terminate this Agreement upon the expiration of the aforesaid term, the Agreement shall remain in force thereafter, subject to the provisions of Article VII and of Article XIII, until six months from such time as the Government of either country shall have given such notice to the other Government.

In witness whereof the respective Plenipotentiaries have signed this Agreement and have affixed their seals hereto.

Done in duplicate, in the English and Spanish languages, both authentic, at the City of Washington, this

For the President of the United States of America :

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For the President of the Republic of Argentina :

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611.3531/876 : Telegram

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

Buenos Aires, July 7, 1939—5 p. m.
[Received 5 : 58 p. m.]

115. Department's telegram 106, June 28, 4 p. m., and instruction No. [6] June 28, 1939. I called on the Minister for Foreign Affairs today and left with him the memorandum, at the same time bringing to his attention the points raised in the instruction under reference. Dr. Cantilo assured me that the matter would be given immediate attention, adding that probably even before an official reply is given to our proposals, he hopes to be able to give us a general idea of his Government's reactions.

In order to expedite action I left with the Minister a Spanish translation of the memorandum and its enclosures. Dr. Cantilo expressed appreciation for the thorough study which our Government had made and seemed to understand the need for prompt action.

ARMOUR

611.3531/894

The Chargé in Argentina (Tuck) to the Secretary of State

[Extracts]

No. 78

Buenos Aires, August 14, 1939.
[Received August 22.]

SIR: In confirmation of the Embassy's telegram No. 132 of August 12, 1 p. m.,¹⁴ I have the honor to transmit herewith six copies of the

¹⁴ Not printed.

Spanish text of the original memorandum received at 12:30 p. m. on Saturday August 12 from the Ministry for Foreign Affairs. Six copies of the unofficial English translation are also enclosed.

I particularly desire to refer to the paragraph in the Argentine Government's memorandum which reads as follows:

"Desirous of hastening the negotiations, the Argentine Government accepts the present list, in the understanding that maximum reductions can be obtained on the products mentioned therein; it reserves for itself the right to propose the amplification thereof during the negotiations in order to include other products of interest."

In a conversation which I had yesterday evening with Señor Ceferino Irigoyen, Financial Counselor of the Argentine Embassy in Washington, who is now in Buenos Aires, he volunteered the information that it was his Government's intention to "stick to the present list" and that the reference to the possibility of proposed amplifications had only been inserted in order to "pacify" the Minister of Agriculture. It would seem that certain officials of the Ministry of Agriculture had desired more time to study our memorandum and insisted upon the insertion of this reservation before they were willing to approve the final text of the Argentine reply.

In the light of Señor Irigoyen's explanation it would therefore appear probable that in the steps leading to negotiations the Argentine Government would not insist upon the inclusion of this reservation.

Respectfully yours,

S. PINKNEY TUCK

[Enclosure—Translation]

The Argentine Ministry for Foreign Affairs to the American Embassy

MEMORANDUM

The Argentine Government has studied with the greatest interest the memorandum of the Government of the United States of June 28 last concerning the bases for the conclusion of a commercial treaty between the two countries. The considerations and suggestions of this document are of a constructive character to which the Argentine Government will be disposed to be responsive by making the necessary effort to enable these considerations and suggestions to lead to an early understanding. Thus far, the restrictions that hinder the entry of chilled and frozen meat into the United States, on the one hand, and the existence of a system of exchange control in our country, on the other hand, have constituted a powerful obstacle to negotiations. In the meantime, commercial intercourse has suffered from the inevitable pressure of circumstances. For this reason the Argentine Government attributes special importance to the statements of the memorandum in

which the necessity of controlling exchange in order to protect the value of the currency is recognized. And for its part, prompted by a similar spirit of understanding, it realizes the impossibility of removing at this time the obstacles which prevent the entry of Argentine chilled and frozen meat into that market. It continues to hope, however, that a solution of the problem created by the sanitary regulations may be reached, making possible the encouragement of an increase in the trade of both countries. To this end the Argentine Government is ready to cooperate with other governments interested in the study of hoof-and-mouth disease in general and of the means to avoid it, and it adheres to the proposal of the Government of the United States.

The President of the Republic, Dr. Ortiz, explained in his last message that Argentina does not pursue any policy whatsoever of bilateral compensation of trade and expressed his firm conviction that the return to multilateral trade with the minimum of obstacles is what best suits the economic interests of this country. It is to be hoped that such a categorical statement will contribute to dissipate all doubt as to the direction of our commercial policy, taking into account the temporary character of the provisional measures which this country has found it necessary to adopt.

The first of the three points of the memorandum refers to the possible tariff concessions by the United States. This is the fundamental key to the entire problem. The physical volume of Argentine exports remains at the same level which existed prior to the world crisis; and owing to the conditions prevailing in the European markets it is only from the United States that it is possible to hope for an increase in purchases which would permit Argentina to increase the imports which it requires in order to continue its economic development intensively.

In previous conversations the officials of the United States estimated the possible increase of our exports to that country at approximately 30 to 40 million dollars in the event of certain customs reductions within the limit of 50% of the Trade Agreement Act being granted. Naturally such an increase could only be expected under very favorable economic conditions in the United States. Otherwise the figures would be considerably lower. Therefore it will be necessary to await the concrete results of the agreement before forming a definite opinion on the subject. Meanwhile the essential thing is to come to an understanding which may provide Commerce a firm and stable base for its progressive development.

During the conversations carried on in 1938, the Argentine Government proposed a list of products more extensive than that submitted in the last memorandum of the United States.

Desirous of hastening the negotiations, the Argentine Government accepts the present list, in the understanding that maximum reduc-

tions can be obtained on the products mentioned therein; it reserves for itself the right to propose the amplification thereof during the negotiations in order to include other products of interest.

The second point of the memorandum relates to the exchange control system. In view of the present situation of the balance of payments the Argentine Government is considering the possibility of gradually establishing a system of quantitative control of important groups of imported articles, in order to prevent the reduction of the quantity of an article proceeding from certain regions from being neutralized by the simultaneous increase of imports from other regions. This control would be applied generally and without any difference whatsoever in the rate of exchange with regard to the same article.* Therefore, the pertinent suggestions formulated in the memorandum have been favorably received and the Argentine Government takes pleasure in stating its conformity, in principle, with regard to the suggestions in themselves as well as to the principles on which they are based.

The concrete application of this method of quantitative control by articles must be thoroughly studied. Feeling certain that the Government of the United States will do everything necessary to increase the importation of products from this country, the Argentine Government is not particularly concerned on the subject of the application of these regulations except with regard to the first period or the period of transition which might cause difficulties of importance. However, it believes that these difficulties may be avoided thanks to the flexibility of judgment with which the pertinent suggestions are set forth in the memorandum. In effect, the agreement does not establish bases to determine the participation of each country in the importation of articles subject to quantitative control; the possibility is also admitted that the percentile participation may increase or decrease by reason of special factors. This will surely make it possible to find a satisfactory solution in certain cases which might otherwise cause considerable disturbance at first: a reasonable initial percentage might later be increased as the result of an increase in the quantity of exchange available whether through an increase of exports or through an influx of foreign capital.

Lastly, the third point of the memorandum concerns customs reductions to be granted for articles proceeding chiefly from the United States. The Argentine Government considers this point very favorably insofar as prevailing conditions may permit. In this respect the following must be borne in mind: (a) customs duties on articles in the list submitted in the memorandum are essentially for revenue and not for protection. The reductions must be such that they will not affect

*Even with regard to articles not subject to quantitative control imports from the United States would not be subject to a rate of exchange less favorable than that applied to any other country. [Footnote in the original.]

materially the revenue at times when it might be necessary to increase other taxes in order to balance the budget; (b) customs duties do not weigh on the American exporter but on the Argentine consumer; and (c) the substantial reduction of duties on certain articles would only injure revenue without increasing appreciably the volume of sales of American exporters; sales will increase in proportion with the buying power of the Argentine people through the increase of exports; this, and not the price, is the determining factor in the problem.

With a view to hastening the study of this point the Argentine Government wishes to know what reductions the Government of the United States is interested in obtaining.

The desire expressed in the memorandum to have a prompt reply has made it possible to consider only those fundamental subjects set forth in order that the discussions may proceed. There are other points of minor importance which will have to be studied immediately and on which it will not be difficult to obtain a concurrence of opinion.

BUENOS AIRES, August 12, 1939.

611.3531/899

*Memorandum of Conversations, by the Chief of the Division of
Trade Agreements (Hawkins)*

[WASHINGTON,] August 16, 1939.

The Argentine Ambassador¹⁵ called to inquire as to the progress we were making in regard to our reply to the Argentine note on the proposed trade agreement. I told the Ambassador that we were hard at work on it with a view to getting a reply to them as soon as possible. He asked me my personal opinion as to whether the Argentine position as outlined in its recent note is such as to constitute a basis for a trade agreement. I told him that with regard to the most important point, namely the abandonment of the bilateral system and the use of exchange control to effectuate this system, the situation seemed to me satisfactory. I mentioned, however, one or two points in the Argentine note which had caused me a little concern. First was the statement that the Argentine Government accepts the present list of products on which concessions might be granted by the United States on the understanding that maximum reductions can be obtained on these products. I said that we can not, of course, agree, even tacitly, in advance of negotiations and public hearings on the concessions to be granted; that while we are reasonably satisfied that concessions could be granted which would make the agreement worth while to Argentina, we can not determine until we get into actual negotiations what concessions can be granted. The second point that

¹⁵ Felipe A. Espil.

caused me some doubt was the implication in the Argentine note that in allocating any quotas that might be established for the protection of the Argentine currency the share allotted to the United States would be variable. I said that this seemed to reflect some misunderstanding of our position; that while our proposal did contemplate some flexibility in the percentual share allotted to the United States, any such variation would in my opinion be justified only in very exceptional cases. The Ambassador said he felt sure that neither of these points would create any difficulty at all.

The Ambassador himself raised a further point which needs a little clarification. He said that he had noted the Argentine reservation of the right to propose, during the negotiations, additional products on which concessions might be requested of the United States. The Ambassador said he fully understood our procedure on this point and that it would not be possible without additional notice and hearings to consider any products not on the original published list.

August 17, 1939.

The Ambassador phoned me this morning and said that after his conversation with me he had talked to Irigoyen,¹⁶ who is now in Buenos Aires, over long distance telephone on another matter and had taken the occasion to mention the personal doubts which I had expressed on the points mentioned above. Irigoyen said that we need have no apprehension whatever on the points referred to; that the Argentine Government in drafting its note to us was fully aware of the fact that no decision as regards the concessions to be made by the United States could be reached until after our hearings and that announcement of negotiations on the basis of the Argentine note would put us under no obligations whatever, tacit or otherwise. With respect to the second point Irigoyen said that apparently the Argentine note had given an impression contrary to what was in the minds of the Argentine officials; that he clearly understood that variations in the percentual share would be definitely exceptional.

The Ambassador said he had also referred, in his telephone conversation with Irigoyen, to the Argentine reservation regarding the addition of products for consideration during the negotiations and pointed out to him that under our procedure this would involve an additional notice and hearings and would not, therefore, be practicable. The Ambassador said that Irigoyen said that he was aware of our procedure on this point, as were his colleagues in Buenos Aires; that the reservation was put in only to satisfy the Minister of Agriculture and that we would not need to worry about their taking any advantage of it.

HARRY C. HAWKINS

¹⁶ C. Alonso Irigoyen, Financial Counselor of the Argentine Embassy.

611.3531/806a : Telegram

The Acting Secretary of State to President Roosevelt, at Sea

WASHINGTON, August 18, 1939.

12. The extended discussions with the Argentine officials have finally brought us to a position where the way is clear to open negotiations with every prospect of a good agreement being reached. A trade agreement would as you know buttress and solidify the good-neighbor policy as well as bring about a distinct improvement for our trade and a positive advance against totalitarian methods. Failure to seize this opportunity would have the reverse effect by turning the present cordiality into an equal measure of ill-feeling and result in retrogression in our commercial relations with Argentina.

The proposal is to announce trade-agreement negotiations immediately with a view to completing them before late autumn. Wallace has agreed to this. All are agreed that we can work out an agreement which can be so safeguarded as to avoid injury to American production. Secretary Hull feels, however, that political hazards in such negotiations are such that he does not in these circumstances wish to take responsibility of urging you; that the decision must rest with you. On the other hand, I personally feel, and Grady¹⁷ concurs, that this agreement might well be made a political asset in view of popular approval of closer relations with Latin America and the obvious contribution which it would make to this end. Please let me know by telegraph whether you approve going ahead. In case you instruct us to proceed will you telegraph Wallace and ask him to cooperate wholeheartedly in defending the agreement and to take suitable steps to see that his organization does so, since the Secretary feels strongly that this must have the whole-hearted and active support of yourself and Wallace.

WELLES

611.3531/891 : Telegram

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

WASHINGTON, August 19, 1939—10 p. m.

131. Your 132, August 12, 1 p. m.¹⁸ You should transmit the following communication immediately to the Argentine authorities:

"1. The careful, sympathetic and prompt consideration which has been given to the proposals of the Government of the United States is deeply appreciated, and the apparent agreement between the two Gov-

¹⁷ Henry F. Grady, Assistant Secretary of State.¹⁸ Not printed.

ernments as to the general basis for the negotiation of a trade agreement is a source of gratification.

2. With reference to the application of the proposed method of quantitative control by commodities, the informal translation of the Argentine Government's remarks in regard to this matter might be taken to imply that the percentual share of the United States in a given quota might be determined or changed without reference to a representative base period, whereas the proposal of the Government of the United States contemplates that the regulation of imports would be effected ordinarily, in the case of any product, through a change in the total permitted imports from all sources, the percentual share of the United States normally remaining unchanged. The proposal of the Government of the United States also contemplates, however, the possibility of change in a base period, which might result in a change in the percentual share of the United States in the total permitted imports of a particular product, if the trend of the trade or other factors should indicate that the base period originally chosen is no longer truly representative. With reference to the concessions to be included in the proposed agreement, it is understood of course that specific concessions, including the amount of reduction in duties, cannot be determined in advance of negotiations and prior to public notice and hearings in the United States. The Government of the United States considers that on this understanding the interchange of views between the two Governments affords sufficient prospect that if negotiations were undertaken they could be brought to a mutually satisfactory conclusion. Accordingly, the Government of the United States is prepared to issue public notice of intention to conclude a reciprocal trade agreement with the Government of Argentina.

3. If agreeable to the Government of Argentina, the public notice will, subject to confirmation, be issued on August 23. The time allowed for written briefs will be 4 weeks, and public hearings will begin on October 9. Shortly thereafter, definitive negotiations in regard to specific tariff concessions can begin. Meanwhile, work on the general provisions of the agreement could proceed.

4. The Government of the United States would be gratified if the negotiations could take place in Washington and if an Argentine delegation could arrive about the first of October."

If the Argentine officials should request an explanation of the first two sentences of point 2 above, you should make use of the pertinent parts of this Government's memorandum of June 28, 1939.

Request no publicity pending public notice. In view of the time urgency, it would be helpful if discussions of the general provisions could start immediately. These could be carried on with the Argentine Embassy here. It is desirable to avoid the arrival of a trade delegation before the close of the period allowed for written briefs, probably September 23. You might say that this would not apply of course to the early return of Irigoyen, who could assist in the general provisions discussions.

MOORE

611.3531/898a : Telegram

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

WASHINGTON, August 22, 1939—5 p. m.

132. Department's telegram no. 131, August 19, 10 p. m. With reference to paragraph numbered 3, you should immediately inform the Argentine officials that public notice of intention to negotiate will be released here, if agreeable to the Argentine Government, for publication in the morning newspapers of August 23. At the same time, you should inform the Argentine officials that, on further consideration, it is planned to allow 6 weeks, or until October 4, for written briefs. The hearings will begin on October 16. Consequently, it would be desirable for the Argentine trade delegation not to arrive before the end of September. These changes in dates should not involve any delay in concluding the agreement, since, meanwhile, negotiations in regard to the general provisions and discussion of other matters can proceed.

With the substitution of Argentina for Canada and of the foregoing dates, the texts of the public notices will be the same as those issued in the case of Canada and contained in the *Press Releases* of January 29, 1938. The public notice of intention to negotiate will be accompanied by the list of products agreed to by the two Governments and a statement, along the general lines of that issued in connection with Canadian notice, which will include the following:

"Imports into Argentina from certain countries, with which Argentina normally has an export balance of trade, have in recent years received more favorable exchange treatment than have imports from the United States. The Government of Argentina has agreed that the proposed trade agreement will be based upon the principles of multilateral trade which underlie the trade-agreements program of the United States. The proposed trade agreement will assure that imports into Argentina from the United States will be accorded any advantage given competing imports from any other source and that any governmental regulation of imports into Argentina will be applied in a non-discriminatory manner."

Pertinent trade figures also will be given to the press.

The above-quoted part of the statement has been shown to Ambassador Espil.

WELLES

611.3531/895: Telegram

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

BUENOS AIRES, August 22, 1939—9 p. m.

[Received August 23—12: 56 a. m.]

135. Department's 131, August 19, 10 p. m. The following is translation of the memorandum which the Minister for Foreign Affairs delivered to me at 8: 00 o'clock tonight.

"1. The Argentine Government has received with satisfaction the memorandum of the Government of the United States in which the latter says it is disposed to announce publicly its intention to negotiate a reciprocal commercial agreement between both countries and hastens to express its agreement in order that the said announcement may be made simultaneously by both Governments on the date indicated.

2. The Argentine Government also shares the sentiments expressed by the Government of the United States that an understanding has been arrived at on the general bases for the negotiations and it is convinced that the differences of interpretation in the application of the quantitative regulations by products to which reference is made in the second paragraph of the memorandum may be duly clarified during the negotiations.

The Argentine Government considers that upon applying the quantitative regulation of imports for the greater efficacy of the system of exchange control—applying the same with a general character to all countries—it has satisfied fully also the principle formulated by the Government of the United States, contrary to the system of bilateral regulation of trade, and has thus removed the fundamental obstacle which had hindered previous negotiations.

The Argentine Government also considers that the choice of certain representative periods for the application of quantitative regulations is generally acceptable. But it will be necessary to proceed with flexible criteria with respect to certain special cases in order to avoid serious disturbances in the development of our trade with other countries.

However, even in those exceptional cases the Argentine Government in order to avoid any action which might be interpreted as discriminatory is disposed to apply the regulations in such a way as to prevent diversion of imports from neutralizing the restrictions applied; also the same rate of exchange would apply to imports of a given article of any country. The inherent flexibility of the system as well as the mutual spirit of cooperation which animates both Governments, will make it possible to find equitable formulae as circumstances may require.

3. The Argentine Government also agrees in general with the program of work outlined in the memorandum and it shares the desire of the Government of the United States that the general provisions of the agreement may begin to be examined forthwith. The Argentine Government would prefer for the time being that the negotiations take place in Buenos Aires, without prejudicing their being terminated in Washington once the fundamental questions are decided upon.

Buenos Aires, August 22, 1939."

Unless advised to the contrary the Foreign Office intends issuing a statement for release here in the afternoon papers of Wednesday August 23 probably similar to the one included in the Department's 132 of August 22, 5 p. m. which has just reached me.

ARMOUR

611.3531/895 : Telegram

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

WASHINGTON, August 23, 1939—2 a. m.

133. Your 135, August 22. Confirming arrangement made in telephone conversation with Tuck¹⁹ notice of intention to negotiate trade agreement will be issued for publication in afternoon papers Wednesday, August 23.²⁰

WELLES

611.3531/903a : Telegram

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

WASHINGTON, August 24, 1939—7 p. m.

134. To avoid loss of time, you should begin at once discussions in regard to the general provisions of the proposed agreement, on the basis of the draft enclosed with instruction no. 6 of June 28.

Comments on the general provisions and certain recent improvements in language will be sent shortly by air mail. These should be helpful in your discussions. Meanwhile, proceed as far as you can with the aid of such telegraphic instructions as you may feel called upon to seek in regard to difficult points encountered in the discussions. A tentative list of concessions to be requested of Argentina is being prepared and a copy thereof, with supporting data, will be sent to you as soon as possible. Meanwhile you can assemble and bring up to date the relevant material available to the Embassy, with a view to offering helpful comments on the tentative list when it is received and before it is transmitted to the Argentine authorities. You should suggest to the Argentine authorities that they bring up to date their studies of articles of which the United States is the first or an important supplier, in order to avoid delay in their consideration of our tentative requests.

This procedure, which has been discussed with Ambassador Espil, should be agreeable to the Argentine authorities in view of paragraph

¹⁹ S. Pinkney Tuck, Counselor of Embassy in Argentina.

²⁰ Department of State *Bulletin*, August 26, 1939, pp. 166-170.

3 of the Foreign Office note of August 22.²¹ However, you should make it clear that the question of the locus of the negotiations during the later stages is being held in abeyance for the time being.

HULL

611.3531/927: Telegram

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

BUENOS AIRES, August 31, 1939—11 a. m.

[Received 12:45 p. m.]

142. Department's telegram number 134, August 27 [24], 7 p. m. I brought the contents of this telegram to the attention of the Foreign Office, leaving with them a memorandum embodying the principal points and have now received a reply of which the following is a translation:

"With reference to the Embassy's memorandum of the 26th instant, the Minister of Foreign Affairs agrees that the discussion of the general terms of the commercial agreement between the Argentine Republic and the United States may begin immediately.

In this respect, it believes it is necessary to establish forthwith that the discussions will have to take place on the basis of the Embassy's memoranda of June 29²² and August 20²³ last and of the memoranda of the Argentine Government of the 12th²⁴ and 22nd²⁵ instant.

It takes pleasure in stating also that the Argentine officials are actively studying the situation of merchandise originating principally or in important measure in the United States. With this purpose there has been made publicly known a list of articles for which there is considered the possibility of granting concession of customs character, in order that the persons or entities directly interested may set forth their points of view concerning the advisability of including such articles or not in the negotiations, and make any suggestion with regard to the manner, the extent and the nature thereof. For briefs to be presented it has been established that these must be submitted before midday of October 4 next. The date on which the corresponding hearings will take place has not yet been fixed, but, in order not to delay the negotiation, all the necessary measures will be taken so that such hearings may terminate, at the latest, simultaneously with those to be held in the United States.

In accordance with the terms of the Ministerial resolutions of November 29, 1938, the Permanent Inter-Ministerial Commission of Economic Policy will participate in the negotiations, and this Chancellery is disposed forthwith to set the date for the first meeting of officials who, as representatives of the Government of the Argentine

²¹ See telegram No. 135, August 22, 9 p. m., from the Ambassador in Argentina, p. 254.

²² i. e., the memorandum of June 28, p. 234.

²³ See telegram No. 131, August 19, 10 p. m., to the Ambassador in Argentina, p. 251.

²⁴ *Ante*, p. 246.

Republic and the United States, will study the general clauses of the new treaty of commerce which it is planned to conclude.

Buenos Aires, August 29, 1939."

ARMOUR

611.3531/927: Telegram

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

WASHINGTON, September 1, 1939—7 p. m.

139. Your telegram no. 142, August 31, 11 a. m.

1. The Department had no advance notice that the Argentine Government intended to publish a list of products on which it will consider granting tariff concessions to the United States. Furthermore, apart from unofficial reports in the press, we have no knowledge of what the list referred to in the Foreign Office communication of August 29 contains. It is obvious that the Argentine authorities should have given this Government an opportunity to go over any such list in advance of publication, just as we gave them an opportunity to go over the list of products on which this Government will consider granting concessions to Argentina, which list was published here on August 23.²⁵

2. The unofficial reports previously mentioned indicate that the list of products published by the Argentine Government may have been based on the short list of specially important products appearing on page 8 of this Government's memorandum of June 28, 1939. However, that memorandum clearly stated that duty reductions would be requested on additional products and that the binding of existing customs treatment would be requested on other products of which the United States is the principal or an important supplier to Argentina.

3. You should discuss this matter immediately with the Argentine authorities in the sense of the above, and say that, in view of their decision to publish a list of products, your Government has instructed you to request them to publish a comprehensive list, to be described as a list of products on which the Government of Argentina will consider granting concessions to the United States, such list to include the following products which, for reasons of economy, are identified in this telegram by their new tariff numerals and brief descriptions only. The list as published should contain full descriptions as they appear in the new Argentine tariff except in those cases, indicated below by asterisks in paragraphs 4, 5 and 6, in which only part of the coverage of the tariff number or numbers or new or additional language as given needs to be specified. The grouping of the items is for the purpose of informing you and the Argentine authorities confiden-

²⁵ Department of State *Bulletin*, August 26, 1939, pp. 169-170.

tially as to the general nature of the tentative requests which will be sent by air mail tomorrow. The list as published should be described as indicated above and the products should be listed in order of their tariff numbers with no indication whatever as to the nature of this Government's tentative requests in regard to any item or group of items.

7. You will note that various types of films are included in groups A, B and C. For the purpose of the published list, number 5160 would appear only once but with the description broad enough to cover the three kinds of films described briefly in paragraphs 4, 5 and 6 above.

8. It must be clearly understood that the definitive requests on the part of this Government which will be presented after the hearings will not necessarily be confined to the items covered by paragraphs 4, 5 and 6 of this telegram. However, it is believed unlikely, in view of the comprehensive nature of the list, that the hearings will result in requests on additional items.

9. If reasonably brief, please telegraph full translation of the Argentine Government's announcement in regard to the list it has already published. You should send the full text by air mail as soon as possible if you have not already done so. You should inform the Department promptly in regard to any publications issued by the Argentine authorities in regard to the proposed agreement, telegraphing descriptions or full translations in the case of reasonably brief publications and sending full texts by air mail.

HULL

611.3531/929 : Telegram

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

WASHINGTON, September 2, 1939—2 p. m.

141. Your despatch No. 94, August 25, 1939.²⁷

1. The Argentine authorities doubtless are fully aware of the time urgency. Signature of the agreement should take place as soon as possible after the hearings but in any case not later than January 1.

2. Although we had hoped that an Argentine delegation would be prepared to come here shortly after the public notice of intention to negotiate, we have agreed at the request of the Argentine authorities to carry on preliminary negotiations through your office in Buenos Aires. We understand from your despatch under reference that the Foreign Minister is preparing to send a delegation to Washington for the final stages of the negotiations. We understand "final stages" to mean the definitive negotiations following the public hearings here.

²⁷ Not printed, but see telegram No. 135, August 22, 9 p. m., p. 254.

You should make certain that the Foreign Minister's understanding in this regard coincides with ours.

3. Since we shall be ready for definitive negotiations on or about October 23, the Argentine delegation should arrive here not later than the week beginning on that day.

4. In view of the time urgency, it is important that the Argentine delegation be fully prepared to enter into definitive negotiations immediately after arrival here. Presumably the necessary studies, including study of information and views submitted by interested Argentines to their Government, will be expedited as much as possible with this objective in mind.

5. It is hoped that the delegation will come by air if the necessary studies referred to in 4 above should delay departure so as to make it impossible for the delegation to arrive in time by boat.

6. We are counting on the Embassy to push as rapidly and as far as possible the preliminary negotiations in regard to general provisions and the tentative Schedule I.

HULL

611.3531/978 : Telegram

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

WASHINGTON, September 12, 1939—7 p. m.

152. Your despatch no. 104 of September 5, 1939.²⁸ It is strongly desired that the issuance of a supplemental public announcement here be avoided since any delay caused thereby in the completion of public hearings and the consideration of views presented at such hearings would greatly enhance the difficulty of concluding the agreement within the necessary time limit. You should therefore endeavor to discourage any requests by the Argentine Government for concessions on products not included in the list published with the public announcement of August 23. In this connection the rule of principal or important supplier generally followed by this Government in granting concessions in trade agreements should be borne in mind and, if advisable, again called to the attention of the Argentine officials. In the light of our studies, it is difficult to see what additional products of any real importance in Argentina's trade with the United States and of which Argentina is the principal or an important supplier to the United States, the Argentine officials could have in mind.

It should be pointed out that this Government would have to consider any additional requests for concessions in the light of the above-mentioned supplier rule and that in any event it could not consider granting a concession to Argentina on any product not published with the public announcement of August 23 unless a supplemental public

²⁸ Not printed.

announcement were made and opportunity given to all interested persons to present their views regarding such product.

The impracticability of issuing a supplemental announcement was discussed in a conversation with Ambassador Espil on August 16, a memorandum of which was sent you with the Department's instruction no. 55 of August 30.²⁹

HULL

611.3531/1015 : Telegram

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

BUENOS AIRES, September 20, 1939—6 p. m.

[Received 8 : 50 p. m.]

174. Reference article number 16 of the proposed general provisions of the trade agreement with Argentina. The Argentine subcommittee requests the addition of an exception reading in translation as follows:

"The favors which the Argentine Republic may have granted or may in the future grant to adjacent countries."

The Argentine officials explained that the addition of this exception was intended to balance our requirement for exceptions in the case of Cuba and the Panama Canal Zone. Although special relationship of the United States to Cuba and the status of the Canal Zone were fully explained, it was contended that if Argentina should sign a trade agreement recognizing our right to grant preferential treatment to third country without obtaining a similar concession in exchange, a dangerous precedent would be established. In addition it was said that Argentina wished to have it recognized that it had special relations with adjacent countries. It was added that Finland, in exchange for Argentine recognition of Finland's right to grant preferential treatment to Estonia, agreed not to claim any concession Argentina might grant to any Latin American country. However, Argentina signed a trade agreement with Denmark last April recognizing without compensation Denmark's special relations with Iceland.

It is believed that the Argentine authorities may have in mind that the right to grant adjacent countries special treatment might be used to preserve the market for Argentine wheat in Brazil. See page 2 of the Consulate General's memorandum of August 29 enclosed with the Embassy's despatch 98 of September 1, 1939.²⁹

Instructions in the premises by telegraph would be appreciated.

ARMOUR

²⁹ Not printed.

611.3531/1016 : Telegram

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

Buenos Aires, September 20, 1939—7 p. m.

[Received 9:30 p. m.]

175. Department's telegram No. 152, September 12, 7 p. m. Last night the Argentine Government presented the subcommittee with a note dated September 18 and addressed to me requesting amplification of the list of articles concerning which the United States will consider granting tariff concessions. Recalling that in its memorandum of August 12³⁰ the right was reserved to include other products for consideration, the note states in translation:

"The events of the last few days make the extension of the tariff concessions to be accorded by the United States to Argentina, especially desirable. A considerable increase in our purchases of United States products being evident, we must concern ourselves with bettering the outlook of our exports to the United States.

It is for this reason that the list includes some import classifications in which Argentina has not had a predominant share, but which, by their nature can be easily produced and manufactured in this country."

The additional list together with the corresponding 1930 United States tariff numbers is as follows: 41 casein glue, 42 refined glycerine, 207 fluorspar, 703 hams and shoulders, 709 butter, 712 chickens and ducks, 713 eggs, egg yolk and egg albumen, 725 macaroni, noodles, et cetera, 730 oil cake, 738 apple cider, 745 peaches, green, ripe or in brine, 748 prunes, plums, green, ripe or in brine, 772 canned, prepared or preserved tomatoes, 765 to 775 fresh and dried vegetables (seasonal periods only), 775 hash of vegetables and/or fish, 806 concentrated grape juice, without number, vinic alcohol, 1102 wool N E S and Angora goat, Cashmere goat and Alpaca hair, 1530 goat and sheepskins rough tanned, 1558 grape oil (desired that it be despatched under this paragraph), 1611 crude tartaric acid, 1681 kid, water hog, weasel, wild cat, snake, toad, hare, skunk, and penguin skins, 1688 cattle and other animal hair, 1693 and 1694 hoofs, horns, skirts, and tips, 1755 casings et cetera, N E S without number cracklings and stearine.

Of the 37 items (34 tariff numbers) listed, 10 fall within the tariff classifications of articles included in the list submitted to the Argentine Government and later published but represent additions of specific products. Fourteen items cover new classifications not previously mentioned, but which are already subject either to binding or to special duties under one or more effective reciprocal trade agreements. Ten items refer to new classifications not now subject to any reciprocal trade agreement and three items are not classified according to tariff number.

³⁰ *Ante*, p. 246.

Of the last 13 items, not more than 7 were imported by the United States in substantial quantities during the years 1935 to 1937 inclusive. Of the 7, imports from Argentina were of consequence in only 2 cases. Moreover, it does not appear that this country would be able to displace any present principal supplier by reason of conditions resulting from the war in Europe. Of the entire list only butter seems to meet the requirements generally accepted as essential in our trade agreements procedure.

We have made every effort to dissuade the Argentine Government from making this request and its attention has been repeatedly invited to both the time element and assurances by Espil that additional Argentine products for consideration would not be requested. However, the Argentine officials appear to be definitely perplexed as to the possible effects of the war³² upon the country's foreign trade, including the possibility of blocked balances in Great Britain.

I assume that in the absence of a new public announcement additional products could not be considered in the negotiations simply because they fall within the tariff classifications of other products mentioned in the list as already published. With respect to the articles covered in other trade agreements, some statement might be effective here indicating the probable duration of those agreements, namely, those with the United Kingdom, the Netherlands, Canada, Cuba and Belgium.

I would appreciate telegraph instructions regarding: (1) whether the Department is disposed to accept the additions requested by the Argentine Government; (2) if so what effect acceptance will have on the ultimate date for public hearings in the United States; and (3) whether acceptance will affect the date on which the American delegation will sail.

ARMOUR

611.3531/1016: Telegram

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

WASHINGTON, September 23, 1939—3 p. m.

165. Your telegram no. 175, September 20, 7 p.m.

1. You should point out to the Argentine officials that of the products contained in the Argentine Government's note of September 18, chicken eggs in the shell, asparagus, wildcat skins, horse hair, sausage casings, and oleo stearin are included in the list of products, on which this Government will consider granting concessions to Argentina, which was published with the public announcement issued here on August 23.

³² For correspondence concerning the European war, see vol. I.

2. You should fully inform the Argentine officials of the nature and extent of the concessions which have been granted on the following products in trade agreements now in effect with the countries indicated. These concessions are set forth in the publication of January 1, 1939, of the United States Tariff Commission entitled "Changes In Import Duties Since The Passage Of The Tariff Act of 1930" and in the supplement thereto of May 1, 1939, copies of which you have.

- 42, refined glycerine, Netherlands and France
- 207, fluorspar containing more than 97 percent of calcium fluoride, United Kingdom
- 712, chickens and ducks, dead, dressed, or undressed, fresh, chilled, or frozen, Canada
- 738, apple cider, Canada
- 766, beets, other than sugar beets, Canada
- 768, mushrooms prepared or preserved, not dried, France
- 769, peas, green or unripe, Canada
- 769, split peas, Netherlands
- 769, peas, prepared or preserved, valued at 10¢ or more per pound, Belgium
- 771, white or Irish potatoes, Canada
- 773, turnips and rutabagas, Canada
- 774, celery, natural, United Kingdom
- 774, cabbage, natural, Netherlands
- 774, endives, natural, Belgium
- 774, carrots, radishes, and cauliflower, natural, Canada
- 775, sauerkraut, Netherlands
- 775, onions, pickled or packed in brine, Netherlands
- 1530(c), vegetable tanned rough leather made from goat or sheep skins, United Kingdom
- 1681, kid skins, undressed, United Kingdom
- 1785, reptile skins, Colombia, etc.
- 1681, hare fur skins, undressed, Turkey
- 1681, skunk fur skins, undressed, Canada, United Kingdom

In regard to the above products, you should explain that Argentina has supplied no fluorspar, apple cider or rough tanned goat and sheep skins to the United States recently; that total imports into the United States of dead ducks are negligible; that after careful study of all vegetables included in paragraph 765 to 775, it was found prior to publication of the list on August 23 that consideration could be given in the case of Argentina only to asparagus; and that Argentina has been a minor supplier to the United States of the remaining products. You should emphasize, however, that the concessions indicated are now applicable through generalization to any imports into the United States from Argentina of the foregoing products. You may state that this Government does not anticipate the termination of any of the agreements containing these concessions. Concessions granted to Cuba are not generalized to any other country.

Although a concession has been granted in the Canadian agreement on 703, bacon, hams, and shoulders, etc., the benefits of this concession have not accrued to imports of hams and shoulders into the United States from Argentina because the existing sanitary regulations affecting such imports require removal of bones. However, these regulations are now under consideration.

3. You should inform the Argentine officials in strict confidence that it is contemplated that a public announcement of intention to negotiate a trade agreement with Chile will be made here probably next week ³³ and that it is proposed that the list of products to be published with that announcement will include the following:

- 745, peaches, green, ripe or in brine
- 748, prunes and plums, green, ripe or in brine
- 765, beans, dried
- 767, lentils
- 769, chick peas or garbanzos, dried
- 770, onions
- 770, garlic
- 1611, crude tartaric acid

You should state that any concessions, probably on a seasonal basis, granted to Chile on the fruits and vegetables listed above, as well as on crude tartaric acid, would be extended to Argentina.

4. In regard to the products not dealt with in paragraphs 1, 2 and 3 above, you should explain to the Argentine officials that total imports into the United States of casein glue, concentrated grape juice, vinic alcohol, grapeseed oil, penguin skins and cracklings are of negligible commercial importance. During recent years Argentina has supplied no imports of egg yolks and egg albumen; tomatoes, canned, prepared or preserved; or hash of vegetables and/or fish. Argentina is a very minor supplier of butter (the principal suppliers being the Netherlands and New Zealand with Argentina supplying about 1 percent of total imports); macaroni, noodles, etc.; oil cake and oil cake meal; and weasel skins. Argentina has supplied less than 10 percent of imports of wools finer than 44's (paragraph 1102(b)) and angora goat, cashmere goat and alpaca hair. Water hog skins and cattle, ox and calf tail hair, total imports of which are very small, have continuously been on the free list and are unlikely to be removed therefrom.

5. On the basis of the foregoing information you should make every endeavor to persuade the Argentine officials to withdraw their request that this Government consider granting concessions on any products not included in the list of products published with the public announcement of August 23. The addition of any product, no matter how unimportant, to that list would require public announcement, a

³³ Released October 2; Department of State *Bulletin*, October 7, 1939, pp. 346-349; see also *post*, pp. 403 ff.

new period for written briefs and oral hearings. It is practically certain that this would delay the negotiations so as to make it impossible to conclude the agreement within the limits of the time available.

HULL

611.3531/1031 : Telegram

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

BUENOS AIRES, September 23, 1939—3 p. m.

[Received 4: 55 p. m.]

179. Referring to the trade agreement in yesterday's meeting the following objections and suggestions were informally made by the Argentine subcommittee.

1. The proposed articles governing exchange and quantitative control are not sufficiently flexible to allow satisfactory solution of problems growing out of war such as European blocking of exchange for Argentine exports. They suggested negotiation of ancillary documents to take care of special arrangements during war.

2. They also suggested that the agreement provides for a permanent mixed commission to which all special problems would be referred. The committee would also be employed on occasions contemplated in final paragraphs of articles 7 and 13.

3. They thought that the clause of article 8 reading "Unless it is mutually agreed to dispense with such allotment" may provide the flexibility they desire provided it applies to all questions of quantitative control.

4. Argentina objects to article 9 on the grounds that it would limit it in government purchases to a greater extent than contemplated by Argentine law. The subcommittee was reminded that without such provision the practical effects of most favored Nation treatment would be substantially annulled.

5. Their objections to article 10 were: prohibition of restrictions or delay on transfers as provided in clause (a) and the exchange rate provisions of clause (b). As indicated in its notes of August 12 and 22, the Argentine Government has taken the position that equality of exchange treatment should be on a commodity basis and this would mean that the wording "any article" to conform to their understanding should read "Any like article". The Argentine Government understands article 10 as now worded to mean that only one rate of exchange could be employed for all imports thus forcing them to abandon their present policy of employing different exchange rates to assist necessary imports and restrict those not considered as essential.

I would appreciate instructions on the points raised prior to again discussing the articles covering exchange and quantitative control.

ARMOUR

611.3531/1031 : Telegram

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

WASHINGTON, September 29, 1939—noon.

170. Your no. 179, September 23, 3 p. m. Your paragraph (1). You should reiterate, on the basis of the pertinent parts of the memorandum enclosed with instruction no. 6 of June 28, that the Articles on quantitative restrictions and exchange control, taken together, leave a large degree of flexibility by permitting the regulation of imports, through quotas, in conformity with exchange availabilities. If, as we hope and expect, the Argentine Government will be successful in avoiding commitments or arrangements which would have the effect of earmarking for purchases in third countries exchange arising out of Argentine exports to such countries, and retains its freedom to restrict when necessary the imports of particular products by means of quotas, the Articles as drafted would appear to provide ample flexibility even under war conditions in Europe. In this connection you are authorized to say to the inter-ministerial committee that if the Argentine authorities run into such difficulties in current negotiations with the British Government or any other government, and desire our assistance in avoiding hampering commitments or stipulations, we would, upon request, do all in our power to aid them.

For your confidential information, we perceive the possibility that the British may seek to block exchange arising out of Argentine exports to the United Kingdom. At the first convenient opportunity therefore you should, unless you perceive objection, broach this subject orally with high Argentine officials and impress upon them the great disadvantage from Argentina's own standpoint as well as ours of any such blockage of exchange which would, among other things, seriously prejudice the trade-agreement negotiations between our two countries. You should state that if blockage of exchange is threatened in the case of the United Kingdom or any other important country, the Government of the United States would upon request take our interest in the matter up with the foreign government or governments concerned.

Your paragraph (3). This Government does not contemplate that the quoted clause could be used as a means of weakening or waiving the effectiveness of Article 8. We might, in the light of all pertinent facts, agree to a global quota which could not be allocated among countries of origin, or even in some special cases agree to dispense with allocation to the United States of a share of a particular quota which has been partially allocated to a third country or countries.

However, we obviously could not be expected to do so if the allotment to third countries but not to the United States would deprive this country of an opportunity to obtain a fair share of the total quota. The flexibility provided by the quoted clause is not, therefore, very great.

Your paragraph (5). Prompt payment for permitted imports should be possible under the provisions of the quota and exchange Articles by keeping imports within the capacity to make payments through the imposition of whatever quotas may be necessary. Furthermore, since regulation of imports would be exercised through the imposition or non-imposition of quotas on individual products and through the amount of the quotas established, there would appear to be no necessity for differential exchange rates between products for the purpose stated. The basic purpose and intent of the articles as drafted is to substitute quotas for exchange rates as a means of trade control.

Your paragraph (4). You should request copies of the pertinent Argentine laws dealing with government purchases of foreign articles and transmit a set to the Department. It does not seem reasonable that the Argentine Government wishes to retain freedom to discriminate against the United States in regard to such purchases or that Argentine law should so provide.

Your paragraph (2). A permanent mixed commission for the purpose mentioned would not be practicable from our viewpoint. In fact this Government could not agree to the establishment of any such commission the existence of which might be construed as a delegation of the powers conferred on the President by the Trade Agreements Act or whose functions might conflict with those of existing American Government agencies. The purpose in mind would be served best, in our opinion, by intergovernmental communications through the usual channels. Each government may find it desirable, of course, to maintain or establish one or more interdepartmental committees to study the operation of the agreement, with particular reference to matters calling for consultation between the two governments.

Reply to your no. 174, September 20, 6 p. m. is in preparation.

HULL

611.3531/1097

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

No. 163

BUENOS AIRES, September 29, 1939.

[Received October 7.]

SIR: Referring to the Department's telegram No. 165 of September 23, 4 [3] p. m. in regard to the desire of the Argentine Government to have certain articles added to the list of products concerning which

the United States would consider granting tariff concessions in the proposed trade agreement, I have the honor to enclose a copy of a note,³⁴ which, in accordance with the Department's instruction aforementioned, I addressed to the Minister for Foreign Affairs on September 26th last.

With respect to the progress of the trade-agreement negotiations here, the Embassy and the Consulate General feel with increasing apprehension that there are certain basic principles of the general provisions on which there is not yet agreement and on which, indeed, we may encounter some difficulty. Apart from the position of the Government here that contiguous countries of Argentina be excepted in the application of the most-favored-nation principle, there is some reason to suppose that Argentina is not really contemplating any very radical departure from its bilateral trade policy, at least as long as the European war continues. Another matter of concern is the apparent intention of the Argentine Government, as expressed by members of its negotiating sub-committee, to press for a transitional period to precede the granting to the United States of unconditional most-favored-nation treatment. As evidence of these positions, I enclose a copy of a memorandum³⁵ of a conversation yesterday with Dr. Alberto Bonfante, Assistant Chief of the Division of Economic and Consular Affairs in the Ministry of Foreign Affairs. I am also enclosing a copy of a memorandum³⁵ of comments on the matter prepared by the Consul General and dated yesterday.

The members of our sub-committee, as well as myself, are using every opportunity to impress upon the Argentine Government the imperative need to define clearly and promptly its position on these various matters and the need to come to an agreement on at least the fundamentals before our delegation departs from the United States. I stressed these points in conversations with the Foreign Minister on September 25th and with the Under Secretary yesterday afternoon. Dr. Torriani, Director of the Division of Economic and Consular Affairs, has arranged for Consul Ravndal and Mr. Randall, Assistant Commercial Attaché, to have a conversation this afternoon with Sr. Irigoyen, Financial Counselor of the Argentine Embassy in Washington, now in Buenos Aires, and Messrs. Ravndal and Randall intend to take this opportunity to ascertain more definitely just what the Government here now has in mind with respect to several of these basic principles of the trade agreement.

In view of the above, the Department may wish to withhold making public the exact time when it is contemplated to have the delegation

³⁴ Not printed. The note gave to the Argentine Government the information with respect to specific items contained in telegram No. 165, September 23, 3 p. m., p. 262.

³⁵ Not printed.

sail for Argentina. We would obviously be placed at a disadvantage were the delegation to sail before we have come to a clear agreement on the points to which I have referred.

Respectfully yours,

NORMAN ARMOUR

611.3531/1015 : Telegram

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

WASHINGTON, October 3, 1939—4 p. m.

171. Your 174, September 20, 6 p. m. The suggested additional clause would seriously undermine the most-favored-nation principle as applied to trade between the American Republics. It is to the long-run interest of Argentina as well as to the United States to strengthen rather than weaken this principle not only in this hemisphere but throughout the world.

Approaching the subject from this broad viewpoint, you should reiterate as coming from the Department (1) that in the case of the Panama Canal Zone our exception has no commercial significance and that despite the relationship of the zone to the United States such negligible imports as there are from that source are charged with the duties which apply to like products imported from foreign countries; (2) that our exception in the case of Cuba, based on exceptionally close historic ties dating from Cuban independence, aside from being of small practical importance to Argentina, has become generally recognized as a standard exception in United States commercial treaties and agreements entered into since 1902; (3) that the "adjacent countries" exception has not been generally recognized as a defensible exception for the very good reason that it would if generally adopted destroy much of the value of the most-favored-nation clause.

In amplification of the last point, you might point out the serious consequences for Argentina if the United States should allow imports of a wide range of agricultural and other products from the adjacent countries of Mexico and Canada free of duty or at low rates while similar Argentine products were subject to high rates of duty. Such a situation would have arisen if the reciprocal arrangement which was negotiated with Canada in 1910-11, giving Canadian wheat, corn, canned and preserved meats, tallow, and many other products preferential treatment as compared with our imports of such products from Argentina had become effective.

Finally, you should continue to exert every effort, in view of such considerations, to persuade the Argentine authorities to withdraw their suggestion.

HULL

611.8531/1097 : Telegram

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

WASHINGTON, October 13, 1939—7 p. m.

187. Your despatch no. 163 of September 29, 1939. You suggest, in the final paragraph of your despatch under reference, that if the other experts to assist you in the negotiations were to sail before agreement is reached on the fundamentals of the general provisions it would place you at some disadvantage. In as much as the plan is for these experts to sail October 20, the matter requires immediate consideration. The Department does not consider it advisable to postpone their sailing for the following reasons.

In view of the large amount of detailed work involved in connection with negotiating the schedules, any material delay in the beginning of this work would greatly enhance the difficulty of completing the negotiations by January 1.

A further reason for having the group sail as planned is the belief that the agreement of the Argentine officials to the general provisions as desired by this Government might be facilitated if the main outstanding issues were dealt with conclusively after the schedules have been discussed and those authorities are able to visualize the trade agreement as a whole. During the discussions which have taken place here with the Argentine Ambassador intermittently over a period of several years, he constantly argued that matters relating to the treatment of American trade in respect of Argentina's exchange control system could not be dealt with until Argentina was in a position to know what tariff concessions would be offered by the United States. In the light of this experience it is even conceivable that the Argentines may now be deliberately withholding acceptance of our position on certain major points until they see what tariff concessions we will offer. In these circumstances, it seems advisable to continue discussions, maintaining our position on all the important points in the general provisions and emphasizing in every way the importance we attach to them but avoiding if possible bringing these questions to a definite and final conclusion until after the schedules have been fully discussed.

A further reason for deferring conclusive action on the general provisions prior to discussing the schedules is that with a little more time the effect of the European war on the Argentine position may tend to clarify itself.

The Department realizes, of course, that the sailing of the group of experts from here, in the face of Argentina's non-acceptance of certain fundamental points in the general provisions, may imply to the Argentine authorities that less importance is attached to those points than you have represented. Possibly this implication could in part at least

be avoided if you were to say that while a satisfactory adjustment of the points now at issue is vital to the conclusion of an agreement, it seems, nevertheless, incumbent upon the two Governments to go on with detailed discussions covering the entire scope of the agreement with a view at least to completing the task of ascertaining definitely and in detail wherein divergences exist.

The Department had hoped, in view of the discussions preceding announcement of negotiations, that the general provisions could readily be disposed of before the beginning of definitive discussions on the schedules. In view of the situation which now appears to be developing the best course seems to be to abandon this plan and proceed as outlined above. However, the Department would be glad to have any comments and suggestions that may occur to you.

HULL

611.3531/1317: Telegram

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

BUENOS AIRES, November 25, 1939—10 a. m.

[Received 11:17 a. m.]

238. Argentine counter-proposals on Schedule II indicate acceptance of offers on the following items: 42; 232 (a); 409; 701; oleo oil and stearin; 705; 712; dead birds not specially provided for; 763; 764; 774, asparagus; 1101 a, wools under bond; and all free list items contained in definitive proposals. Rate on 712, turkeys, is accepted but removal of quota limitation is requested.

Further concessions embodying a full 50% reduction in duty are requested on the following items: 19; 38; 701, tallow 706, both classes, with the removal of the minimum ad valorem provisions; 710 to include romano or pecorino, reggiano or parmesano, reggianito, provolone and provoletto, sbrinz, cheddar and goya, with a minimum ad valorem of 20%; 742, grapes, with effective period beginning February 15; 762 with no quota limitation; 1101, wools not under bond, the full reduction on each of the four types; 1530 and 1558.

In addition, the counter-proposals contain requests for the maximum reduction in duty on the following items not included in definitive proposals but which appeared in the published list of August 23; 713; 724, with a customs quota of 250,000 tons annually and binding of the present rate on all imports over that amount; 730; 749; 779; 1102a; 1681, fox and lambskin furs.

Several items which were not on the published list were also included in the counter-proposals as well as requests for inclusion of notes on matters probably not falling within the province of trade agreement negotiations, including a request for a definition of cured meat which would include meats heated to 147 degrees for 10 minutes which were

entered for use at the New York Fair, specifications for dog food which would be permitted to enter under paragraph 730, liberalization of staining regulations of alfalfa seed, the opening of specified ports to the admission of fresh fruits and provisions for a 25% tolerance on wool.

The utmost importance is apparently attached to a satisfactory concession on linseed. Copies of the Argentine counter-proposal are going forward by air mail today.

ARMOUR

611.3531/1317 : Telegram

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

WASHINGTON, November 29, 1939—6 p. m.

231. Your telegram No. 238, November 25, 10 a. m.

1. In view of the wide disparity in the positions of the two Governments on important phases of the proposed trade agreement and the extremely limited time available for completing these negotiations, it seems desirable that the situation be discussed with complete frankness with the appropriate Argentine authorities in an endeavor to reach an understanding which will facilitate rapid progress.

2. From the procedural standpoint, the central fact of which the Argentine negotiators might be reminded is that this Government has presented complete proposals covering all aspects of the agreement and may properly expect that in completion of the first phase of the negotiations, Argentina as its contribution to rapid progress will furnish us at the earliest possible date a complete reply indicating its position on all of these proposals. In this connection, you might say that this Government has conscientiously sought at all times to base its proposals upon the realities of the situation confronting both governments and that it has carefully avoided taking a bargaining position in formulating its proposals. It is earnestly hoped that the Argentine negotiators will approach these problems in the same spirit. It is important that they be made to realize that any effort to maintain what appears to us to be an extreme bargaining position can only result in unnecessary delay which will militate seriously against bringing these negotiations to a successful conclusion.

3. In line with our general approach to the negotiations as indicated above, our Schedule II proposals were formulated with extreme care on the basis of all available information and were made as liberal as the pertinent facts and considerations permit. These offers are contingent of course upon acceptance of our proposals regarding the general provisions and Schedule I. In order that there may be a clear understanding of the situation, we believe that you should inform the Argentine officials definitely at this point that no substantial improve-

ment in our offers will be possible. We would be willing to reexamine our offers, on the basis of specified and reasonable Argentine requests, with a view to seeing whether any minor improvements might be made. However, even on the basis of requests of that nature, it would be futile and unproductive to ask the trade-agreements organization to undertake a reexamination of Schedule II until we have a complete and satisfactory reply from the Argentine Government on our general provisions and Schedule I proposals. For your information, we fear that as long as the Argentine negotiators think that there is a chance of substantial improvement in our Schedule II offers, they will withhold their Schedule I proposals and will continue their refusal to give us proposals on the general provisions which offer a real basis for negotiation.

4. Any discussion which you may now have with a view to clarifying the situation should, of course, include frank comment on the attitude of the Argentine negotiators with respect to the general provisions. We entered into these negotiations on the understanding that the agreement would assure us complete nondiscriminatory treatment in the Argentine market. You should make it clear, furthermore, that regardless of any question as to whether the Argentine Government qualified its acceptance of the basis with reference to particular aspects of the general provisions, we cannot conclude an agreement with Argentina which does not assure us of nondiscriminatory treatment. The proposals thus far made by the Argentine negotiators would not give us such assurances; in fact, they do not even appear to offer an improvement over our present situation. For example, their proposals on exchange apparently are intended to assure us nondiscriminatory treatment with regard to exchange rates, but contain no assurances regarding the availability of exchange for permitted imports. With respect to quotas, their proposals envisage substantial discrimination against us over an indefinite, but presumably extended, future period. In "special cases", which would apparently include many of our most important products, this discrimination would be even more severe under the agreement than at any time in the past. In other words, they apparently contemplate merely substituting one form of discrimination for another.

The Argentine proposals also fail to provide reasonable protection for their duty concessions in Schedule I. Without technically violating the agreement, these concessions might be impaired or nullified through use of selective exchange rates, or through the imposition of highly restrictive quotas. Furthermore, while refusing to obligate themselves to give us notice and an opportunity for consultation regarding quotas on Schedule I products, the Argentine negotiators inform us that the imposition of a quota on any Schedule II product would be regarded as cause for the immediate termination of the

agreement. We have, of course, recognized the need of accommodating the agreement to Argentina's possible needs and to reconcile ourselves to some impairment of concessions in Schedule I, but obviously we cannot acquiesce in a denial of our reasonable request for assurances that we will be notified and have a chance to make our views known before the concessions we have paid for are taken away. It should be clear to the Argentine negotiators that acceptance of such proposals by us, especially under the difficult circumstances in which we find ourselves, would be a manifest impossibility.

HULL

611.3531/1337 : Telegram

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

BUENOS AIRES, December 1, 1939—8 p. m.

[Received 11 p. m.]

245. The contents of the Department's telegram No. 231, November 29, 6 p. m. was embodied in a formal note addressed to the Minister for Foreign Affairs which, in the Minister's absence due to illness, I handed to the Under Secretary this evening. In the ensuing conversation I stressed the points made in the Department's telegram and suggested that the Foreign Minister might wish to discuss the situation with his Cabinet colleagues with a view to reaching an understanding which would facilitate rapid progress towards the satisfactory conclusion of the agreement before the Christmas holidays. The Under Secretary said he would personally take my note to the Minister immediately and convey the suggestion offered.

I hope to discuss the situation with the Minister for Foreign Affairs himself on Monday by which time he would be prepared to give us the assurances we desire.

ARMOUR

611.3531/1343 : Telegram

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

BUENOS AIRES, December 4, 1939—5 p. m.

[Received 5:20 p. m.]

250. Embassy telegram 245, December 1, 8 p. m. In a formal reply dated December 2 to the Embassy's note of December 1 the Minister for Foreign Affairs advises that the Argentine Government intends to make every effort to reach a mutually satisfactory agreement with the United States prior to the Christmas holidays. He insists that there has not been any unnecessary delay on the part of the Argentine negotiators who have been required to examine carefully various commitments proposed by the United States which have not here-

tofore been included in any of Argentina's trade agreements. He remarks with reference to Argentina's counter-proposals on Schedule II that since we habitually derive greater advantages than Argentina from our common trade we should be disposed to grant greater concessions than we expect to receive in exchange.

ARMOUR

611.3531/1404a : Telegram

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

WASHINGTON, December 16, 1939—3 p. m.

262. Personal for the Ambassador from the Secretary. I am cabling you today the best offers we can make on flaxseed and canned beef. I have given the questions presented most careful personal attention and I want you to have the background of the situation as it now exists here in order to assist you in interpreting convincingly our position to the Argentine authorities. I want you to know that I have carefully considered the views you have expressed in recent oral and telegraphic communications, and that the only reason we cannot go as far as you suggest is the really emergency character of the situation which confronts us here.

In regard to flaxseed, I fully understand the Argentine interest in improving the concession on this product and the matter has been gone into carefully with Secretary Wallace with a view to making as much of an improvement in our offer as circumstances will permit. I am fully satisfied, however, that to go further than we have indicated in today's telegram ³⁶ would endanger everything we are trying to do. It is as much in Argentina's interest as our own that our concession on this product, which is now as good as we can safely offer, be kept within safe and defensible limits.

With reference to canned beef our telegram of today maintains our original offer without a customs quota. I had in mind prior to the recent discussions with you a reduction in the duty to 3 cents and 20 percent and a customs [quota?] of one percent of Federally inspected domestic production of fresh meats. On this basis, the average global customs quota over the 10-year period 1929 to 1938, inclusive, would have figured out at about 129 million pounds in contrast with imports in the peak year of that period of 88 million pounds and a low of 19½ million pounds. With production of fresh meats at 12 billion 404 million pounds in 1938, the quota for 1939 would have been 124 million pounds. Since the quota would not be an absolute quota, but merely a customs quota, it would not only permit imports to come in at the reduced duty to an amount nearly 50 percent greater than those

³⁶ Not printed.

in the peak year, but would permit an expansion even beyond this level since there have been large imports even at the present rate. On the basis of the Argentine negotiators' own appraisal of the situation, as we understand it, of the prospects for developing their exports to this market, the concession in the form just outlined would be entirely adequate. A quota of the size indicated in conjunction with the improvement in the duty, would I believe, represent an actual improvement over our present offer. In view of this and since I am satisfied it would help us materially in defending the agreement here, this solution seems to me to be the best one from the standpoint of both countries. If you can get this quota proposal before the proper authorities without insisting on it or impairing your negotiating position, it is just possible that such a proposal would be voluntarily accepted.

I want you to know that I fully appreciate the difficulties of your situation in these important negotiations, and I am entirely confident that if they can be brought to a successful conclusion, you will find the way to do it. It may help you on a suitable occasion to explain to the proper Argentine authorities the situation in which we find ourselves here and its relation to these negotiations. You might remind them that the Trade Agreements Act comes up for renewal in Congress at its next session; that in my opinion the opposition which is developing against the continuation of this program and of these agreements is assuming serious proportions; that our ability to carry forward our whole program of improving international commercial relations is, therefore, at stake; and that any agreement with Argentina which goes beyond the limits of safety—and we believe we have reached those limits—can only defeat itself.

HULL

611.3531/1416 : Telegram

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

BUENOS AIRES, December 20, 1939—3 p. m.

[Received 5:54 p. m.]

301. Confirming my conversation over the telephone with Hawkins³⁷ yesterday afternoon, our full proposals based on telegraphic instructions from the Department were handed to Cantilo shortly before 8 o'clock Monday evening under cover of (1) a formal note enclosing the schedules, the general provisions and proposed exchange of notes regarding subsidies, etc. and (2) a personal note, based on the Secretary's personal telegram to me, explaining the situation and inviting understanding and sympathetic consideration of our proposals.

³⁷ Harry C. Hawkins, Chief, Division of Trade Agreements.

The Minister read the personal note in my presence and his attitude was not discouraging. The following noon, however, presumably after he had talked with the experts, he appeared very much discouraged and told me that he saw no basis for a trade agreement in our proposals. He stated that he had already instructed Torriani to give him a detailed statement at the earliest practicable date. I gained the impression that he felt the principal trouble lay in Schedule II.

Just after my conversation with Hawkins, Ravndal called on Torriani with a view to obtaining a more precise indication of the reaction to our proposals. Torriani and Bonfante who was with him gave the impression of being extremely discouraged. Torriani like Cantilo said that he saw no basis whatsoever for a trade agreement in our proposals. With reference to the customs quota on flaxseed, he asserted that, with the increase in flaxseed production in the United States, Argentina probably would be unable to export much if any in excess of the customs quota with a rate as high as 75 cents a bushel. He said that our offers on canned beef were unsatisfactory and that the alternative proposal, involving a global customs quota, did not represent any worth while improvement because Argentina's share in our canned beef imports averaged less than 50% which meant that Argentina could not look forward to a duty reduction on more than 65,000,000 pounds per annum, an amount which would not permit of any appreciable expansion of Argentina's total exports to the United States. He added that the situation possibly would have been somewhat less hopeless if the United States had offered to remove the customs quota on dead turkeys, to give a reasonable customs quota on corn, a reduction on hides, and improved treatment on fresh fruits other than grapes. As for the general provisions he reiterated that he personally saw no way of accepting them on the basis of our Schedule II proposals, and the Government of the United States apparently would not change its general provisions requirements, particularly with respect to articles III, IV, and XI. He stated with reference to clause A of article IV that Argentina will not assume exchange under obligations which it might not be able to fulfill. He concluded by expressly stating that he was merely giving his personal views, the inter-Ministerial committee having concluded its appraisal. Asked when there would be a subcommittee meeting to discuss the proposals, he said they would reply to our proposals in writing and that he perceived no occasion for a meeting in the interim.

Following this conversation we prepared a brief memorandum, indicating the 1938 trade coverage of our proposed schedules and the increase in Argentina's exports to the United States in the first 11 months of 1939 and suggested that under the proposed trade agree-

ment Argentina's exports to the United States in 1940 and subsequent years would be far greater than they will be if no agreement is signed.

ARMOUR

611.3531/1420 : Telegram

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

BUENOS AIRES, December 23, 1939—3 p. m.

[Received 8:30 p. m.]

309. Embassy's telegram 301, December 20, 3 p. m. Confirming our conversation with Hawkins, the Argentine Government's formal reply to our revised proposals was handed to me at 11 o'clock this morning.

They express the hope that the circumstances which unfortunately prevail at this time will not be allowed to prevent us from satisfying Argentina's minimum requests and reiterate that their firm intention to contract only those obligations which they can meet requires them to maintain the position adopted in matters of exchange and quantitative regulation of imports.

They imply that they were led into public announcement under a misconception of the situation, saying that they could not interpret our reply of August 20 to their memorandum of August 12 as presaging the small importance of our proposed tariff concessions and the institution of a system of customs quotas, which they assert was not even hinted at during the preliminary conversations held in Washington and Buenos Aires.

They recall that they were persuaded to withdraw their requests for the addition of articles to the list of products which would be considered for tariff treatment and that there then remained to them only the possibility that the maximum reductions at the time would be the difficulties for the items included in the original list. However, they go on to say that the Government of the United States, in its proposals of November 15, omitted certain products like corn, pears and cheese, which offered possibilities for increasing the exchange available for payment of imports, offered no reduction on hides and restricted the value of the concessions on flaxseed and frozen turkeys by means of customs quotas. They point out that while a 50% reduction in the specific duty on canned beef was offered, the ad valorem rate was increased, which would mean that if a growth in demand should cause the price of the product to rise this would immediately initiate a nullification of the advantage obtained and automatically check any possibility of their exports reaching the important proportions contemplated under the general frame work of the agreement. As for the alternative proposal, it is stated that if it is borne in mind that Argentina's share of our imports of canned beef amounts to only 45% of the total, the scant value of the offer will be readily appreciated. In the best of cases, they say, there could only be a probable increase of 10,000

tons over their present exports, which is very far from their long range expectations in the matter.

They explain that the reason they first presented their counter-proposals on Schedule II, requesting more generous treatment, was their belief that a large increase in the sale of Argentine products to the United States is a condition *sine qua non* to the contraction of obligations in matters of exchange and quantitative regulation of imports.

They assert that our revised proposals are not only very far from the minimum which they consider essential, but also would create a serious problem for the future of our reciprocal agreement. In this connection they stress the difference they perceive between a system of quotas imposed for the purpose of keeping imports down to the amount the country can pay for and a system of quotas which serves protectionist purposes only.

They say that the imposition of customs quotas on products which, like flaxseed and canned beef, have constituted the fundamental items in Argentina's exports to the United States would create a situation too serious to be accepted, and they remark in this respect, "We could not possibly conceal the surprise that this proposal caused us." They recall that the conviction existed here that the chief purpose of negotiating an agreement was to increase the volume of reciprocal trade, but claim that under our proposals the reality would be entirely different.

They say that they are aware of the factors tending to make the United States self-sufficient and therefore can estimate what the acceptance of a customs quota would mean. They feel that under normal conditions the customs quota would in effect signify the maximum limit of their share in supplying the American market during the life of the agreement, and in this connection they point out that the same reasons which are now responsible for the suggested imposition of a customs quota might lead to progressively smaller customs quotas.

They point out with respect to coarse wools that they have not been able to obtain any satisfaction in the matter of an increased tolerance. As for the duty reductions on wools not finer than 44s, they say these are of no interest since they amount to only 5 cents per category, or a reduction of only 17 per cent. They add in this regard that they desire for this type of wools, as well as for those under paragraph 1101 (a), the maximum reductions which can be granted under the Trade Agreements Act.

They note that we recently offered a reduction of only 25 per cent on hides, but recall that we have offered nothing on corn.

They concede their references to Schedule II by asserting that their analysis of the situation entirely justifies the requests they have made during the course of the negotiations and they express the hope that

the spirit of understanding which animates the authorities of the United States will facilitate the acceptance of the Argentine Government's point of view and permit tariff reductions on Argentina's major export products to be granted without any limitations whatsoever.

They go on to refer to their requests for modification of our administrative regulations affecting imports of their products and note that they have not as yet received a satisfactory report. In this respect they urge that any customs concession no matter how great can be annulled through the application of administrative regulations and insist that the latter must be modified if the agreement is to produce a substantial increase in their exports.

With regard to quantitative regulation of imports, they state they have accepted most of our proposals but consider it essential to maintain a certain degree of flexibility of action, so that under exceptional circumstances the system would not be too rigid to permit the fulfillment of obligations contracted with the United States and other countries.

They assert categorically that the position of the Argentine Government with respect to matters of exchange and quantitative regulation of imports is definitive and cannot be modified. In this connection, they say it is the firm purpose of the Argentine Government to give the most favorable treatment possible to imports of United States origin. They regard it of capital importance that the Argentine Government maintains exchange control and quantitative regulation of imports for the sole purpose of protecting the value of the currency and of continuing to meet its international financial obligations. It is with these aims that the Argentine Government seeks to obtain an increase in the volume of Argentina's exports to the United States. As a result of the agreement, they go on to say, that if the Government of the United States takes into account all the factors which have led Argentina to consider its position on matters of exchange and duty reductions for Argentine products as final, the Argentine Government, desirous of harmonizing the interests of the two countries in other matters in which there is still disagreement, would be disposed to reexamine its proposals even though it considers that in the matter of customs it has practically reached the maximum of concessions it can grant.

It is stated that the Argentine Government entered the negotiations feeling fully confident that the results thereof would permit it gradually to return to multilateralism in international trade; that one of the great difficulties encountered heretofore has been the United States tariff coupled with administrative measures that constitute additional restrictions on Argentina's export trade. The note ends with the statement that the Argentine Government hopes that the full application of the general principles represented by the Govern-

ment of the United States in matters of economic policy will make it possible to conclude a trade agreement of mutual benefit.

ARMOUR

611.3531/1422 : Telegram

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

BUENOS AIRES, December 23, 1939—4 p. m.

[Received 10:30 p. m.]

310. Embassy's telegram No. 309, December 23, 3 p. m. As the Argentine reply reported in the Embassy's telegram under reference indicates, the present impasse concerns mainly our Schedule II offers. If we could offer them a Schedule II which they would accept it is believed that they might agree to a Schedule I and general provisions which although not all we want would be acceptable to us.

In regard to the general provisions, we believe that they would agree first to accept article III on the understanding that any special cases, which we would not accept in principle, would come within the provisions of new article XII; second, to give us a commitment in article IV to make exchange available for all permitted imports from the United States and to make such exchange available as promptly for such imports as for imports from any third country; and third, that in practice, under the provisions in article XI similar to those included in the Swiss or Netherlands Agreement, they would give us an opportunity for consultation before imposing quotas on Schedule I products.

In regard to Schedule II we are inclined to believe, although we cannot know definitely, that they would agree to sign the agreement if we offered them unlimited entry on flaxseed at 45 cents and accepted general provisions as indicated above. We are doubtful whether they would with a customs quota on flaxseed even if it were raised to 15,000,000 bushels at 40 cents however they might reluctantly accept this if we offered them other improvements in Schedule II, with reference to the products mentioned in the Embassy's telegram under reference.

It has occurred to us that there may be an alternative way in which to deal with the present crisis in the negotiations and the difficult situation at home, namely, to make use of the escape clause in article XII rather than customs quotas in quieting the apprehension of those who fear that imports of a particular product may increase to such an extent or at such prices as to seriously affect domestic producers. Pointing to this clause as a means of taking care of any eventuality might be even more effective than pointing to the specified limits of customs quotas since the latter seem to imply that nothing will be done until imports pass those limits, which are certain to be regarded as high by domestic producers.

In order to make it clear that article XII is intended to cover the possible effects of concessions, the words "threatens serious injury to producers or the commerce" would be substituted for "of prejudicing the industries or commerce". Furthermore, article XI could be made more flexible, so as to permit quotas on schedule products at any time deemed necessary, subject to the right of the other country to terminate the agreement, as in article VI of our trade agreement with Venezuela, without the last sentence thereof.

Under the circumstances we believe that it would be greatly preferable to have an agreement with more than ordinary flexibility than to have the negotiations fail as they may if we continue to insist upon customs quotas. We therefore hope that consideration will be given to the possibility of adopting the alternative course suggested above, although the Argentines probably would not be altogether pleased with it we believe that they would sign an agreement on such a flexible basis and that it should be possible to defend such an agreement.

ARMOUR

611.3531/1422 : Telegram

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

WASHINGTON, December 26, 1939—8 p. m.

286. Your telegram No. 310, December 23, 4 p. m.

Article III. Agreement by the Argentineans to this Article as proposed by us and to paragraph numbered 1 of the proposed final minutes (as set forth in the Department's telegram no. 284, December 22, 8 p. m.⁸³) on the understanding that any proposals to depart from the base period specified in the latter would come within the scope of the new Article XII, would be acceptable to us.

Article IV. We must continue to insist upon an absolute commitment to make exchange available for all permitted imports but are willing to accept a most-favored-nation commitment regarding delays. You are therefore authorized to propose to the Argentineans the following modifications of Article IV:

"(a) impose no prohibition or restriction on the transfer of payments for articles the growth, produce or manufacture of the other country or of payments necessary or incidental to the importation of such articles; (b) impose no delay upon the transfer of such payments more onerous than that imposed on the transfer of payments in connection with the importation of any article the growth, produce or manufacture of any third country; and". The present clause (b) would follow as clause (c).

If the Argentineans object to the term "any article," you may, if necessary to obtain agreement, change the term to "like articles". In

⁸³ Not printed.

this event we would desire the inclusion of the following as the first sentence of paragraph numbered 3 of the final minutes:

“With reference to clause (b) of article IV, it was agreed that if the Government of either country finds it necessary to impose delay on payments for imports from the other country, it will endeavor to insure that such delay will not be more burdensome on the trade of the other country than on the trade of any third country.”

You should be sure that it is clear to the Argentine negotiators that the above provision regarding delays means that shipments of any article from the United States would not be subject to any greater delay in providing means of payment than that to which shipments of articles of any kind (or, if the above recession is necessary, shipments of like articles) currently imported from any third country are subject.

Article XI. You are authorized to propose as a second sentence of paragraph number 2 of Article XI the second sentence of the second paragraph of Article VI of the agreement with Switzerland.³⁹ However, with this modification in Article XI, we would desire the inclusion of the following as a second sentence in paragraph numbered 4 of the final minutes:

“It was also agreed that if the Government of either country finds it necessary to impose or substantially alter a quota on a scheduled product, it will in practice, prior to taking such action, afford the other Government adequate opportunity for consultation in regard to the proposed measure.”

HULL

611.3531/1422: Telegram

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

WASHINGTON, December 27, 1939—5 p. m.

287. Your telegrams no. 309, December 23, 3 p. m. and no. 310, December 23, 4 p. m. You should make the following Schedule II proposals to the Argentine officials.

762, flaxseed, 35 cents per bushel on an annual customs quota of 12,000,000 bushels plus the amount by which domestic production in the preceding year is under 15,000,000 bushels; present rate bound on imports above the quota. The description of article and quota provisions remain as set forth in the Schedule II enclosed with the Department's instruction no. 118 of December 2.⁴⁰

1530 (a), hides, 5 percent ad valorem, with description of article as set forth in the above-mentioned Schedule II.

³⁹ Signed at Washington, January 9, 1936, Executive Agreement Series No. 90, or 49 Stat. 3917; see also *Foreign Relations*, 1936, vol. II, pp. 796 ff.

⁴⁰ Not printed.

706, canned beef and veal, 3 cents per pound but not less than 20 percent ad valorem on an annual customs quota of 1 percent of domestic slaughter of fresh meat during the preceding year; present rate bound on imports above the quota. The description of article, quota provisions and rates remain as stated in paragraph numbered 1 of the Department's telegram no. 270, December 18, 8 p. m.⁴¹

Our previous offer on canned beef of 3 cents per pound but not less than 30 percent without quota limitations must be withdrawn. It is felt that we are justified in taking this action in view of the improvements above indicated and since the offer was not accepted by the Argentines.

In transmitting the foregoing offers to the Argentine officials, you may state that most careful and sympathetic consideration has been given to the Argentine viewpoint; that we have sincerely endeavored to meet that viewpoint but the situation confronting us here is such that to go further than indicated above would in our opinion only result in defeating the ends which both Governments have in view.

HULL

611.3531/1436 : Telegram

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

BUENOS AIRES, December 30, 1939—6 p. m.

[Received December 31—1:40 a. m.]

317. Confirming my conversation over the telephone with Hawkins this afternoon, the formal reply of the Argentine Government to my note of December 28 setting forth our final proposals as given in the Department's telegrams 286, December 26, 8 p. m., and 287, December 27, 5 p. m., was received at 3:30 this afternoon. The note concludes with:

"In summary of what has been set forth, the position of the Argentine Government may be established as follows:

(a) In matters of exchange and quantitative regulations of imports it maintains its position, since it can only assume such obligations as it finds itself in condition to meet fully.

(b) With respect to tariff reductions for Argentine products, it insists on the suppression of the customs quotas on canned beef and flaxseed and the modification of the administrative regulations which hamper the importation of the products enumerated in Schedule II.

(c) With respect to concessions for imports of articles from the United States, this Government would be disposed to reconsider with the best willingness the possibility of increasing the advantages offered, bringing to a greater limit the degree of sacrifice that would be imposed on national industry and the loss of revenue.

(d) Regarding the general provisions of agreement, excluding those referring to exchange, it accepts in general the draft proposed by the Government of the United States under date of the 18th of the cur-

⁴¹ Not printed.

rent month subject to small modification in the definitive text which articles would be presented for the consideration of the United States negotiators."

The text of the note, which is dated December 30, reads in translation as follows, the opening paragraph and the antepenultimate paragraph, quoted above, being omitted:

["The Argentine Government has analyzed with all good faith the new proposals which have been made, and its analysis discloses that they do not represent a substantial improvement with respect to the previous position.

In effect, for two products of primary interest, linseed and canned meats, the principle of the customs quota is retained.

This is the fundamental difficulty in accepting the schedule of reductions which Your Excellency's Government proposes. It is necessary to intercede once more that the Argentine Government hopes that this agreement may constitute an instrument capable of permitting a definite equilibrium in the interchange between the two countries, which is indispensable in order to assure for merchandise originating in the United States the system for the granting of prior exchange permits which is being requested.

If in the agreement we do not obtain for two products of such importance customs reductions which can be utilized freely and without limitation of quantity, its practical application will give a stable character to the deficit which normally characterizes our commercial interchange with the United States. Such a situation, capable of remedy if there should be maintained the conditions which governed in international commerce up to the year 1930, constitutes in the present circumstances a serious problem which can only be resolved in the agreement if the concessions stipulated for Argentine products permit a calculation to be made, with a reasonable security, that there will be produced a considerable increase in the volume and value of our sales to the United States.

With respect to that which is set forth in Your Excellency's note relative to the detriment of a customs quota, I must point out to the Ambassador that in the judgment of the Argentine Government, when in order to increase a market it is necessary to enter into competition with local production which is highly protected, it is completely untenable, practically and theoretically, that a tariff reduction linked to a quota, favors the development of the trade. In these cases it follows that it is [more?] important to obtain the application of duty reduction to the total volume which it may be possible to place in the United States market than to reach the maximum reduction permitted by the Trade Agreements Act.

Even though in the note of the 22nd instant and in previous [conversations?] we have explained fully our points of view regarding the concessions which we consider essential to obtain from the United States in order to arrive at the signature of the agreement, we regard it necessary to set forth here several arguments which may facilitate their rapid comprehension.

We will recall with respect to linseed, that since the average of our exports is very much larger than 12 million bushels, the reduction offered us does not favor in any sense a real increase in allowance the volume of our sales, nor does it contribute, in an effective way to the

discouragement of a domestic production obtained, thanks to a high tariff and to ostensibly governmental measures of an internal character.

Evidently, the customs quota alone tends to furnish a check on the increase of our exports and it is necessary to point out here that the Argentine Republic is the primary producer of linseed and the most important supplier of the world market, and that in treating of an article in which case we have indisputable lead, it was natural to hope that there would be displayed on the part of the Government of the United States an attitude in harmony with the basic principles that inspire its commercial policy tending to reestablish international commerce.

In order to produce an increase in our exports of linseed to the United States, it would be necessary that through a lower cost obtained by a reduction in the duty, the domestic price in the United States would be reduced so as to encourage an increase in the consumption of this oil seed, in order for it to be able to displace substitutes, or to increase the use of linseed oil in conjunction with other oils. But it is well known that the price of a product is always fixed by the cost of the marginal supplies, which is [*in?*] the case of Argentine linseed, would be represented by the importations over and above the quota. Therefore, the practical application of this system does not signify the least improvement with respect to the actual situation. If we carried the argument to the extreme, it would be possible to say that the quota rates would have the same effect as a reduction in duty in favor of American importers, which would not benefit the Argentine producer.

With regard to meats, the expansion obtained through a specific customs reduction subject [to?] a quota, is considered entirely insufficient in the face of the obligations which the Argentine Government would assume as a consequence of the proposed agreement. We desire to obtain for meats the maximum reduction permitted by law without limitation of quantity. The reduction should be extended not only to the specific duty but also to the ad valorem duty. At the present time when preserved meat has an f.o.b. Buenos Aires value higher than 15 cents United States per pound, the ad valorem duty would already be effective on Argentine meats which obtain a higher price because of their quality. On the other hand, preserved meats from competing countries would be the chief beneficiaries of a reduction which would only partially affect our products and which would be obtained by the Argentine Government as a counterpart of important concessions. In this regard it suffices to recall the statement made by the Argentine subcommittee in its memorandum of September 20 last.

With regard to corn, for which no concession is offered, we should recall that in the memorandum referred to above there was also stressed the considerable importance to our country of the possibility of marketing in zones near certain ports of the United States, an annual volume of 250,000 tons, and it was stated that this request could not be considered separately but should be taken into account bearing in mind the aggregate of obligations derived from the agreement.

With regard to wool, we have no official reply concerning the tolerance of 25% requested for wool imported not finer than 40s with reimbursable duties since destined to the manufacture of carpets, door mats or any kind of floor covering.

Furthermore, the request of our negotiators for a reconsideration or clarification in a favorable sense of the administrative measures which hinder the importation of Argentine products has not received a satisfactory reply.

We limit these considerations to the examination of the new proposal of the United States, because we feel that with respect to all the other points of difference there could only be repeated the arguments already known and which in the opinion of this Government are sufficiently convincing.

In comparing the concessions which both countries have offered in customs matters to date, Your Excellency states that 'altogether, the reductions and bindings thus far offered would cover only about 60% of Argentina's imports from the United States, on the basis of 1938 figures, as compared with concessions in Schedule I covering about 86% of imports into the United States from Argentina.' But the percentages mentioned by Your Excellency in this case are in the present abstract indices and lead to error. The reality is as follows: The Argentine Republic has offered reductions and bindings for a total of goods which upon entering the Republic have a value of 181,000,000 pesos and the United States offering reductions and bindings for Argentine goods which upon being exported from our country reach a value of only 102,000,000 pesos Argentine currency. These figures correspond to the real value of the merchandise calculated with regard to imports and exports at the official buying rate of exchange which governed in 1938.

But, in comparing Schedules I and II annexed to the agreement, it should also be borne in mind that the granting of reductions has been planned taking as a basis two entirely different tariff systems. In the United States the customs tariff constitutes a real barrier raised for protectionist purposes, with high customs duties which are reinforced by the application of administrative measures.

Our customs tariff has always had an exclusively fiscal purpose and, with it, has not been intended to eliminate foreign products from the domestic market. For numerous articles for which duties are now being bound, the values fixed by law are far below the real value of the goods, and the duties levied on the importation thereof are low. Furthermore, it should be recalled that even though the customs tariff establishes duties and values in pesos gold, they are paid for in pesos of the national currency at the rate of 2.27 and that, notwithstanding the change in value of our currency, the valuations which serve as a basis for the application of the duties have not been revised. The Argentine Government, in accepting bindings has waived the possibility of modifying the tariff valuations to adapt them to the present actual situation. On the other hand the reductions accorded are of importance and they represent a real sacrifice which deprives the state of an important part of its revenue. These considerations lead to the hope that the Government of the United States will appreciate the real significance of not only the value of the concessions already offered by this Government in matters of customs reductions but also the disequilibrium which exists between the advantages offered by Argentina and the proposals made the United States.

It is also fundamental that Your Excellency's Government reconsider its requests in matters of exchange and quantitative regulations

on imports. In the manner in which the pertinent clauses of the agreement have been proposed they constitute a rigid system which could not be applied in practice.

On the other hand the position adopted by the Argentine Republic in this matter is not doctrinaire and only conforms to the reality of international commerce. It assures to the products of the United States a treatment no less favorable than that accorded to the products coming from any other country and a preponderant share in the supplying of the Argentine market, with the only reservation of conserving a certain elasticity which would be applied when the circumstances so required for a limited number of exceptional cases.

Your Excellency may be certain that the minute study of the system such as we propose, and our insistence in not modifying it, explain the impossibility of accepting other bases. On the other hand, the firm intention and the known interest of the Argentine Government to accord to imports from the United States the most favorable treatment possible constitutes a guarantee of fair treatment, more smoothness, than all the stipulations which might be imagined.

In leaving clearly established the position of the Argentine Government, I cherish the hope that Your Excellency's Government will be disposed to reconsider its offers with a view to satisfying the legitimate and reasonable aspirations of both Governments in order thus to reach the signature of an agreement which represents a real step in the improvement of the trade between our two countries.

I take the opportunity to reiterate to Your Excellency the expressions of my highest and most distinguished consideration.

Signed: José María Cantilo."

ARMOUR

611.3531/1436 : Telegram

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

WASHINGTON, December 31, 1939—10 p. m.

291. Your telegram 317, December 30, 6 p. m. The Argentine position regarding the proposed trade agreement has been carefully and sympathetically considered.

The position in which the negotiations now stand seems to be as follows: The Argentine Government considers our offers in Schedule II inadequate in relation to Argentine needs. We have again carefully canvassed the situation with a view to seeing whether some improvement could be offered. No further improvements in the Schedule will be possible. We are sure that if the Argentine authorities will reexamine our offers they will find that an agreement on this basis would provide real protection and an opportunity for expansion of Argentine exports to this country. The Argentine Government doubtless will carefully weigh the position of Argentine exports to this country if an agreement along the lines of our present offers were concluded, against what their position would be in the unfortunate event that no agreement should be consummated. In the absence of an agree-

ment domestic production is likely to continue to build up under the protection of the present rates and Argentina's ability to share this market with our own producers will be greatly reduced. Moreover, there can be no assurance, in the absence of a trade agreement, that protectionist forces in this country will not succeed in bringing about the imposition of new restrictions.

With reference to the general provisions and in particular to the exchange and quota articles, note is taken of the statements in the Argentine Note under reference that these provisions are unduly rigid and unresponsive to the realities of the position in which Argentina finds itself. In this connection it should be pointed out that the provisions which we have indicated a willingness to accept fall very materially short of those which we would like and which we had expected to get at the time these negotiations were announced. Having in mind the problems confronting Argentina we have reluctantly departed from our initial position in certain important respects in order to meet the Argentine Government's desire for greater elasticity. We refer to our recession in the exchange article from the provision requiring prompt provision of exchange to one permitting delays in the provision of exchange on a most-favored-nation like article basis. (Our telegram 286, December 26, 8 p. m.) and to our recession from the requirement of a single rate of exchange for all products to one for most-favored-nation treatment on a like article basis (Our telegram 231 [251], December 13, 5 p. m.⁴²). We do not consider therefore that we have shown a disposition to be unduly rigid.

Nevertheless in an earnest effort to meet the Argentine viewpoint to the fullest possible extent, we are prepared to include as a second paragraph to Article IV, as amended by our 286, December 26, a provision substantially as follows:

"2. If, as a temporary and emergency measure, the government of either country finds it necessary to deviate from the provisions of this article, it shall, not less than 14 days prior to the date on which it proposes to take any action having such an effect, notify the government of the other country of its intention to take such action and afford the government of the other country full opportunity for consultation with respect thereto. If no agreement with respect to the proposed action is reached within the aforesaid period of 14 days, the government of either country shall be free thereafter to terminate this agreement in whole or in part on 30 days' written notice."

This proposal is contingent upon agreement by the Argentine Government to embodying a statement along the following lines in an exchange of notes or joint statement to be published with the agreement:

"The trade agreement is to be interpreted and applied in the light of and in harmony with the purposes and objectives of the resolutions

⁴² Not printed.

of the Pan-American Conferences at Montevideo and Lima, recommending the promotion of international trade on the basis of equality of commercial treatment."

The provision above-quoted for inclusion in Article IV would, it is believed, fully meet any reasonable Argentine requirement for flexibility.

With reference to Article III, if the Argentine Government will not agree to any two consecutive years, we are willing to agree that Argentina may use any single year during the period 1930 to 1937, inclusive, as a basis for allocating shares to the United States, subject to the inclusion in the final minutes of an undertaking by the Argentine Government to reconsider the base period in any case in which we make representations that the base period is manifestly unrepresentative. It should be understood that if no agreement were reached we would be free to terminate the agreement under Article XII. (See point 3 in the Department's telegram No. 251 of December 13, 5 p. m.). Under this proposal, together with our other proposals, we see no necessity for any "special cases." However, if the facts warranted, the Argentines could approach us under Article XII and terminate the agreement if we refused to consent.

With reference to Schedule I, you should ascertain and cable the best Argentine offers at the earliest possible moment, bearing in mind that we consider our amended request on lumber of vital importance.

Since our proposals as outlined above represent a last effort to bring these negotiations to a successful conclusion and the occasion is therefore one of unusual importance, we consider it advisable and appropriate for you to ask the foreign minister to go with you to the President in order that you may lay our position before both of them. In this way it is believed the appearance of going over Cantilo's head could be avoided.

You should request a prompt decision by the Argentine Government in the premises as it is indispensable that an agreement be signed or public announcement of the termination of the negotiations be issued at the earliest possible moment. If the Argentine reply should be unfavorable you should proceed immediately to discuss the issuance of an explanatory public statement along the lines indicated to you on the telephone Saturday.

HULL

611.3531/1441 : Telegram

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

BUENOS AIRES, January 2, 1940—8 p. m.

[Received 11 : 36 p. m.]

3. Department's telegram 291, December 31, 10 p. m. I handed a formal note based upon the Department's telegram under reference

together with a memorandum commenting on the Argentine note of December 30 to the Foreign Minister this evening. The real value of our offers, their finality, and the time element were stressed. A copy of the draft joint statement in the event of failure the negotiations was also handed to Cantilo.

The Foreign Minister's attitude was not encouraging but he stated that immediate consideration would be given to our latest proposals and that they would be taken up at once with President Ortiz who, he said was taking an active interest in the negotiations. This gave me an opportunity to suggest to Cantilo that I should like to go with him to see the President with a view to assuring him personally that we have made every effort to make an agreement possible. The Foreign Minister appeared to react favorably to this suggestion, but he said that it was important that the President should first have had an opportunity to study our proposals.

Although a definite appointment with the President was not arranged I again stressed the time element and think it probable that it will be arranged for tomorrow.

ARMOUR

611.3531/1441 : Telegram

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

WASHINGTON, January 2, 1940—8 p. m.

1. Confirming views expressed to you on the telephone this morning, the situation seems to us to be as follows:

The Argentines insist that they cannot accept the sort of general provisions we want on the basis of our Schedule II offers. Furthermore, they take the position that, while they are willing to accord us genuinely non-discriminatory treatment, the quota and exchange articles which we are insisting upon are far too rigid and do not allow for any flexibility if they get into real exchange difficulties.

Our position on the two articles in question, as it has been presented to the Argentines to date, is as follows: On exchange, first, we have agreed to give up the requirement of a single exchange rate. This recession subjects us to the danger of impairment of tariff concessions by special rates, but the Argentines insist that they will not use this measure of flexibility in such a way as to impair the concessions. The freedom of action which Argentina has obtained in this regard does not therefore permit her to take action which materially affects the exchange situation. Second, we have agreed that there may be delays in transfers. Even with clause (b) on a like article basis, we do not believe that there would in practice be much flexibility so far as allocation is concerned, since we interpret this clause to require prompt and complete coverage for any article of United States origin if such treat-

ment is accorded the like article originating in any third country, and we consider it highly unlikely that Argentina would block payments to the United Kingdom.

Clause (a) as it now stands represents an obligation to provide in principle complete coverage in free exchange for all imports, but it does not make any provision as to the time within which exchange must be provided. It does prevent the application of a compensation requirement or a requirement that funds be invested in the importing country.

With reference to quotas, we have previously insisted that the base period be any two consecutive years in the period 1930 to 1937 without exception.

The only flexibility which our previous proposals permit is contained in Article XII. If either Government considered that circumstances had arisen which had the effect of nullifying or impairing any object of the agreement or of injuring its industries or commerce, or if it considered that any action taken by the other Government had either of these effects, this article provides broadly two types of remedy. First, in cases where action by the other Government is in question, it can make representations and, if it does not obtain satisfaction, terminate the agreement. For example, this remedy would be available to us if Argentina were to use differential exchange rates in such a way as to impair a concession. Second, and this is particularly of interest to Argentina, if the case involved circumstances beyond the control of either Government, the Government which considered itself injured might wish to seek the relaxation of other provisions of the agreement. For example, Argentina might propose to us the temporary suspension of particular provisions of the agreement or the adoption of some interim arrangement inconsistent with the provisions of the agreement. If we did not agree to the Argentine proposals, Argentina could terminate the agreement.

Article XII does not in our view authorize deviation from the provisions of the agreement except by mutual consent.

In view of the general position, as outlined above, we have felt that the only way in which we can do anything to meet the Argentine viewpoint is to give them some provision under which they would have greater freedom of action. Our latest proposals are designed to do this. However, since we feel that we have already gone very far in meeting their viewpoint, we must reserve the right to take whatever action may be necessary to protect our interests should Argentina abuse this flexibility.

HULL

611.3531/1447 : Telegram

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

BUENOS AIRES, January 5, 1940—9 p. m.

[Received 11 p. m.]

9. Confirming my conversation by telephone with Hawkins I had my talk with the President this afternoon. The Foreign Minister was also present. Neither the President nor Cantilo had a formal reply ready to our note of January 2 (I understand this will be ready Monday). The President explained in some detail why it was not possible to accept any form of quotas: in other words, our last proposals had not changed the situation. The President used very much the same arguments as those expressed in the various notes and in conversations with other officials that he did not feel what we were prepared to offer would justify their giving up their present system of import control or give them sufficient opportunity for trade expansion.

The President said that there appeared to be a wide misconception in the United States as to the danger offered to American products by competing Argentine products, exports of which he insisted could never seriously threaten our markets. He seemed to feel that the acceptance by Argentina of quotas would tend to confirm this impression that Argentine products could constitute serious competition.

The President hoped that at some later more auspicious occasion when perhaps world conditions were more settled we might approach the situation again and reach a solution which he felt most important from every point of view. The atmosphere was most friendly and he stressed that in the meantime this temporary check must not be permitted in any way to affect our relations which had never been more cordial.

The President agreed to the issuance of a joint communiqué announcing the termination of the negotiations which the Foreign Minister is now preparing using our draft as a basis but making certain changes in the reasons why the Argentine Government found it impossible to accept our proposals.

In my presence the President told Cantilo that he felt that any further statement issued by the Argentine Government summarizing the negotiations should be brief and not go into detail as to individual offers, et cetera.

ARMOUR

611.3531/1488

*Press Release Issued by the Department of State, January 8, 1940*⁴³

JOINT STATEMENT BY THE GOVERNMENTS OF THE UNITED STATES AND
ARGENTINA

In the reciprocal trade negotiations between the Governments of the United States and Argentina, notwithstanding the efforts of both parties, it has not been found possible to reach a satisfactory basis to permit the conclusion of an agreement, and the two Governments have agreed to terminate them.

In effect the Argentine Government on the one hand has not been able to admit that concessions to be obtained from the United States for their typical regular export products to that country, such as linseed and canned beef, among others, should be restricted through the acceptance of a system of customs quotas which would tend to limit the possibility of expanding its shipments of said products to that country. At the same time it has not been possible to accede to the adoption of commitments considered incompatible with an adequate financial policy and of the defense of the currency.

On the other hand, the Government of the United States, in accordance with its policy as invariably applied in the 22 agreements already negotiated, of not exposing domestic producers to material injury in the process of promoting healthy international trade through reciprocal concessions, has felt obliged to insist on limitations of the kind referred to above with respect to certain commodities.

This divergence between the two Governments is recognized by both in the same frank and friendly spirit which has characterized the whole negotiations.

611.3531/1496

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

No. 437

BUENOS AIRES, January 29, 1940.

[Received February 9.]

SIR: In connection with the termination of the trade-agreement negotiations with the Argentine Government, I have the honor to submit certain observations of a somewhat general and background nature as to the causes which in my opinion contributed to the failure to reach an agreement.

⁴³ On January 5, 1940, the Department issued a preliminary statement saying that trade agreement negotiations between the United States and Argentina had broken down and that an official statement by the two Governments would be issued early the next week.

CONDITIONS PREVAILING IN THE TWO COUNTRIES AT THE TIME THE
OFFICIAL NEGOTIATIONS WERE INITIATED

As the Embassy has reported in various despatches, the situation so far as Argentina was concerned seemed particularly favorable for the opening of negotiations when in August last the decision was reached to proceed. The Foreign Minister, Dr. Cantilo, having perhaps profited by the lesson of the Lima Conference and the unfavorable reaction in this country to his somewhat cavalier attitude and obstructionist tactics on that occasion, seemed anxious to show his conversion to the inter-American program. The Patagonian incident last April,⁴⁴ bringing into relief Nazi tactics in Argentina, doubtless contributed toward this change in front on the part of the Foreign Minister, whose years as Ambassador at Rome had left him somewhat under the spell of the totalitarian doctrines. A trade agreement with the United States, aside from contributing to Dr. Cantilo's personal prestige, would have been the best proof of his entry into the Pan American fold.

As to the President, Dr. Ortiz in his speech at the opening of the Argentine Congress last May, had gone on record as favoring multi-lateral as opposed to the bilateral principles in trade relations, insisting that only circumstances beyond his Government's control had forced Argentina into acceptance of the latter system, but that when conditions permitted they would return to the freer method. Furthermore, there were clear indications from the internal political aspect that the President desired closer relations with the powerful Radical Party and that he was determined to accord increasing recognition to that party's numerical strength in the country. Here again, a trade agreement with the United States would be a clear indication of his Government's liberal tendencies and a move calculated to gain the support of the Radicals, whose sympathy for the United States had never been concealed.

Unfortunately, while the passage of time so far as Argentina was concerned seemed to be working in favor of the opening of the negotiations, in our own country the opposite was the case. The production in the United States of linseed, the principal product shipped by Argentina to the United States and on which Argentina relied in large measure to gain its dollar exchange, had in the past year or so increased greatly and measures for protection of the local industry now seemed necessary, where previously no such restrictions would, presumably, have been considered essential. Furthermore, the necessity of awaiting the closing of our Congress, which was delayed until July, 1939, before announcing the opening of negotiations, and the further necessity of reaching an agreement before the opening of the next session

⁴⁴ The alleged German designs on Patagonia.

in January, left comparatively little time in which to negotiate, particularly when one took into account the somewhat protracted procedure called for under the Trade Agreements Act. As later events proved, this time element was one of the principal factors contributing to the failure of the negotiations.

THE ROLE OF THE CENTRAL BANK

From the beginning it was evident that if the negotiations were to succeed, this would depend, so far as Argentina was concerned, largely upon how far higher officials here, notably the President and Foreign Minister, took matters into their own hands and out of the hands of certain functionaries, particularly of the Central Bank, headed by Dr. Raúl Prebisch, whose influence in the past had always been directed against any change in the existing procedure of exchange control and bilateralism.

In my first meeting with Dr. Ortiz, confirmed in later conversations, I was encouraged to believe that the President was determined to take charge of the negotiations himself, or in any case to see to it that a narrower, technical point of view of a prejudicial nature should not prevail. However, these hopes did not prove to be justified, and there is reason to believe that Dr. Prebisch's strong influence, more particularly his apparent insistence upon the bilateral test of trade balancing being applied as the *sine qua non*, was a very important factor in bringing about the failure.

I have little doubt in my own mind that, from the beginning, Dr. Prebisch was skeptical as to the possibility, if not actually opposed to the idea, of a trade agreement with the United States. If he finally gave his consent to the attempt, it was doubtless with the understanding that the *quid pro quo* offered would have to be a high one and sufficient to balance the trade between the two countries following the increase in imports from the United States that would result from the removal of the existing discriminatory measures. In other words, Dr. Prebisch was envisaging the continuance of the old policy of bilateral balancing of trade. Again and again in the negotiations and even in the final communiqué announcing the failure, this point of view of Dr. Prebisch was ever to the front.

I have no desire to be unfair to Dr. Prebisch who, I am convinced, has what he considers to be the best interests of his country at heart and who has undoubtedly acted in accordance with his convictions. His background is almost entirely European. He very possibly feels (and it is a feeling that, frankly, I have seen reflected among officials of other countries, notably, in Canada during our trade-agreement negotiations there) that, even admitting the possibility of increasing exports to the American market, there is no assurance of permanence

of that market, particularly with the Trade Agreements Act subject to renewal by Congress every three years. Dr. Prebisch's reasoning very probably followed these lines—if the price offered for the agreement was high, the Argentine Government might do well to consider such an agreement, but before doing so it should make sure that Argentina would not lose markets which it already had and which, barring unforeseen incidents, should be left open to it on a permanent basis. While one may not admit his premise as correct or agree with the reasoning, one must concede Dr. Prebisch's right to hold honest convictions.

Unfortunately, Dr. Prebisch is not only a man holding strong views himself, but also an able person who is in a position to impress those views upon others, as became more and more evident as the negotiations progressed. Dr. Alfredo Louro, head of the Exchange Control Office and generally considered a fair-minded and honest official, apparently well disposed toward the United States and thought to be sincerely desirous of seeing an agreement reached, nevertheless was evidently never free of the influence of Prebisch's stronger character; not to mention the fact that he probably had also his own personal future to consider. Dr. Torriani, the Foreign Office representative on the Subcommittee, very obviously, as time went on, reflected more and more the views of the Central Bank and was able to impress these on the Foreign Minister. Dr. Cantilo, I am convinced for reasons stated earlier in this despatch, really desired to see an agreement reached. On the other hand, he had little grasp of the details of the negotiations and the issues at stake, which made it extremely difficult to discuss questions with him and I soon found out that Dr. Torriani's views were being accepted, apparently without question, by Dr. Cantilo.

Finally, there was Dr. Irigoyen,⁴⁵ and here the conversion to the Prebisch view-point was as complete as it was perhaps unexpected. Dr. Irigoyen when he arrived from Washington early in August seemed reasonably objective in his attitude. He appeared to see both sides; to understand our difficulties and to be anxious and willing to act as interpreter of them to the members of his own delegation. There was reason to believe, too, that he felt then that the conclusion of an agreement would be an important feather in his cap and would favorably serve his career. And yet, before the negotiations ended, it is doubtful whether Dr. Prebisch himself was more adamant in his demands or more insistent that acceptance of the Argentine view-point, particularly on quotas, was necessary for any agreement. In fact, as I reported to the Department (telegram no. 273, December 12, 6 p.m.⁴⁶),

⁴⁵ C. Alonso Irigoyen, Financial Counselor, Argentine Embassy.

⁴⁶ Not printed.

Dr. Irigoyen in one of his last talks with me stated that, at the President's request, he was preparing a statement on the course of the negotiations for Dr. Ortiz and intended to recommend that unless the quota on linseed were removed there should be no agreement. He made good his boast.

THE BRITISH FACTOR: BLOCKED STERLING

The declaration of war in Europe shortly after the opening of the negotiations was certainly a factor which cannot be overlooked in discussing the causes leading to the failure, for it undoubtedly introduced a new and complicating element. First of all, it soon became apparent that, at least for the duration of the war, Argentina would have to look to the United States as a market for many of the products it had been accustomed to find in Europe, notably in the belligerent countries. This meant, of course, finding somewhere more dollar exchange for its increased purchases from the United States, which could be accomplished only in three ways: (1) through increased exports to the United States; (2) by using favorable balances resulting from its exports to European and other countries, notably Great Britain and France, and (3) through loans or credits either from the Export-Import Bank, or private banking sources in the United States.

That the British did not intend to lose Argentina as a market for their goods early became apparent. On his return from Great Britain during the early part of our negotiations, the President of the local British Chamber of Commerce, Major William A. McCallum, made an emphatic statement to the effect that Great Britain intended to continue to retain Argentina as a market and that the local British representatives could count on full support of their Government to that end.

The course for Argentina to pursue seemed clearly indicated. It was in a strong position. More than ever the British needed Argentine meat and wheat, particularly the former. While Argentina would naturally continue to purchase what it required from England and what England was in a position to supply, it seemed only reasonable that it should be free to use the balance over and above such purchases elsewhere, notably in the United States. How far the Argentine Government pressed its case in this respect is difficult to say. It is known that some form of temporary agreement on sterling blockage was signed, to expire on January 23, 1940. An official of the British Embassy made the statement to a member of the Embassy staff on September 21 that the Argentine Government (perhaps meaning the Central Bank) had itself suggested the idea to the British Government of blocking sterling balances. As the Department is aware, at one point in the negotiations the possibility of securing our assistance in endeavoring to persuade the British Government to take a more liberal view in the matter was discussed informally with certain members of the Argentine Subcommittee. It was in fact

suggested by one of the Argentine delegates that we ask the Central Bank for details as to the status of its agreement with the British and this request was informally made, but no answer was ever received. The Department's intervention with the British Government was also proposed by the Embassy (see Embassy's telegrams no. 216 of November 3, 3 p. m., no. 230 of November 21, 10 a. m., and no. 253 of December 4, 8 p. m.⁴⁷), but for reasons undoubtedly sound, the Department thought it best to restrict its representations to a request through the Embassy at London for information as to the status of the situation. The reply from London, it will be remembered (transmitted to this Embassy in the Department's telegram no. 223 of November 18, 4 p. m.⁴⁸), while of a somewhat negative nature so far as the British Government was concerned, indicated that Argentina's position, if the country wished to take advantage of it, was a strong one.

In any case, the alleged inability to secure free exchange from the British undoubtedly was used by Dr. Prebisch as a strong argument with his own Government justifying insistence upon the maximum tariff concessions from the United States.

While there is no reason to believe that the British Government officially or even indirectly did anything affirmatively to prevent an agreement between Argentina and ourselves from being reached, the fact that it failed to commit itself as to the future regarding the action it proposed to take on such sterling balances as might result from its large purchases in Argentina was certainly an important factor. Nor can there be overlooked the arrival in Buenos Aires of a Director of the Bank of England, Mr. Guy Watson, on November 20, during the negotiations, and the fact that he is reported to have been given a desk in the Central Bank here and to have been consulted on all occasions by Dr. Prebisch (see Embassy's telegram no. 16, January 10, 6 p. m.⁴⁸). This factor seems the more significant when one considers that it was about that time that the Argentine delegation, or those members of it most closely associated with Dr. Prebisch, first began to show signs of pessimism as to the possibility of our negotiations being brought to a successful conclusion—a pessimism shortly reflected in the view-point of the Foreign Minister himself. Finally, mention must be made of the now-famous exchange-control circular and the oral explanatory statement of Dr. Louro, reported in *La Nación* the day following.

So much for personalities and background. I have gone into some detail as it seems important for the future that the Department should have as complete a picture as possible of the personalities with whom we have had to deal; and presumably will have to deal in the

⁴⁷ None printed.

⁴⁸ Not printed.

event that, at some later date, another attempt to reach an agreement is made.

OUR SCHEDULE II OFFERS

As to the more immediate and direct causes of the failure to reach an agreement, these can be discussed in a few paragraphs. Our Schedule II offers when first presented on November 15 received a fairly good reception by the Argentine Subcommittee. There is little doubt that the Argentines considered them a first offer: that we would be prepared to go much further. The Latin American, perhaps particularly the Argentine, has a good deal of the Chinaman in his makeup. When it became evident that we were not prepared to make important improvements they were apparently genuinely surprised, almost to the point of indignation. Not only were we not prepared to make further concessions—sufficiently important in their view—but our original Schedule II offer as regards canned beef, one of the most important commodities, was later changed by the imposition of a quota—coupled, to be sure, with a reduction in the ad valorem duty from 30% to 20%.

To make matters more difficult for our negotiators, there was the time element. In the Department's telegram no. 231 of November 29, 6 p. m. the Embassy was instructed to make it clear to the Argentine negotiators that our position was not a bargaining one, and that any effort on their part to maintain what appeared to us to be an extreme bargaining position could only result in unnecessary delay; furthermore, that a decision on their part regarding our offers would have to be made promptly. This point of view was presented to the Argentine Government in a note to the Foreign Office, and, although the language employed was as tactfully worded as possible, I feel that it was from about this time that the atmosphere changed from a friendly and optimistic one to one of aloofness and pessimism. In fact, it was shortly after receipt of this note that it became impossible to arrange further meetings for our Subcommittee with the Argentine Subcommittee, and from then on negotiations had perforce to be conducted through notes and memoranda. In my last talk with the President, Dr. Ortiz mentioned early December (a date more or less coinciding with the delivery of the Embassy's note) as the period when he felt the cordial atmosphere that had hitherto prevailed in our negotiations changed to one of haste and pressure. The Latin American does not understand the need for hurry. He interprets it as an attempt to put pressure on him. From the beginning of the negotiations we had all done our best to make it clear to the Argentines how essential it was that negotiations should be completed before Christmas, in other words, before the re-convening of Congress. They professed to understand; but looking back, it seems doubtful whether they fully appreciated this point.

To return to the question of canned beef, from the tactical point of view, so to speak, the imposition of a quota on that product added greatly to our difficulties here. As the Department is aware, canned beef, of all products on the Argentine list, is the most controversial one, politically at any rate, in Argentina, as bringing back unhappy memories of the unratified sanitary convention and the "canned beef for the Navy" controversy. It also furnished further justification for those in favor of rejecting our proposals on the ground of the quota on linseed. Had the Argentine Government been forced to base its refusal on the linseed quota alone this might have been a more difficult thesis to maintain, but in being able to join to this a quota on canned beef it was enabled not only to rally the support of other members of its representation, but to present its case in a more logical light to the public, as it began to do even prior to the termination of the negotiations and as it has continued to do.

However, even admitting the above, had the Department felt justified in removing the quota on linseed, this concession might, and probably would, have still made an agreement possible. A quota on linseed had of course been included in our original Schedule II offers, but as already stated, this product, above all others, was relied upon by the Argentines to furnish their dollar exchange. Dr. Alberto Bonfante, following the termination of the negotiations, suggested that had we raised the linseed quota to 15,000,000 bushels this even might have been enough. Such an increased offer, however, would had to have been submitted with sufficient time for the Argentine Government to consider it adequately and to realize that we had really gone as far as we intended to go.

THE TIME ELEMENT

Referring again to the time element, I should be lacking in frankness were I not to stress the unfortunate effect of this factor. It will be remembered that our last note to the Argentine Government, insisting that we could go no further in our offers, was delivered on the night of January 2. This reply required—or the Argentine Government considered that it required—a reply formally to conclude the negotiations one way or the other. I was informed that the Department must have a definite reply not later than January 5, either orally or in writing. Every attempt was made by Dr. Cantilo to arrange to have this reply ready to be delivered to me when I saw the President on January 5. This was found to be impossible, however, and in my final talk with the President and Dr. Cantilo I was orally informed that they would be unable to recede from their position in insistence upon removal of the quotas on linseed and canned beef. In announcing the breaking-off of the negotiations immediately following this interview, Dr. Cantilo referred to them as being merely suspended

until the international situation cleared, and the following day President Ortiz made a statement more or less to the same effect. I believe that the wording used by the President and the Foreign Minister was merely what they considered the amenities of the occasion required. When, therefore, the Department instructed me to insist that in the joint communiqué not only must the negotiations be referred to as terminated, but also the words "with no plan or understanding as to their renewal" be added, both the President and Dr. Cantilo, I fear, interpreted this as unnecessarily abrupt and even ungracious. In fact, Dr. Cantilo told me so in as many words. The Department later consented to the elimination of the additional phrase referred to, but I fear that much of the harm had been done. Again, I would not wish to give the impression of not understanding the extremely difficult position in which the Administration at home found itself. But this is intended as an objective report, and I am merely recording what I feel to be the impression created. To be sure, it is quite possible that, as the internal political situation at home made it imperative that no grounds for belief should be given that the negotiations were merely suspended for the time being, President Ortiz and the Government here for internal political reasons also were reluctant to give the impression that the negotiations were definitely terminated, not to be reopened at some later date. If this is true, then it is, perhaps, a hopeful sign as to the possibilities for the future, should another attempt to reach an agreement be made.

As I note that a memorandum of my last conversation with the President, summarized in the Embassy's telegram no. 9 of January 5, 9 p. m., has not been forwarded to the Department, I am sending it herewith as an enclosure ⁵⁰ to this despatch.

Respectfully yours,

NORMAN ARMOUR

AGREEMENT BETWEEN THE UNITED STATES AND ARGENTINA PROVIDING FOR MILITARY AVIATION INSTRUCTORS, SIGNED SEPTEMBER 12, 1939

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 161, or 54 Stat. 1813.]

⁵⁰ Not printed.

BOLIVIA

CONTINUATION BY THE UNITED STATES OF NORMAL RELATIONS WITH CHANGING BOLIVIAN GOVERNMENT

824.00/906 : Telegram

The Chargé in Bolivia (Prendergast) to the Secretary of State

LA PAZ, April 24, 1939—2 p. m.

[Received 3:03 p. m.]

16. In a lengthy official manifesto just published in afternoon press President Busch announces his assumption of complete power in the State and promises a government of "energy and discipline."

PRENDERGAST

824.00/907 : Telegram

The Chargé in Bolivia (Prendergast) to the Secretary of State

LA PAZ, April 25, 1939—10 a. m.

[Received 10:34 a. m.]

17. My telegram No. 16, April 24, 2 p. m. Cabinet remains unchanged. Congress dissolved. Everything quiet here.

PRENDERGAST

824.00/913

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

[WASHINGTON,] April 26, 1939.

The Bolivian Minister¹ called to see me this afternoon. The Minister stated that he had been considerably disturbed by the nature of the first press reports which had come up from South America with regard to the change of government in Bolivia recently decreed by President Busch. The Minister said that these articles had referred to the new form of government installed as "totalitarian", and that this gave a completely erroneous impression to the average American citizen. He said that he had given yesterday a statement to the press in clarification of the situation, and that his statement has been reinforced today

¹ Luis Fernando Guachalla.

by an official statement issued by the President of Bolivia to the effect that there was not the slightest sympathy on the part of the Bolivian people nor on the part of the Bolivian Government with either Nazi or Fascist ideology, and that the change of government had been undertaken solely for domestic reasons.

I said to the Minister that I greatly appreciated his clarification and that I was glad to see this morning that the press reports gave an entirely different coloring from that which they contained yesterday. I said that of course it was regrettable that the first reports had been of this character because the editorials which had now been published on the change of government were all of them based on the original reports and the effect on public opinion was naturally disquieting.

The Minister explained to me at some length what he considered were the real reasons for the change of government. He said that when he had recently been in Bolivia he had learned that the three classic political parties of Bolivia—the Liberal Party and the two factions of the Republican Party—had reached a common alignment for the purpose of retaining the present Congress in power and of modifying the Constitution through the agency of the present Congress. . . . At the same time, the Minister said, there were certain influences at work within the Army trying to persuade President Busch to set up a dictatorial government composed solely of Army officers similar to the type of government in power during the last years of the Chaco war.

The Minister said that either of these two tendencies would inevitably, if successful, be highly prejudicial to the best interests of the Bolivian people, and he was hopeful that President Busch would adopt a middle course and hold fair national elections in the near future, as he had now publicly announced he would do, and that as a result of these elections the Government would obtain a reasonable measure of support but would at the same time have within the Congress a healthy opposition which would tend to ensure a return to civil rather than military government.

The Minister further stated that he considered the retention of the previous Cabinet in office a healthy sign, and that he was personally very much disturbed by the announcement that certain basic decree laws would be promulgated which would modify very greatly the traditional form of constitutional government of Bolivia. He said that he had asked for information on this point by cable from La Paz and that he wished me to know that if he found that such was really the intention of the present Bolivian Government, he would find it necessary to return at once to La Paz and if he could not succeed in

changing that decision he would be forced to resign his position as Minister here.

The Minister also stated that in the alignment of the three political parties, of which he had previously spoken, one of the chief planks was a violent attack against the Bolivian Government for the peace treaty² entered into with Paraguay. In other words, the political parties were making capital out of the peace treaty between Bolivia and Paraguay, urging revision of the treaty so that Bolivia would obtain more than she had obtained through the treaty. The Minister stated that of course this would be utterly fatal to any progressive rehabilitation of Bolivia both in the economic sense as well as in the international sense, and that if such a policy were pursued he would of course oppose it with all the means within his power.

S[UMNER] W[ELLES]

824.00/908

Memorandum by Messrs. George S. Knight and Richard W. Flournoy, of the Office of the Legal Adviser, to the Legal Adviser (Hackworth)

[WASHINGTON,] May 3, 1939.

MR. HACKWORTH: It is gathered from the memorandum of April 29, 1939,³ prepared in RA,⁴ that Señor Busch still bears the title of President of Bolivia. Also, it is noted that President Busch's Cabinet remains unchanged. Apparently the main change in the Bolivian form of government is that President Busch has assumed "complete power in the state" and has dissolved the Bolivian Congress. That is to say, President Busch is still the head of the Bolivian Government but has taken to himself more extensive governmental power than he had formerly.

In the somewhat analogous case which recently arose in Brazil,⁵ President Vargas, before his term of office expired, abrogated the Brazilian Constitution and proclaimed a new Constitution by which he was to continue in office subject to a plebiscite at some undetermined date. In your memorandum of January 7, 1938,⁶ you said:

"As I understand the situation with respect to political changes that have taken place in Brazil, no occasion arises for extending recognition to the present government. It seems to me that the question whether the abrogation of the former Constitution and the promulgation of a new one, and the continuance of President Vargas in

² Signed at Buenos Aires July 21, 1938, Bolivia, *Colección de Tratados Vigentes de la República de Bolivia*, vol. v, p. 331.

³ Not printed.

⁴ Division of the American Republics.

⁵ See *Foreign Relations*, 1937, vol. v, pp. 312 ff.

⁶ *Ibid.*, p. 315.

office under the new Constitution have been brought about by appropriate processes is a matter primarily for consideration by that country and its people. The situation is not analogous to that presented where the recognized government has been ousted by a *coup d'état* or revolution and a new régime set up contrary to constitutional methods."

In a memorandum prepared by you on January 11, 1938,¹ it was concluded that:

"1. Where a new régime is established through a *coup d'état* or revolution, some form of recognition is necessary. It may, of course, take the form of our treating with the government in the regular way or some more formal act.

"2. A formal act of recognition is not required where the existing government has executed a *coup d'état* displacing the Constitution by a new one or setting it aside. If that government has already been recognized by us it will continue to be so recognized by the mere continuance of our relations with it."

From the facts of the Bolivian case, as heretofore presented, there would apparently be no cause for this Government to go through any formal act of recognition. As in the Brazilian case, the continuance of our relations with the Bolivian Government will, it is believed, amount to a continuance of recognition of the present régime in Bolivia. The terms "recognize" and "recognition" are used in two senses with regard to foreign governments: (1) with reference to an act or declaration indicating an intention to deal with a completely new régime as the government of a state, and (2) an act or series of acts indicating an intention to continue to deal with a government already recognized. While considerable changes in the Government of Bolivia were recently made by President Busch, it seems reasonable to hold that the Government now in control is a continuation of the Government which was carried on under him before the *coup d'état*, especially in view of the fact that his cabinet has not been changed.

824.00/908

Memorandum by the Chief of the Division of the American Republics (Duggan) to the Legal Adviser (Hackworth)

[WASHINGTON,] May 11, 1939.

MR. HACKWORTH: With further reference to our exchange of memoranda concerning recognition and at the risk of imposing a hypothetical question, may I inquire your opinion as to whether an act or a series of acts as set forth in the last page of your memorandum of May 3 would be necessary in case a president were not only to dismiss the congress and annul the constitution, but to set up an entirely new regime upon totally different concepts.

¹ *Foreign Relations, 1937*, vol. v, p. 316.

In other words, what I am striving to find out is whether in case of a change in regime which, while not changing the president, resulted in a switch let us say from a democratic government to a totalitarian government, would recognition be necessary or unnecessary? Is there a line that can be drawn between changes in government which appear to be a continuation of the previous government and a change of government in which, while the president may remain the same, the whole bases of the political, economic and social structure of the country are altered?

LAURENCE DUGGAN

824.00/908

Memorandum by the Legal Adviser (Hackworth) to the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] May 16, 1939.

MR. DUGGAN: A change in the form of government of a foreign state brought about in the manner suggested in your memorandum would not require any formal act of recognition on our part. On the contrary, some positive act on our part would be necessary in order to avoid the implication of recognition through non-action by us; that is to say, if we did not desire to have relations with the government under the new régime, it would be necessary to indicate our attitude by refusing to treat with it through normal diplomatic channels.

Since we established relations with Germany following the World War,⁸ the government of that country has undergone marked political changes—changes as radical as those suggested in your memorandum—but the question of recognition by the United States has not arisen. We merely accepted the situation as it developed and continued to deal with the German Government. This would seem to be a close analogy to the situation referred to by you.

GREEN H. HACKWORTH

824.001 Busch, German/10: Telegram

The Minister in Bolivia (Dawson) to the Secretary of State

LA PAZ, August 23, 1939—10 a. m.

[Received 2:25 p. m.]

51. President Busch shot himself mortally early this morning and is expected to die within hours. Leading Army officers and Cabinet members are conferring as to succession and it seems doubtful that Vice President will be allowed to succeed, probability being military

⁸ See *Foreign Relations*, 1921, vol. II, pp. 1 ff.

government. Telephone service cut off and strict press and telegraph censorship imposed. Disturbances may be expected later although city is quiet.

DAWSON

824.001 Busch, German/11: Telegram

The Minister in Bolivia (Dawson) to the Secretary of State

LA PAZ, August 23, 1939—6 p. m.

[Received 6:53 p. m.]

52. Referring to the Legation's telegram of August 23, 10 a. m., the President died this afternoon.

General Carlos Quintanilla, Commander-in-Chief of the Army has assumed executive powers as Provisional President with backing of Cabinet which will be retained.

Great excitement exists but there have been no disturbances in the city.

DAWSON

824.001 Quintanilla, Carlos/1: Telegram

The Minister in Bolivia (Dawson) to the Secretary of State

LA PAZ, August 25, 1939—3 p. m.

[Received August 26—12:11 a. m.]

53. In proclamation assuming office Quintanilla announced that he did so "by the will of the Armed Forces and with the unanimous approval of the members of the Cabinet". While under the Constitution the Vice President should succeed, Busch retained that document in effect only in so far as it did not interfere with his dictatorial powers. Vice President apparently has taken no active steps to claim Presidency and Quintanilla seems to have support of army and country under control, no disturbances having been reported.

In the absence of Congress the Cabinet was the only organized political body in Bolivia. Since the new Government is a dictatorship taking over from the old one with the support of the same elements it is my opinion that relations with it should continue without any necessity for *de jure* or *de facto* recognition but I should appreciate instructions from the Department on this point.

Cabinet has resigned "to leave President free to choose his collaborators". I am informed in strict confidence that new Cabinet will be composed of four generals and six civilians, Ministries of Health and Propaganda being abolished. Four of old Cabinet retained. Appointments of particular interest are Ostria Gutierrez as Minister of Foreign Affairs and General Rivera now Minister of War as Minister

of Mines and Petroleum. Poumont remains as Minister of Finance as sop to Leftist elements but probably only for a short period.

DAWSON

824.00/946 : Telegram

The Secretary of State to the Minister in Bolivia (Dawson)

WASHINGTON, August 26, 1939—5 p. m.

24. Your no. 53, August 25, 3 p. m. While the Department has noted that the new Government does not appear to differ materially in form from that of Busch, it is not clear whether its policies will be the same. The substance of any formal statements concerning policy should immediately be telegraphed to the Department, together with your comments. In the absence of further information I believe a decision whether the question of recognition is involved would be premature; what is the attitude of other governments in that connection?

Have the circumstances surrounding the death of Busch been clarified?

The Bolivian Minister has informed the Department that Foianini⁹ and Herrero¹⁰ would leave Miami this morning by air for Bolivia.

HULL

824.00/947 : Telegram

The Minister in Bolivia (Dawson) to the Secretary of State

LA PAZ, August 27, 1939—5 p. m.

[Received 6 : 37 p. m.]

54. Department's telegram No. 24, August 26, 5 p. m. In his proclamation assuming Provisional Presidency August 23 Quintanilla stated "My government will continue the social and economic policies and courses of the government of Colonel Busch". From the changes in the Cabinet and his own tendencies it is the Legation's opinion that the new Government will probably be more conservative.

Representatives of A.B.C. nations¹¹ Great Britain, Germany, Japan and most other governments are continuing normal relations with the Provisional Government. Only contrary attitude appears to be that of French Minister who has no instructions but says that he will recommend against recognition of Quintanilla.

There appears to be little doubt that Busch committed suicide in a state of melancholia to which he was subject.

New Cabinet took oath of office yesterday afternoon. Composition as indicated in my telegram No. 53, August 25, 3 p. m. except that it has 11 members, 6 retained. Foianini and Herrero not in Cabinet.

DAWSON

⁹ Dionisio Foianini, Bolivian Minister for Mines and Petroleum.

¹⁰ Luis Herrero, Bolivian Minister for Industry and Commerce.

¹¹ Argentina, Brazil, and Chile.

824.00/958

Memorandum by Mr. Andrew E. Donovan of the Division of the American Republics to the Assistant Chief of the Division (Briggs)

[WASHINGTON,] August 28, 1939.

MR. BRIGGS: While I believe that the question of recognition does come up in the present case in Bolivia, it might be prudent, in view of the world situation, simply to continue relations with the Quintanilla government. When Busch took over the government on April 24, 1939 and dissolved the Congress, he was the constitutionally elected president and it was decided that the question of recognition was not involved. However, in the present case, if the constitution should be in effect the Vice President, Enrique Baldovino, would normally become President. Since he did not and since Quintanilla announced that he assumed office "by the will of the armed forces and with the unanimous approval of the members of the Cabinet", there appears to have been a definite break in . . . normal procedure . . . in Bolivia.

The true nature of the new Government is difficult to judge as Quintanilla is strongly pro-German but the return of Ostria Gutiérrez to the Cabinet is encouraging as the Legation had reported that his resignation was motivated not only by his disagreement with the nationalization of the Central Bank "but also by his lack of sympathy with the general policies of the Government, somewhat too radical for a middle-of-the-roader of his tendencies" (despatch no. 595, August 4¹²). . . .

I have therefore drafted the attached telegram¹³ to La Paz to continue relations with the Quintanilla government.

824.00/947: Telegram

The Secretary of State to the Minister in Bolivia (Dawson)

WASHINGTON, August 28, 1939—6 p. m.

25. Your 54, August 27, 5 p. m. The Department is of the opinion that no issue of recognition need arise. You should therefore continue normal relations with the Bolivian Government.

HULL

¹² Not printed.

¹³ *Infra*.

824.00/948 : Telegram

The Minister in Bolivia (Dawson) to the Secretary of State

LA PAZ, August 28, 1939—8 p. m.

[Received 10:35 p. m.]

55. The Legation's telegram number 54, August 27, 5 p. m. British Minister has now received instructions to take no action at present tending to recognize Provisional Government.

New Minister of Foreign Affairs is inviting Chiefs of Mission to meet him at 5 p. m. tomorrow. It is my interpretation that I should not attend in view of Department's 24, August 26, 5 p. m.

Manifesto of Baldovieso claiming Presidency is circulating today but I do not believe he has any chance of assuming power. General unpopularity of and pressure on Quintanilla is such, however, that it seems likely he will resign shortly and be replaced by Bilbao, Commander-in-Chief and strongest man in the army.

DAWSON

824.00/948 : Telegram

The Secretary of State to the Minister in Bolivia (Dawson)

WASHINGTON, August 29, 1939—2 p. m.

26. Department's 25 and your 55. The Department perceives no objection to your attending today's meeting with the Foreign Minister.

HULL

824.00/949 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, August 31, 1939—5 p. m.

[Received 3:42 p. m.]

279. The Minister for Foreign Affairs showed me this morning a telegram from his Legation at La Paz recommending that normal relations be continued with the Bolivian Government and that the question of recognition be not raised. Aranha observed that it was his intention to adopt that course and he remarked that he hoped that the Department of State would not raise a question of recognition either but would continue normal relations.

CAFFERY

824.00/957

Memorandum by the Assistant Chief of the Division of the American Republics (Briggs)

[WASHINGTON,] August 31, 1939.

The Bolivian Minister called this afternoon on instructions from his Government to state that the Quintanilla administration did not represent "a continuation of the dictatorship of General Busch". Dr. Guachalla pointed out that Señor Baldovinos, the Vice President under Señor Busch, had not assumed the Provisional Presidency and that the new Government desired to return to constitutional procedure "at an early date". The Minister said that no date had been indicated but he assumed this would mean "two or three months". The Minister continued by stating that his Government desired to continue the very friendly and cordial relations at present existing with the Government of the United States.

I thanked Dr. Guachalla for his Government's courtesy in conveying the foregoing message and told him that it was equally our desire to continue close relations with his Government. I gathered from the Minister's attitude that he was relieved to find that no question of recognition had arisen.

The Minister then mentioned the reappointment of Dr. Ostria Gutiérrez as Minister of Foreign Affairs and said that to his personal knowledge the Minister was very desirous of reaching a solution of the oil controversy. I agreed that the continued existence of this controversy represented a cloud on the horizon of our relations and expressed the hope that every effort would be made in the direction of an early solution.

ELLIS O. BRIGGS

824.00/949 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, September 1, 1939—10 a. m.

163. Your 279, August 31, 5 p. m. Please inform Aranha that the American Chargé d'Affaires in La Paz has been instructed to continue normal relations with the present Bolivian Government. No question of recognition has been raised by this Government.

HULL

PROPOSED EXTENSION BY THE UNITED STATES OF FINANCIAL
ASSISTANCE TO THE GOVERNMENT OF BOLIVIA

824.51/950

*Memorandum of Conversation, by the Chief of the Division of the
American Republics (Duggan)*

[WASHINGTON,] August 7, 1939.

The Bolivian Minister¹⁴ stated that his Government desired to enter into discussions to secure a credit from this Government. In response to my inquiries as to additional details concerning the desire of the Bolivian Government, the Minister was unable to furnish further information. I informed the Minister, first, that it would be necessary for the Bolivian Government to present concrete proposals to this Government for its consideration, and secondly, that it appeared to me very doubtful whether this Government would wish to extend credits to the Bolivian Government until that Government had taken steps to clear up certain well known differences with American citizens.

The Minister stated that he agreed that it would probably be difficult, if not impossible, for this Government to move in the credit matter until the differences were straightened out. In this connection he inquired whether, as a result of further discussions between the Department and the Standard Oil Company, he could expect to receive in the near future a new draft of the proposed settlement.¹⁵ I informed the Minister that I had not had an opportunity to acquaint myself with the status of the negotiations concerning the Standard Oil dispute since my return, but that I would do so and inform him next Monday when he returned to town.

The Minister informed me that he would request further information from his Government as to its interests in a credit and what the credit would be used for if granted, et cetera.

824.51/951 : Telegram

*The Under Secretary of State (Welles)*¹⁶ to the Secretary of State

PANAMA, September 22, 1939—2 p. m.

[Received 11:18 p. m.]

5. I had an interesting talk this morning with the Bolivian delegation in regard to economic and financial cooperation. The Bolivian Government apparently faces a serious possibility of exchange

¹⁴ Luis Fernando Guachalla.

¹⁵ See pp. 322 ff.

¹⁶ Then United States Delegate to the Meeting of the Foreign Ministers of the American Republics Held at Panama, September 23–October 3, 1939; see pp. 15 ff.

difficulties because of the disturbances created by the war in Europe. They state that it would be very helpful to them if they could secure a moderate sized advance, say in the amount of two millions of dollars. They state that part of this sum would be used to purchase American products.

The first idea which they had arose out of the fact that there is now an appropriation of 10 million dollars for the purchase of strategic raw materials. They had been informed, and I confirmed the information, that a substantial part of this appropriation would be used for the purchase of tin. The idea that was put forward was that the payment for the tin to be bought as strategic reserve would pay any advance made to them. A promise was given that this possibility would be explored. At the same time, however, various difficulties were pointed out; particularly, (1) The comparatively rigid procedure which the Army and Navy Board was required to follow under the law for the purchase of these strategic raw materials. (2) The question of grades of tin. Would you please look into the various sides of this matter as promptly as possible and advise us as to whether any arrangement of this type might be practicable. In anticipation of possible practical difficulties, we suggested to the Bolivian delegation that an advance might be simpler and much more quickly arranged either through the Export-Import Bank or the RFC¹⁷ without establishing any direct connection with purchases of tin for the strategic reserve. Without commitment the Bolivian delegation was told that we would submit the following possible arrangement—the advancement of the agreed upon sum, say 2 millions of dollars, immediately. The Bolivian Government would give notes which would call for repayment in monthly installments beginning say 4 months after the advance. Each of these monthly installments would be at least the proceeds received from the sale of a minimum amount of Bolivian tin through the official Mineral Bank of Bolivia. The amount mentioned in that connection though tentatively was 200 tons a month which at current prices would be repayment at approximately \$200,000 a month. The Bolivian Government might be willing to give the bank actual tin security in some form. The Bolivian delegation also mentioned the possibility of including antimony, wolfram ore, or tungsten as part of the arrangement. If this security seems satisfactory as tin, the total amount could be somewhat increased.

In response to a question as to the interest rate, the Bolivian delegation was informed that, for an advance of approximately this period, it was thought that the bank would be willing to make either a 3 per cent or at most a 3½ per cent rate.

¹⁷ Reconstruction Finance Corporation.

It occurs to us that this matter might be handled expeditiously if the Mineral Bank of Bolivia created a subordinate American branch in the United States. The funds could then be advanced to this branch, when and as needed, to pay for the purchase of American goods or other purposes, as agreed upon. The Bolivian Government and the Mineral Bank would pledge themselves to the Import and Export Bank to provide the American branch with a minimum of 200 tons of tin a month or the equivalent amount in dollars each month.

Will the Department please discuss this whole possibility also with Pierson¹⁸ and Jones?¹⁹ It will be most helpful to us if the Department's reply can set forth the actual details of a possible transaction which could be confirmed in all ways except final arrangements of documents and signature while we are in Panama if the Bolivian Government wishes to take the necessary steps that promptly.

If we succeed in working out this measure of financial cooperation with Bolivia, I am hopeful that it would be the basis of a joint statement that the two Governments could make as regards economic and financial cooperation.

The Bolivian delegation also raised the question of possible help for either Central Bank or exchange stabilization purposes. They were informed that this was a matter of most careful technical examination and that if they would submit a memorandum to us we would bring to the attention of the Treasury which would certainly be glad to discuss it with the Minister upon its return to Washington.

WELLES

824.51/954a : Telegram

The Secretary of State to the Minister in Bolivia (Dawson)

WASHINGTON, September 25, 1939—7 p. m.

31. Department is giving serious consideration to a request of Bolivian Delegation at Panama for an immediate advance to meet exchange difficulties. Please supply details regarding the exchange situation which is alleged to create an emergency need for \$2,000,000 immediate advance. Bolivia has mentioned possibility of including sales of antimony, wolfram ore or tungsten acquired by the Banco Minero, as well as tin, as security. One set-up under consideration is for repayment in monthly instalments of \$200,000 beginning 4 months after the advance. Please telegraph comment on practicability of arranging effective security on sales of these minerals, excluding tin,

¹⁸ Warren L. Pierson, President, Export-Import Bank of Washington.

¹⁹ Jesse H. Jones, Chairman, Board of Directors, Reconstruction Finance Corporation.

in the United States, in view of Bolivian marketing arrangements and American market conditions.

HULL

824.51/951: Telegram

The Secretary of State to the Under Secretary of State (Welles)

WASHINGTON, September 25, 1939—9 p. m.

16. Your 5, September 22, 2 p. m. Can you add any details to your first paragraph references to exchange difficulties and to proposed use of advance? Department is also querying Legation, La Paz, on this. Could Bolivian Foreign Minister²⁰ have his Government also provide Bolivian Legation here with full information for discussion with this Government?

As to the possibility of tying up such an advance to purchases by this Government of tin for reserve stocks, there appears to be no way of modifying the formal procedure specified by the law. The advertisement for bids on approximately 4,000 tons of tin is about to be issued by the Procurement Division of the Treasury. The specifications in the advertisement could be met by London standard tin as well as other high grade tin so that presumably the Mineral Bank of Bolivia could bid for all or a part of this order if it has a claim on high grade standard tin (made in whole or in part from Bolivian ore). It is understood that the bids must be on a c. i. f. basis, however, so that the Mineral Bank would have to commit itself to delivery of the tin in the United States.

Should the Mineral Bank be successful in securing a part of this order, it might be possible then to make an advance to the Bolivian Government against fulfillment of the contract with the Procurement Division. Bids will not be opened, however, until 30 days after the date of advertisement. There is no possibility of purchases of tin ore under this program.

Pierson has other phases under advisement.

HULL

824.51/953: Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 26, 1939—8 p. m.

[Received September 27—3:30 a. m.]

18. Our 5, September 22, Department's 16, September 25.

1. The Bolivian delegation has given us an extensive memorandum²¹ containing a full account of the development of their present

²⁰ Alberto Ostría Gutiérrez.

²¹ Not printed.

exchange position and difficulties. We are sending this to Washington by airmail today.

The essence of the present difficulty seems to be as follows: The value of Bolivian currency has been linked to the pound. This fact has created difficulties in two directions: First, approximately 60% of Bolivian exports go in the first instance to Great Britain and are paid for in pounds and approximately 20% to Germany. This means fewer dollars. Second, the decline in the exchange value of Bolivian currency increases the difficulty of paying for necessary imports from the United States, Argentina, Chile and Peru, whose currencies have not declined in value. These imports are almost entirely necessities.

Furthermore, the serious disturbance both of markets and of shipping is interfering seriously with Bolivian exports especially to England.

This combination of circumstances—many of which may be entirely transitory—create an acute exchange situation for Bolivia. Immediate relief is required.

I therefore urge that the Board of Trustees of the Export-Import Bank immediately authorize an advance of say 2 millions of dollars to be made to the Bolivian Government conditional upon the satisfactory agreement upon details to be worked out by the Executive Committee. If this is done the Bolivian Foreign Minister and myself can then sign here in Panama an exchange of letters containing an agreement for this advance in general terms specifying merely its approximate amount, its approximate period and its interest, approximate interest rate which suggest should be no more than 3%. Upon the return of Minister Guachalla to Washington details could be settled and the necessary formal papers signed.

2. With regard to the possibility of Bolivian sales to the American Government for reserve stock, as soon as the terms of the advertisement for bids are published will you kindly give copies to the Bolivian Legation in Washington. It would also be helpful, if it is practicable, if you would cable to the American Legation in La Paz the main features of the advertisement as regards the procedure for placing bids and instruct the Legation to bring it to the attention of the Minister of Mines.

I recommend that the arrangement outlined in numbered paragraph 1 for an advance to the Bolivian Government be worked out without waiting to ascertain whether or not the Bolivian Government secures any of the orders for tin for reserve stock purposes.

3. For your information. The delegation states that it has been informed that the Banco Minero expects to be in a position to assure the export of \$100,000 monthly of antimony and wolfram.

WELLES

824.51/955 : Telegram

The Minister in Bolivia (Dawson) to the Secretary of State

LA PAZ, September 27, 1939—noon.

[Received 5:33 p. m.]

62. Department's 31, September 25, 7 p. m. Bolivian exchange difficulties date back to about November 1937 and have only been aggravated by European war. In this period exchange needs have varied from 250,000 to 320,000 pounds per month with amount available ranging from 200,000 to 260,000 pounds. As a result reserves of Central Bank have been reduced some 500,000 pounds and backlog of about 800,000 pounds of commercial debts abroad has been built up, largely in the United States, for which exchange is not available. In other words, Bolivian exchange needs in approximately 20 months before outbreak of war exceeded exchange receipts by at least 1,000,000 pounds.

Because of difficulty of transportation of tin to Europe until convoy system is perfected and adequate shipping is available, Bolivian exchange receipts are expected to be below 100,000 pounds for the next 2 to 4 months and it is to make up the deficit in current needs that the advance of \$2,000,000 is desired. There is no apparent idea in official circles that any of this would be used to reduce commercial backlog.

Minister of Finance estimates that, once tin shipments can be made under satisfactory conditions, Bolivian interests will be receiving 330,000 pounds of exchange per month from this source because of increase of tin quota to 100% and at least 70,000 pounds from other sources giving it considerable surplus over its present monthly needs of 320,000 pounds and enabling it easily to repay proposed advance. These optimistic calculations do not take into account possibilities of submarine warfare and other unforeseen war factors. Central Bank still has about 700,000 pounds of available reserves in gold and foreign exchange which could be used to tide over period in which exchange from tin will not be coming in if calculations are correct but the Bolivian Government would obviously rather take the gamble on funds secured from the United States than lower the bank's present reserves to vanishing point.

Minister of Finance states that amount of antimony and wolfram ore acquired by Banco Minero is about 400 and that of tungsten about 50 tons per month and these estimates are checked by independent mining authorities. At current prices this would bring about \$70,000 per month, totally inadequate security for repayment of contemplated installments of \$200,000. Furthermore mining experts estimate that only about half of the ore is of a grade such that it would be acceptable to American importers under normal circumstances. Manager of the Banco Minero states that delivery of amounts indicated could begin in

November if prices offered in the United States were satisfactory but the Department is in a better position than the Legation to judge whether there would be a sufficient market for them there.

If the proposed advance is to be seriously considered it is my opinion that more adequate security should be offered such as a lien on the first \$200,000 of exchange accruing to the Bolivian Government each month from sales of all minerals abroad whether by the Banco Minero or the big mining groups, beginning 4 months after the advance.

I frankly do not see, however, why the Government of the United States should come to the assistance of the Bolivian Government in a situation which has arisen largely because of the latter's bad financial management and extravagance especially in view of the record of the Bolivian Government in the recent past toward American interests. While the present regime is more amicably disposed than its predecessor it would only be good grace for it to take active measures toward the settlement of certain outstanding problems before asking for aid.

DAWSON

824.51/956 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 28, 1939—6 p. m.

[Received 7:19 p. m.]

22. The Bolivian Foreign Minister asked me again this morning to expedite the decision regarding the advance presented in our No. 18, September 26, 8 p. m.

I should appreciate it if the Department could secure a definite reply by Saturday at the latest. In view of the genuineness of the need and the character of the security, I believe it important that an agreement be reached.

WELLES

824.51/957 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 29, 1939—9 p. m.

[Received 11:40 p. m.]

28. It will be a serious embarrassment if I do not receive reply immediately to my cables in regard to the Bolivian advance and I earnestly hope it will enable me to enter into satisfactory exchange of letters tomorrow.

WELLES

824.51/957 : Telegram

The Secretary of State to the Under Secretary of State (Welles)

WASHINGTON, September 30, 1939—4 p. m.

38. Your no. 5, September 22, 2 p. m., no. 18, September 26, 8 p. m., no. 22, September 28, 6 p. m., and no. 28, September 29, 9 p. m. The Department has had great difficulty in finding any basis on which an extension of credit could be justified to public or congressional opinion here. The suggested collateral is imperfect in view of the uncertainty, under recent war conditions, as to the movement of tin, the terms of shipment and payment which will be allowed by Great Britain, the refining country, and the probable loss of identity of the tin before it reaches the United States, while the antimony, wolfram and tungsten shipments would be insufficient in amount, not all of suitable grades, and not in all cases readily marketable in the United States. It would therefore be difficult to relate a credit directly, at the present moment, to American imports of strategic materials, while it seems also that the credit is wanted in considerable measure for purposes other than direct payment for American exports to Bolivia. The Department understands that the Bolivian Central Bank still has about 700,000 pounds sterling of available reserves in gold and foreign exchange, so that the need for emergency relief in the suggested form is not absolute.

The credit would encounter an outcry in view of Bolivia's debt record and particularly of the Government's action with regard to the Standard Oil properties. This morning's *New York Herald Tribune* has a very strong editorial on the suggested credit attacking Bolivia on both the debt and the oil questions. This would undoubtedly be the attitude of public opinion and would be taken up by Congress in case governmental credit were granted to Bolivia at this time. The Congress in its present session, convened for discussion of questions of international policy, has already shown itself attentive to every international development. This is another reason why I have been so anxious to see some disposition on the part of the Bolivian Government to deal with the oil difficulty at least. Moreover, last July, in testimony before the Senate Committee on the request for increase in Export-Import Bank lending power, Mr. Pierson and Mr. Jones were asked about Bolivia and replied that they would not make loans to "a country that is confiscating our property". This was widely quoted in the newspapers.

For all these reasons the lending authorities would be very reluctant to grant at the present moment a credit which might prejudice the smooth development of the whole plan of financial cooperation, which depends on Congressional action, and I am equally reluctant to press them to act against their judgment.

It is therefore the opinion of this Government that the appropriate method of dealing with this question should be through discussion with a representative of the Bolivian government, preferably the Bolivian Minister, authorized to that effect, and that such discussions be commenced promptly upon his return from Panama. It is not believed that publicity can be other than harmful. It is hoped that under these circumstances the Bolivian government might assist by clarifying the difficulties and uncertainties with which we are necessarily faced.

HULL

824.51/960 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, October 3, 1939—2 p. m.

[Received 5 : 34 p. m.]

39. For Berle.²² Your No. 38, September 30, 4 p. m. I have availed myself of the authorization contained in the last paragraph of the Department's telegram to suggest to the Bolivian Minister for Foreign Affairs that he instruct Guachalla to take these questions up immediately after his return to Washington and that in the meantime no publicity whatever should be given to the fact that any further consideration is being given to these proposals in Washington. I have likewise made very clear to the Minister for Foreign Affairs the basic reasons underlying the decision reached by the Department. He is still firmly of the opinion that from the standpoint of expediency it would be easier for him to obtain a solution of the oil controversy by his Government if such solution were not made a condition previous to the reaching of an agreement on credits for exchange stabilization and on related matters. He is a man of fine character and real intelligence and I obtained the impression that while he is deeply chagrined by the reply I have had to give him he will nevertheless do his best to go along with us on the lines proposed.

He has shown me in confidence an official communication addressed to his Government by the Japanese Minister in Lima offering a barter arrangement for 3,000,000 tons [*sic*] of tin ore and certain other minerals in return for various classifications of Japanese manufactured goods. In his conversation with me on that subject the Minister has made it clear that while it was the general intention of his Government and especially of himself to try to find a satisfactory basis for an agreement with the United States, in the absence of such basis they would be "obliged" to make some such arrangement with Japan as

²² Adolf A. Berle, Assistant Secretary of State.

that proposed, or with any other government that might make similar proposals.

As I see the situation with Bolivia at this time it would appear to me to be more urgent and critical than the impression in the Department. While I am entirely willing to concede that the prerequisites indicated in the Department's telegram involve questions of basic principle which are sound and desirable it would nevertheless seem to me that if Bolivia at the present time were to involve herself in arrangements of the kind proposed by Japan and recently by Germany it would inestimably [*inevitably*] have a direct effect upon the political trend in Bolivia. I trust that the Department will give consideration to the possibility of finding some compromise which would make it possible to avoid this danger.

WELLES

GOOD OFFICES OF THE DEPARTMENT OF STATE IN NEGOTIATIONS
REGARDING AN AGREEMENT BETWEEN THE GOVERNMENT OF
BOLIVIA AND THE STANDARD OIL COMPANY²³

824.6363 St 2/302

The Minister in Bolivia (Caldwell) to the Secretary of State

No. 430

LA PAZ, January 25, 1939.

[Received January 31.]

SIR: I have the honor to report that since his arrival in La Paz, Dr. Luis Fernando Guachalla, Minister of Bolivia in Washington has made no secret of the fact that he believes that an equitable solution of the pending controversy between the Bolivian Government and the Standard Oil Company is highly desirable from the point of view of Bolivian credit. On account of his close acquaintance with the whole subject and the reputation for disinterested integrity which Dr. Guachalla enjoys to a very high degree, I have reason to believe that Dr. Guachalla's opinion on this subject has definitely strengthened the position of those members of the Government who were already personally favorable toward such a solution as Dr. Guachalla has in mind.

In recent conversations of a personal and confidential character, Dr. Guachalla told me that he had already discussed the whole subject in some detail with President Busch, with Dr. Mendoza Lopez, Minister of Finance and with Dr. Gabriel Gosálvez,²⁴ who is generally regarded as the leading influence in the present Government. He found all three gentlemen favorable in principle to the views which he had presented, although Dr. Gosálvez indicated some doubts

²³ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 321 ff.

²⁴ Minister for the Interior.

whether the Bolivian Government would be in a position at this time to take the initiative in the matter.

Dr. Gosálvez, however, suggested that Dr. Guachalla should prepare a careful memorandum reviewing the whole subject and indicating possible formulas for solution. This memorandum has now been completed and will be discussed early next week by Dr. Guachalla and an influential group of Government officials which will include President Busch, the Minister of Finance and the Minister for Foreign Affairs. When this interview has taken place Dr. Guachalla indicated that he would inform me as to the results.

As to possible formulas Dr. Guachalla told me confidentially that he was giving careful consideration to the following: *a*) compensation to the Company for the fair value of their property, as an act of comity by the Bolivian Government without direct reference to the fundamental juridical problem; *b*) a direct arrangement, probably to be effected by an exchange of identical communications with the authorized representative of the Company in La Paz, providing for the repeal or the modification of the fundamental decree of March 13, 1937,²⁵ and also providing for compensation to the Company at an agreed price to be previously determined by direct conversations; *c*) or as an alternative to the two solutions suggested above a decree by the Supreme Court favorable to the Company preceded by a strictly confidential agreement on the part of the Company to sell the property in question at a price previously determined.

Dr. Guachalla asked me my personal opinion on the three general formulas outlined above. I felt I owed him an equally frank reply, and told him that I did not believe that his first formula would be likely to satisfy the legitimate desire of the Company to safeguard the fundamental principles for which they had contended from the beginning.

Similarly in my judgment the third formula was open to objection both from the point of view of the Government and the Company, because it seemed to me that it would be very difficult to prevent knowledge leaking out sooner or later as to any previous understanding precedent to a court decision. Such knowledge would destroy the moral value of the decision itself and tend to compromise the dignity of both parties.

For these reasons I told Dr. Guachalla that the second of his three plans seems to me to have the great advantages of frankness and rapidity. I went on to say that if the correspondence to be made public were friendly on both sides it seemed to me that a direct arrangement at this time, if feasible, would create a favorable impression as to the strength and the good faith of the Bolivian Government in dealing with foreign investors.

²⁵ For translation, see *Foreign Relations*, 1937, vol. v, p. 277; for the Spanish text, see Bolivia, *Anuario Administrativo de 1937*, vol. I, p. 519.

Although the whole conversation outlined above was obviously friendly and personal and cannot be taken to bind either one of the parties in such discussions as may be later undertaken I gained the impression that the Bolivian Government was for the first time seriously considering a direct solution of a problem which they find to be increasingly embarrassing.

It is, of course, possible that the Government itself will be unwilling to take the direct initiative which is suggested by Dr. Guachalla and that it might prefer arbitration at the friendly request of the American Government. If such a step should be contemplated it seems reasonably clear that the request in question should preferably be a matter of record before rather than after any Supreme Court decision by which the Bolivian Government might feel itself to be juridically obligated. If there should be any suggestion in this direction from Dr. Guachalla in the conversation which I expect to have with him next week, it will, of course, be reported very promptly to the Department.

Respectfully yours,

ROBERT G. CALDWELL

824.6363 St 2/303 : Telegram

The Minister in Bolivia (Caldwell) to the Secretary of State

LA PAZ, February 2, 1939—9 a. m.

[Received 10:40 a. m.]

5. Dr. Guachalla told me yesterday that he had definite reason to believe that the Bolivian Government would accede to a direct arrangement with Standard Oil Company similar to plan *b*) mentioned in my despatch 430 of January 25, but to be formulated in a single legal instrument called "Transacción" in the Bolivian Civil Code. He was, of course, uncertain what formula could be devised to safeguard the principle in which the company is interested or as to the amount of compensation. He felt, however, that his hands would be strengthened here if he had some expression from the Department as to the general plan and perhaps later than [*on?*] at the appropriate time some assistance in working out the necessary details with the company.

CALDWELL

824.6363 St 2/304 : Telegram

The Minister in Bolivia (Caldwell) to the Secretary of State

LA PAZ, February 2, 1939—noon.

[Received 3:01 p. m.]

6. Supplementing my telegram No. 5, February 2, 9 a. m. On account of difficulties in working out details of formula suggested by

Guachalla, in my judgment only practicable solution which would carry genuine moral value would be friendly arbitration in the interests of both parties including all points at issue, (1) legality of decree of March 13, 1937; (2) extensive claims of Bolivia for unpaid taxes and for alleged violations of contract, and, in the event of a favorable decision on point 1; (3) compensation to the company for fair value of the property but specifically excluding actual return of the property which is apparently desired by neither party.

The Bolivian Government would probably object to such a plan at the outset but might be persuaded eventually as to its genuine fairness.

CALDWELL

824.6363 St 2/304 : Telegram

The Secretary of State to the Minister in Bolivia (Caldwell)

WASHINGTON, February 3, 1939—4 p. m.

2. Your 5, February 2, 9 a. m. and 6, February 2, noon. Department's understanding is that the legality of the decree of March 13, 1937 is the principal point at issue in the case now pending before the Bolivian Supreme Court.

If the decision should be in favor of the company the Department would, of course, expect the Bolivian Government either to restore the properties with reasonable compensation for damages suffered by the company, or payment by the Government of the value of the properties at the time of the taking in the event that it should decide to expropriate them.

It would, of course, be desirable if a friendly compromise settlement of all questions now at issue could be reached without awaiting a decision by the Court. It is not clear from your telegrams whether the Government is disposed to bring about such a settlement. If in your judgment it is so disposed, you may in an appropriate manner indicate to the Government that the Department would be glad to see such a settlement made. The method suggested under (b) of your despatch no. 430 of January 25 would seem to afford a way out of the difficulty. It might even be possible in such a settlement to avoid any discussion of the validity of the decree of March 13, 1937. This, however, is a matter for the consideration of the Bolivian Government and the company. Our principal interest is in promoting a settlement in such a way as may be both feasible and satisfactory. It might even be proper at some point in your discussions with the Bolivian Government to say that if the decision of the Court should be adverse to the company your Government might be under the necessity of asking for arbitration, but that it is, of course, desirous of avoiding such a situation if possible.

The Department considers that fair compensation to the company will adequately protect its interests from any adverse effects of the decree in other countries where it has properties.

HULL

824.6363 St 2/317: Telegram

The Minister in Bolivia (Caldwell) to the Secretary of State

LA PAZ, March 9, 1939—noon.

[Received 11:50 a. m.]

9. Morning newspapers announce briefly that the Supreme Court decided unanimously yesterday "to declare the demands initiated by Standard Oil against the Government irregular and inadmissible on account of lack of juridical competence on the part of its representatives."

Subject to more complete information later, my immediate impression, shared by local representative of the company, is that this decision is intended to leave all fundamental questions wide open for possible settlement by negotiation or arbitration.

CALDWELL

824.6363 St 2/321: Telegram

The Minister in Bolivia (Caldwell) to the Secretary of State

LA PAZ, March 14, 1939—4 p. m.

[Received 6:20 p. m.]

11. Guachalla told me last night that in his judgment, in view of recent indeterminate Supreme Court decision, an informal request for arbitration at this time would be received in a very friendly spirit. He suggests exclusion of actual return of the property on the ground that this is desired by neither party and would arouse hostile reactions here. He also suggests that details other than general principle of arbitration be reserved for discussion after his arrival in Washington April 5.

CALDWELL

824.6363 St 2/321: Telegram

The Acting Secretary of State to the Minister in Bolivia (Caldwell)

WASHINGTON, March 16, 1939—8 p. m.

5. Your no. 12 [11], March 14, 4 p. m. It is believed that the Department's position is fully explained in its no. 2 of February 3, 4 p. m. While the Department would welcome a friendly and equita-

ble settlement of the differences between the Government and the Standard Oil Company, it would appreciate receiving further information regarding Guachalla's ideas such as the source from which any suggestion of arbitration should come and its general scope. Recent reports lead the Department to believe that what apparently is contemplated at this time is some direct settlement rather than arbitration in the legal sense. Please clarify this point, if possible.

WELLES

824.6363 St 2/323: Telegram

The Minister in Bolivia (Caldwell) to the Secretary of State

LA PAZ, March 17, 1939—noon.

[Received 1 p. m.]

12. Department's No. 5, March 16, 8 p. m. Guachalla, who leaves today, has been instructed "to seek a direct understanding with the company under the auspices of the State Department". I understand that he will not present a plan of his own but will consult both the company and the Department and will give friendly consideration to any concrete suggestions, especially from the Department.

Foianini²⁶ told me yesterday that the Government disappointed with Supreme Court decision and that he would personally support a friendly settlement.

The Supreme Court on March 15 refused to reconsider decision of March 8. The attorneys here have advised the company that local legal remedies have been exhausted.

CALDWELL

824.6363 St 2/340

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] April 11, 1939.

The Bolivian Minister called to pay his respects. I brought up the oil seizure matter and the Minister stated that he and his Foreign Minister had been giving it all the attention they could with a view to an adjustment and that he would confer in detail with Mr. Welles when the latter returned to the Department from his vacation.

He remarked that the South American countries were very greatly concerned about the European war situation. He recalled my representations to the Latin American delegations at Lima²⁷ and the way

²⁶ Dionisio Foianini, Minister for Mines and Petroleum.

²⁷ Department of State, *Press Releases*, December 10, 1938, pp. 423-428; *ibid.*, December 24, 1938, pp. 475-478.

they had proven to be true, and said that this had been especially impressed on the Argentines. I replied that in this dangerous, chaotic world situation there was never such a ripe plum dangled before a hungry person than Latin America appears to be to these lawless nations, hungry as wolves for vast territory with rich undeveloped natural resources such as South America possesses; that it is all-important for the American nations to pursue a lawful, friendly and reasonable course with each other; and that the dollars and cents involved in the oil seizure were small compared to the great injury that would result to Bolivia, as well as to my own and other countries, if that sort of an act should go uncorrected and the friendship between the two countries should be seriously impaired. He agreed heartily and said he was going to take the matter up in all earnestness looking towards some method of adjustment.

C[ORDELL] H[ULL]

824.6363 St 2/378

Memorandum of Conversation, by the Assistant Chief of the Division of the American Republics (Butler)

[WASHINGTON,] May 31, 1939.

[Participants:] Bolivian Minister
Mr. Duggan ²⁹
Mr. Butler

The Bolivian Minister called at Mr. Duggan's request to discuss the case of the Standard Oil Company of Bolivia.

Mr. Duggan explained to the Minister that he wished to explore possible procedure for a friendly and mutually satisfactory settlement of this case. He explained that the Department's policy in such cases is to use its good offices to bring the two parties together and to facilitate in every appropriate way direct negotiations and agreement between the parties. He pointed out that it is impossible for the Department to act as mediator or go-between in the many problems which confront American business throughout the world, not only because the Department lacks complete information and data in the cases, but also because it has not the personnel necessary for this work. Mr. Duggan then inquired what the Minister's specific instructions are and if the Minister would be able to transmit to his Government a proposal which might be made by the company and submitted to the Minister by the Department.

Dr. Guachalla said that he has rather strict instructions and is only authorized to transmit to his Government the suggestions of the Department. Mr. Duggan then inquired if these instructions would be

²⁹ Chief of the Division of the American Republics.

satisfied if the Department were to submit a company proposal to him with the comment that the Bolivian Government might wish to examine it as a possible basis for settlement. The Minister replied that the Government knows the company's views, that it takes the attitude that it has nothing further to discuss with the company, and that therefore what the Bolivian Government wants is the Department's suggestions or at least the Department's analysis of and comment upon any proposal that might be made by the company. The Minister pointed out that since the decision of the Bolivian Supreme Court, it will be very difficult for the Bolivian Government to reconsider the juridical aspects of the case, or to enter into direct negotiations with the company. He repeated the opinion, however, that if the Department could submit some formula or suggested plan, he believed that something might grow out of it. The Minister recalled that while he was in La Paz Mr. Caldwell had received a telegram from the Department expressing approval of an out-of-court settlement which would leave to one side the question of the validity of the decree of March 13, 1937. He stated that the Standard Oil Company of New Jersey had rejected a proposed settlement along these lines and that he understood the company to have declared that it would prefer an adverse decision by the Bolivian Supreme Court so that the Department would ask for international arbitration. The Minister commented upon the fact that the Department had not made this request. He added that the Bolivian Government could not accept international arbitration.

Mr. Duggan then asked if the Department took the first step in transmitting a proposal which the company might make, together with the Department's comment thereon, the Minister would be able to transmit the proposal to his Government. He also inquired if after such a first step the Bolivian Government might be disposed to designate the Minister or some other representative to meet with a representative of the company to carry on the discussions. The idea would be to have the company designate a representative who was not an employee of the company and who had had nothing to do with the case. The Minister asked if Mr. Duggan had in mind an arrangement similar to the Mexican one³⁰ and Mr. Duggan replied in the affirmative. Dr. Guachalla stated that he thought such a procedure might be possible, but he emphasized that in order to make action possible and easy for the Bolivian Government the latter feels that it must deal with the Department instead of with the company, at least at the beginning.

Dr. Guachalla added that after a preliminary exchange between his Government and the Department, he would be willing to discuss the matter informally and unofficially with representatives of the company, but with the specific understanding that no publicity would be

³⁰ See pp. 667 ff.

given to such discussions and that they would not be regarded as committing either his Government or himself to any action whatever. The Minister repeated that he is always at the Department's disposal to discuss the case and to explore the possibility of agreeing upon a formula. He indicated that such a formula would include compensation to the company, reciprocal release of all claims and counter-claims, and the exclusion of all juridical phases of the case. The Minister promised to send Mr. Duggan a copy of the proposal that was under discussion in La Paz when the Minister returned there after the Lima Conference. Mr. Duggan promised to go over this proposal and to get in touch with the Minister within the next few days for a further discussion.

A possible procedure might be to redraft the proposed agreement dated May 26, 1939,³¹ which is the subject of Mr. Hackworth's³² memorandum of the same date, in the light of the material which the Bolivian Minister is to furnish. The situation then could be explained to representatives of the company, and the Department might formally submit to the Bolivian Minister a proposal which he could transmit to his Government. In submitting this proposal it probably would be necessary for the Department to state that it had carefully examined the terms of the proposal and that they appeared to offer the basis for a possible satisfactory settlement of the case.

824.6363 St 2/394

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

[WASHINGTON,] June 15, 1939.

The Bolivian Minister called to see me this afternoon at my request.

I told the Minister that no one could recognize and appreciate more fully than I the repeated and effective efforts he had made during the past year to find a fair and satisfactory solution of the difficulties which had arisen by reason of the cancellation by the Bolivian Government of the concessions of the Standard Oil Company of Bolivia. I told the Minister that I regretted deeply the fact that because of circumstances entirely beyond his control no basis for agreement had as yet been found, and that I feared that if no agreement were reached in the reasonably near future a very unfortunate situation would be created here in this country which inevitably would be prejudicial to the very friendly relations between the two countries which had existed over a period of so many years. I reminded him of the conversation which we had had in this regard a year ago and of our

³¹ Not printed.

³² Legal Adviser.

agreement at that time that every effort should be made to avert the creation of a strong prejudice on the part of public opinion in this country against Bolivia because of the apparent willingness of the Bolivian Government to take over properties legitimately belonging to American nationals without undertaking to make full and equitable compensation therefor. I said that we had both agreed that a situation of this kind would undermine confidence in the United States with regard to Bolivia and would prevent American cooperation and investment in the development of Bolivian natural resources, in which the Bolivian Government was so greatly interested.

I said it seemed to me that the time had now come when a further and a concerted effort should be made to find a basis for an agreement which would settle this controversy in a manner satisfactory to both sides to the dispute. I told the Minister that with this object in mind various conversations had been held, as he knew, in the Department of State with a view to furthering a solution. I said that I was now prepared to hand him, not officially as on behalf of this Government but unofficially as an evidence of the friendly interest which this Government had in paving the way for a solution, the draft of a suggested agreement which I earnestly hoped would provide the basis for the conclusion of a satisfactory negotiation between the company and his Government. Before doing this, however, I said to the Minister that I wanted to ask him a frank question, and that was whether in his opinion this was a propitious moment for these suggestions to be conveyed to the Government of Bolivia. I did not wish, I said, to take this step at this time if the Minister felt that no concrete results would be derived therefrom.

The Minister immediately replied that he thought the moment was in fact highly propitious. He said that, in the first place, since there was no Congress now in existence in Bolivia, the Bolivian Executive would determine a question of this kind without having to obtain the consent of the leaders of the various parties, which consent for political reasons might not be forthcoming. The Minister also said that another very favorable development was the fact that the new Foreign Minister, Señor Ostria Gutierrez, was an intimate friend of his and a man in whose integrity and energy he had entire confidence. He said that by chance only a day or so ago he had received a letter from the new Minister just before he left his present post for La Paz, in which he requested the Minister here to give him a full account of all pending matters between this Government and that of Bolivia "beginning first of all with the Standard Oil matter." The Minister assured me that the new Minister for Foreign Affairs shared his own point of view completely and that I could be certain that anything that he, the Minister, recommended would be supported with energy and ability by his Minister for Foreign Affairs.

I thereupon handed the suggested basis for agreement³³ to the Minister, who told me that he would immediately study it carefully and give me any suggestions that occurred to him before sending it on to his Minister for Foreign Affairs. The Minister said that the new Minister for Foreign Affairs would not arrive in La Paz until about July 1, and that consequently this would give him time to send a long and detailed recommendation, to be transmitted in draft.

S[UMNER] W[ELLES]

824.6363 St 2/394

*The Under Secretary of State (Welles) to the Bolivian
Minister (Guachalla)*

DRAFT PROPOSED AGREEMENT BETWEEN THE BOLIVIAN GOVERNMENT
AND THE STANDARD OIL COMPANY OF BOLIVIA³⁴

WHEREAS differences have arisen between the Bolivian Government and the Standard Oil Company of Bolivia growing out of the cancellation on March 13, 1937, by the Government of the concession contract dated July 27, 1922, under which the company was operating in Bolivia, and the losses sustained by the company in consequence thereof; and

WHEREAS the parties desire to put an end to these differences;

1. The Government of Bolivia, duly represented by
. . . , and the Standard Oil Company of Bolivia, duly represented by
. , freely agree in approving the present terms of settlement.

2. By the present agreement the Government of Bolivia recognizes that the Standard Oil Company of Bolivia should in equity be paid full compensation for its property, rights and interests as of March 12, 1937, and for its expenses incurred in establishing the petroleum industry in Bolivia. The amount and terms of payment of such compensation shall be determined as provided for in paragraph 4 of this agreement.

3. On its part, the Standard Oil Company of Bolivia, upon the payment to it of the amount of compensation referred to in paragraph 2, will recognize as the definitive property of the Bolivian State the right to exploit the petroleum deposits legally conceded by the contract of March 2, 1920, as modified by the contract of July 27,

³³ *Infra.*

³⁴ In transmitting a copy of this draft proposal to the Minister in Bolivia with instruction No. 159, June 29, the Under Secretary of State stated that the Department had been informed by representatives of the Standard Oil Company that the terms of the suggested agreement were acceptable to that company.

1922, as well as other property, rights and interests acquired by the company in connection therewith.

4. In order to fix the equitable compensation to be paid the company by the Bolivian Government, there shall be established a board consisting of three members, one to be designated by each party within thirty days following the signature of this agreement, and the third member to be a geologist or petroleum engineer of outstanding ability, who shall preside and who shall not be a national of either Bolivia or the United States. The third member shall be selected by mutual agreement between the parties; provided, however, that if the parties shall fail to agree upon the selection of the third member within thirty days from the date of the signature of this agreement, the selection shall be left to the President of the Geological Society of London, referred to in Article 17 of the concession contract between the Government and the company, dated July 27, 1922, who shall make the selection within thirty days from the date upon which either the Government of Bolivia or the company shall notify him of their disagreement. The procedure of the board shall be as follows:

(a) Within sixty days from the date of the selection of the third member the board shall convene at Buenos Aires or at such other place as it may find appropriate and shall within an additional period of 120 days make a fair and impartial determination of the amount of compensation which in equity should be paid to the company for its property, rights and interests in Bolivia as of March 12, 1937, and for its expenses in establishing the petroleum industry in Bolivia. It is the intention of the parties to this agreement that the board shall not consider or question the validity of the company's concession contract or the validity of the Government's cancellation decree of March 13, 1937.

(b) Each party shall submit to the board within ninety days from the date of signature of this agreement a complete statement of its estimate regarding the amount of the compensation referred to, including the evidence relied upon in reaching such estimate. No further statement or evidence shall be submitted by either party unless requested by the board; and any such request made by the board for additional statements or evidence shall be communicated to both parties and each shall have an opportunity to respond to the request;

(c) Each party shall pay the honorarium and expenses of the member of the board designated by it and shall bear its own expenses. The expenses of the tribunal, including the honorarium of the third member, shall be borne in equal moieties by the two parties;

(d) The decision of the board shall be by majority vote and shall be accepted by both parties as final and binding;

(e) The Bolivian Government shall, within months from the date of the decision of the board, pay to the company in cash, in United States currency or its equivalent in sound free exchange currency, the total amount determined by the board to be proper compensation.

5. The Government of Bolivia and the Standard Oil Company of Bolivia declare that, upon the payment of the amount referred to in paragraph 4(e), no issue will remain pending between them and that there will be no occasion, on the one or the other part, for any subsequent claims or counter-claims of whatsoever character, since the fulfillment of the present agreement, which has been freely entered into, shall be regarded as having terminated satisfactorily and amicably the controversy raised by the Decree of March 13, 1937. If all the terms of this agreement are not duly fulfilled by either party, it is understood that the *status quo ante* as of the date of this agreement shall be deemed restored at the option of the aggrieved party.

6. In faith of which, etc. etc.

(Place and date of signature)

824.6368 St 2/387½

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] June 26, 1939.

During the course of a conversation regarding other matters, the Minister handed me the attached memorandum³⁵ regarding the formula presented to him for study for a settlement of the differences between the Standard Oil Company of Bolivia and the Bolivian Government.

The Minister stated that he appreciated that the Department had presented the formula using as far as possible the drafted agreement which had been drawn up in Bolivia in February of this year. Since then has occurred the decision of the Supreme Court which, therefore, would require on the part of his government a somewhat different approach. On the basis of what he knows of his government's position, he thought that the only formula that would hold promise of acceptance had to be one which was based upon determination by a board of the amounts due, not only by his government to the company, but by the company to the government. He recognized that this would be extremely difficult for the company to accept, but stated his very firm conviction that his government would never agree to any formula that contained in it a statement that the government owed the company an amount for compensation for the company's properties. The Supreme Court decision of March 15 now made it impossible for the government to admit that it possessed any legal obligation to pay compensation to the company. He felt that his government would be willing in a public document to recognize that in equity the company should receive a payment, but he insisted that his government would

³⁵ *Infra.*

require that the document recognize that it had certain claims against the company and that the board should determine the amounts due the government under these claims.

The Minister stated that he had no suggestions for redrafting, although he would suggest a change in the preamble in order to bring in the thought of mutual payments in equity, the omission of paragraphs two and three, the redrafting of paragraph four to give authority to the board to make an examination of the government's claims against the company in order to determine the amount due, and a redraft of the last paragraph to put it on a bilateral basis, that is, to make it apply to payments from the company to the government as well as from the government to the company.

The Minister stated that he would not be back in town until Monday, July 3, and that he would telephone me on that day merely to inquire whether the Department wished to consult further with him. He stated that he had not yet transmitted to his government the draft handed him by Mr. Welles, and that he did not intend even to inform his government that he was carrying on exploratory discussions until these discussions had advanced somewhat further.

824.6363 St 2/3874

*Memorandum by the Bolivian Minister (Guachalla)*⁸⁶

[Translation]

MARGINAL NOTES TO THE FORMULA OF AGREEMENT BETWEEN THE BOLIVIAN GOVERNMENT AND THE STANDARD OIL COMPANY OF BOLIVIA

I. Although the proposed formula declares that it is the intention of the Parties that the Commission shall not consider or question the validity of the concession contract of the Company or the validity of the cancelation decree of the Government, it cannot, logically, disassociate itself from the legal surroundings in which the question has been placed by virtue of the criminal proceedings started in October of 1935.

We are faced by a *post* judgment transaction which makes impossible a certain elasticity appropriate in any *ante* judgment transaction like that suggested to the Company without success last February. Hence it follows that the Government of Bolivia cannot disassociate itself from the bases which the decision of last March 8 and its supplement of the 15th of the same month enunciate. It is not the desire of the Bolivian executive power to depreciate the judgment of the Supreme Court.

⁸⁶ Handed by the Bolivian Minister to the Chief of the Division of the American Republics June 26. See memorandum of conversation, *supra*.

II. One gathers the following conclusions from the said decision:

(a) the transfer of concessions in 1921 from Richmond Levering to the Standard Oil Company of Bolivia was illegal since it was made without the previous authorization of the Government.

(b) the appointment of representatives of the Company, in violation of its own statutes, was irregular, annulling their legal capacity to appear before the courts;

(c) in consequence, its representatives lack legal personality, the claims begun by them being not in accordance with the law and inadmissible.

III. This decision, the legal resolution of March 15 says, brings about a situation which means a judgment not subject to review; this is, a juridic situation which cannot be amended by other tribunals of the Republic nor by the decision of another power of the State, through a new process or legal proceeding.

The lawsuit being closed in this way, it should be noted that a decision has not been pronounced on the basis of the action commenced by the company since it was contrary to the law of litigations in view of the lack of legal personality of its representatives. This situation permits the study of some formula of convention which does not imply review, even indirect, of the suit nor of its consequences: the definitive possession of the concessions by the State.

IV. It should be borne in mind that the case of the Standard Oil Company in Bolivia is penal and not one of expropriation, a basic factor which prevents the acknowledgment of a payment which signifies indemnification. However, a formula in equity may solve the divergency, provided that it, as its essence indicates, contemplates the position of both Parties or their mutual complaints. Thus it is equitable to speak of a payment in favor of the Company if there is later given occasion to appraise the amount of the countercharge alleged by the Government before the Supreme Court.

V. The prior considerations pointed out above should, without doubt, suggest several modifications to the proposal. In summary, they would include:

(a) the definitive ownership of the concessions by the State results from a definite legal sentence; it cannot be inferred from an acquiescence of the Company;

(b) the agreement is based on an idea of equity; then, if the Government of Bolivia consents to recognize a payment in favor of the Company, in return it is necessary and just that the Company agrees to recognize in favor of the Government, another payment, both in principal, which would have as a basis the idea of reparation for damages and injuries;

(c) the valuing commission will be, then, called upon to study the claims of the two Parties and its judgment will have as its object to establish on whom it is incumbent to pay the balance owed which results from this double valuation;

(d) given the character of a *post* judgment arrangement and its lack of connection with legal aspects, it appears more appropriate to avoid references to "recognition" of an obligation to compensation. Perhaps it would be preferable to begin the formula with the organization of the commission of experts before which the two Parties agree to present their claims of a pecuniary nature, accepting, in advance, the decision which it gives.

824.6363 St 2/407

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] August 14, 1939.

The Minister ²⁷ informed me that the latest information he had was to the effect that Señor and Señora Foianini would pass through Washington en route to New York Thursday at 4 a. m. by plane. The Minister said that he did not know when they would return from New York and that he did not have any further information with respect to their plans.

I told the Minister that since his conversation with me on June 26 in which he commented on the proposed agreement for the settlement of the Standard Oil controversy the Department had been studying continuously and carefully a revision of the agreement that would take into account his views. There had been several new drafts prepared and discussed with representatives of the Standard Oil Company. In the beginning the company was most reluctant to consider the inclusion in the agreement of a provision authorizing the tribunal to pass upon the question of the amount of taxes due the Government from the company over and above those that had already been paid. By dint of insistent effort the company had finally been persuaded to accept a formula that would submit to the tribunal this question.

I thereupon handed to the Minister a copy of a new draft ²⁸ providing for the submission to a tribunal of three persons two questions—(1) the value in United States dollars of the property of the company in Bolivia on March 12, 1937, and (2) the amount of taxes, if any, over and above those paid by the company, due the Government from the company. I told the Minister that I knew he was as desirous of a prompt settlement of this controversy as was the Department. The company's agreement had only been obtained after long discussions and after the submission and counter-submission of many drafts. I urged therefore that the Bolivian Government give the most careful consideration to the new draft, suggesting only such changes as seemed

²⁷ i. e., the Bolivian Minister.

²⁸ The enclosure, p. 338.

absolutely necessary to meet the Bolivian point of view. In particular I urged that no changes in language, unless absolutely essential, be suggested with regard to paragraph 2 (b), since the language relating to that section had been worked out only after a great deal of effort. I said that I considered the company's acquiescence so precarious that any material change in the language might result in the company's reconsidering its whole position.

The Minister assured me that he would study the new draft first of all to determine whether the Government could agree to it in principle. If he thought that it could he would keep to a minimum any suggestion to his Government for modifications of language. He again expressed his belief that the Minister of Mines would not be coming to the United States unless he had decided to come to some agreement on this problem. He hoped a settlement along the lines under discussion would meet with the Minister's favor, but of course he would not know until he had discussed the proposal with the Minister, who so far was not informed as to the informal discussions that had taken place in Washington. Dr. Guachalla reminded me that he had not wished to bring anything to the Minister's attention until it was in a form which he himself could support and recommend.

The Minister told me that he was returning to Washington on Thursday and that he would probably come in to discuss the new draft.

LAURENCE DUGGAN

[Enclosure]

Draft by the Department of State of Proposed Agreement Between the Bolivian Government and the Standard Oil Company of Bolivia

WHEREAS differences have arisen between the Bolivian Government and the Standard Oil Company of Bolivia growing out of the cancellation on March 13, 1937 by the Government of the concession contract dated July 27, 1922, under which the Company was operating in Bolivia; and

WHEREAS the Government of Bolivia alleges that the Company has failed to pay certain taxes due to the Government as set out in the preamble of the Decree of March 13, 1937; and,

WHEREAS the parties desire to put an end to these differences:

The Government of Bolivia, duly represented by, and the Standard Oil Company of Bolivia, duly represented by, freely agree to the following terms of settlement:

1. There shall be established a Tribunal consisting of three members, one, who must be either an engineer or geologist, to be designated by each party within thirty days following the signature of this agree-

ment, and the third member, who shall preside and who shall not be a national of either Bolivia or the United States. The third member shall be selected by mutual agreement between the parties; provided, however, that if the parties shall fail to agree upon the selection of the third member within thirty days from the date of the signature of this agreement, the selection shall be left to the President of the Geological Society of London, referred to in Article 17 of the concession contract between the Government and the Company, dated July 27, 1922, who shall make the selection within thirty days from the date upon which either the Government or the Company shall notify him of their disagreement.

2. The questions to be submitted to the Tribunal are as follows:

(a) What amount in United States dollars may in equity be due the Company for its property, rights and interests in Bolivia based upon their value as of March 12, 1937, which amount with interest, it is agreed, shall be paid by the Government to the Company;

(b) What amount of taxes may be due the Government by the Company on account of the claims of the Government against the Company as set forth in the preamble to the Decree of March 13, 1937, which amount, with interest, it is agreed, shall be paid by the Company to the Government.

3. It is the intention of the parties to this agreement that the Tribunal shall not consider or question the validity, under the law of Bolivia, of the Company's concession contract or of the Government's cancellation decree of March 13, 1937.

4. The procedure of the Tribunal shall be as follows:

(a) Within sixty days from the date of the selection of the third member, the Tribunal shall convene at Buenos Aires or at such other place as it may find appropriate and shall within an additional period of one hundred twenty days make a fair and impartial determination of the amounts to be paid, as above stated.

(b) Each party shall submit to the Tribunal within ninety days from the date of signature of this agreement a complete statement of its case and the evidence relied upon in support thereof, at the same time furnishing a copy thereof to the other party. Within thirty days after the filing of the last of the two statements just mentioned, each party may submit to the Tribunal such written arguments and additional evidence in rebuttal of the evidence submitted by the other party as it may desire to submit. No further statement or evidence shall be submitted by either party unless requested by the Tribunal; and any such request made by the Tribunal for additional statements or evidence shall be communicated to both parties and each shall have an opportunity to respond to the request;

(c) Each party shall pay the honorarium and expenses of the member of the Tribunal designated by it and shall bear its own expenses. The expenses of the Tribunal, including the honorarium of the third member, shall be borne in equal moieties by the two parties;

(d) The decision of the Tribunal shall be by majority vote and shall be accepted by both parties as final and binding;

(e) The Government and the Company shall, within months from the date of the decision of the Tribunal, pay in cash, in United States currency or its equivalent in sound free exchange currency, the total amounts determined by the Tribunal to be proper and equitable.

5. The Government of Bolivia and the Standard Oil Company of Bolivia declare that, upon the payment of the amounts referred to in paragraph 4(e), no issue will remain pending between them and that there will be no occasion, on the one or the other part, for any subsequent claims or counter-claims of whatsoever character, since the fulfilment of the present agreement, which has been freely entered into, shall be regarded as having terminated satisfactorily and amicably the controversy raised by the Decree of March 13, 1937. If all the terms of this agreement are not duly fulfilled by either party, it is understood that the *status quo ante* as of the date of this agreement shall be deemed restored at the option of the aggrieved party.

In faith of which, etc.

[Place and date of signature] ³⁹

824.6363 St 2/411½

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[Extract]

[WASHINGTON,] August 17, 1939.

The Minister ⁴⁰ then referred to the draft of agreement concerning the Standard Oil controversy ⁴¹ which I had handed him last Monday. Dr. Guachalla stated that he had studied it carefully in the light of his instructions and that he considered that the draft in general was in conformity with principles which his Government might accept. The Minister stated, however, that there were two important modifications which he would have to have introduced into the draft before recommending it to his Government. The Minister thereupon presented me with the attached informal memorandum of four points, of which only two are important.

With regard to the second point in the memorandum, I made no comment other than to state that of course it would be immediately studied. The Minister here brings up the problem which has been so troublesome in connection with Mexico, namely, that of sub-soil rights.

³⁹ Brackets appear in the original.

⁴⁰ i. e., the Bolivian Minister.

⁴¹ *Supra.*

With regard to the third point in the memorandum, the Minister informed me that the "demanda reconvenacional" of 1937 listed five or six complaints of the Government against the company all of which, if proved, would result in the company owing the Government additional sums of money. The question of taxes "patentes" was only one of these complaints. The Minister explained that in Spanish the word "patentes" had a very specific connotation covering, in law, only surface taxes. If the intention in the draft was to indicate all taxes that might be due, the word to be used should be "impuestos." I informed the Minister that the intention of the Department was to include all sums that might be due by the company to the Government on account of the Government's complaints.

I told the Minister that an endeavor would be made to straighten out the points that he had brought up.

824.6363 St 2/424

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[Extracts]

[WASHINGTON,] October 25, 1939.

The Bolivian Minister called to review briefly the discussions carried on in Panama between the Foreign Minister and Mr. Welles.⁴²

The Minister then referred to the controversy with the Standard Oil Company. He thanked me for the résumé sent him of a recent letter from the Standard Oil Company commenting upon the Minister's observations. Dr. Guachalla stated that he was of the opinion that his Government, while possibly willing to submit to the Arbitral Board the question as to whether the subsoil resources should be taken into account in calculating the value of the company's interests, would not accept the words "property rights and interests" in the present draft. From the Government's point of view, the acceptance of this language would imply an admission of the validity of the concession contract, which of course the Government was not prepared to do, particularly in view of the recent Supreme Court decision. Nevertheless the Minister stated that there was a principle of Bolivian law called *lucro cesante* embodied in both the Civil and the Commercial Codes, which acknowledges that prospective profits be taken into account in calculating damages and compensation. In view of this accepted principle of Bolivian law, the Minister thought that it should be possible to find language more acceptable to his Government

⁴² Sumner Welles, Under Secretary of State, was United States Delegate to the Panama Meeting of Foreign Ministers; see pp. 15 ff.

to replace the words "property rights and interests". I told the Minister I was very interested in the principle of Bolivian law he mentioned and would appreciate his submitting any redrafts which he thought would be acceptable to his Government. The Minister said he would try his hand and hoped to send the new language on this point within the next few days.

The Minister stated that he had decided not to submit his formal report to his Government on the present status of the controversy until there had been further exploration on the point he had elaborated. He will, however, send a personal letter to the Foreign Minister outlining the situation as he sees it, and indicating that a formal report will be sent within the near future.

824.6363 St 2/420

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] November 3, 1939.

The Bolivian Minister called to discuss informally the formula for solving the Standard Oil controversy. He reiterated his belief that his Government would never accept the phrase in the draft proposal "company's property rights and interests". He thought the phrase would be like waving a red flag before a bull.

He said that he had been giving a great deal of thought to a re-draft of the language and had two suggestions to offer:

(1) He thought that it would be much more satisfactory to his Government if the language read "the company's properties and interests". It was the reference to property rights which he thought would be particularly distasteful to his Government. He thought that his Government might agree to the language suggested since it would not open up the question of the company's rights, the existence of which the Government would be compelled to deny.

(2) The Minister reminded me that the Company in its *demanda*⁴³ against the Government had included a second section in which it requested compensation for its properties and set forth in detail the value of its properties. In its reply to this *demanda*, the Government had listed its pecuniary claims against the Company on account of taxes and for other reasons. The Minister wondered whether it might not be possible to re-draft the proposal so as to give the arbitral board the duty of determining the amounts due by the Government to the Company and by the Company to the Government on the basis of the claims made in the Company's *demanda* and in the Government's

⁴³ Standard Oil Company's *demanda* referred to herein was transmitted to the Department in Spanish with despatch No. 188 of April 5, 1938, from Bolivia, not printed (824.6363 St 2/248).

Marginal notation opposite this sentence by Mr. Andrew E. Donovan of the Division of the American Republics: "The Minister now says he was mistaken. A. E. D."

reply. He thought that language might be evolved which could omit any reference to the "company's property rights and interests" by merely referring to the Company's claim as set forth in the *demanda*.

I said to the Minister that this was a very interesting suggestion, that I did not remember with sufficient precision those sections of the *demanda* and the reply to give him even an offhand indication, but that I would look into the matter at once.

I agreed to make a re-draft of the section in question, if the Minister's suggestion seemed feasible and to get in touch with him as soon as this draft was ready. The Minister said that he would likewise prepare specific language and would be available at any time.

824.6363 St 2/428

Memorandum by Mr. Richard W. Flournoy, Assistant to the Legal Adviser

[WASHINGTON,] November 29, 1939.

CASE OF THE STANDARD OIL COMPANY OF BOLIVIA

With reference to my attached memorandum of November 27⁴⁴ concerning the conference on November 25 with Messrs. Armstrong and Borchard,⁴⁵ and to my discussion of this morning with Mr. Hackworth, I have prepared the attached redraft of the proposed agreement between the Bolivian Government and the Standard Oil Company of Bolivia. Section 2(a) has been changed in accordance with the formula submitted by Mr. Armstrong after the conference on November 25. Also, in pursuance of the suggestions of Mr. Armstrong and Mr. Borchard, a new paragraph (3) has been inserted after paragraph 2. However, the formula for paragraph 3 proposed by Mr. Armstrong has been changed in accordance with the suggestions contained in the attached memorandum of November 27.

Presumably, if the attached redraft of an agreement is finally approved by the Department, a copy of it will be sent to Mr. Armstrong, for his information and any further suggestions that he may wish to make, before it is presented to the Bolivian Minister.

[Annex]

Proposed Agreement Between the Bolivian Government and the Standard Oil Company of Bolivia

WHEREAS differences have arisen between the Bolivian Government and the Standard Oil Company of Bolivia growing out of the can-

⁴⁴ Not printed.

⁴⁵ Edwin M. Borchard, counsel for the Standard Oil Company.

cellation on March 13, 1937 by the Government of the concession contract dated July 27, 1922, under which the Company was operating in Bolivia; and

WHEREAS the Government of Bolivia alleges that the Company has failed to pay certain taxes due to the Government as set out in the preamble of the Decree of March 13, 1937; (this may have to be changed to eliminate reference to the Decree to make the scope of the tax claims broader) and,

WHEREAS the parties desire to put an end to these differences:

The Government of Bolivia, duly represented by , and the Standard Oil Company of Bolivia, represented by , freely agree to the following terms of settlement:

1. There shall be established a Commission consisting of three members, two of whom must be either engineers or geologists, one to be designated by each party within thirty days following the signature of this agreement, and the third member, who shall preside and who shall not be a national of either Bolivia or the United States. The third member shall be a jurist of outstanding ability. He shall be selected by mutual agreement between the parties; provided, however, that if the parties shall fail to agree upon the selection of the third member within thirty days from the date of the signature of this agreement, the selection shall be left to the President of the Geological Society of London, referred to in Article 17 of the concession contract between the Government and the Company, dated July 27, 1922, who shall make the selection within thirty days from the date upon which either the Government or the Company shall notify him of their disagreement.

2. The only questions to be submitted to the Commission are as follows:

(a) What was the value in the United States dollars of the rights and interests of the Company in Bolivia under its concession contract of July 27, 1922, and of its properties connected therewith, immediately prior to March 13, 1937?

(b) What amount of taxes, if any, over and above those paid by the Company, is due the Government from the Company.

3. It is the intention of the parties that the Commission shall not question or consider the validity of the concession contract of July 27, 1922 or of the cancellation decree of March 13, 1937.

In determining the question under paragraph 2 (a) hereof the Commission will take into account the right granted to the Company under its contract to extract oil from the area covered by the contract and to transport, refine and sell the same.

4. The procedure of the Commission shall be as follows:

(a) Within sixty days from the date of the selection of the third member, the Commission shall convene at Buenos Aires or at such

other place as it may find appropriate and shall within an additional period of one hundred fifty days make a fair and impartial determination of the questions submitted under 2 (a) and (b);

(b) Each party shall submit to the Commission and to the other party within ninety days from the date of signature of this agreement a complete written statement of its case, together with such evidence as it may see fit to submit; Provided that, if the Commission does not convene within the said period of ninety days, the submission of the statements shall be made within thirty days after the date when it convenes.

Within sixty days after the filing of the last of the two statements just mentioned, each party may submit to the Commission such written arguments and additional evidence in rebuttal of the arguments and evidence submitted by the other party as it may desire to submit.

No further argument or evidence shall be submitted by either party unless requested by the Commission, and any request made by the Commission for additional written or oral statements or evidence shall be communicated to both parties and each shall have an opportunity to respond to the request;

(c) Each party shall pay the honorarium and expenses of the member of the Commission designated by it and shall bear its own expenses. The expenses of the Commission, including the honorarium of the third member, shall be borne in equal moieties by the two parties;

(d) The decision of the Commission shall be by majority vote and shall be accepted by both parties as final and binding.

5. The Government agrees that the amount determined under 2 (a) shall be paid to the Company with interest at the rate of 6 percent from March 13, 1937, within twelve months from the date of the decision of the Tribunal, in cash, in United States currency or its equivalent in sound free exchange currency. The Company agrees that it will pay with interest to the Government, in Bolivianos within twelve months any such taxes as may be found due under 2 (b), with interest at the same rate, from the date when such taxes became due. Thereafter no issue will remain pending between them and there will be no occasion, on the one or the other part, for any subsequent claims or counter-claims of whatsoever character, since the fulfilment of the present agreement, which has been freely entered into, shall be regarded as having terminated satisfactorily and amicably the existing differences between the Government and the Company. If all the terms of this agreement are not duly fulfilled by either party, it is understood that the *status quo ante* as of the date of this agreement shall be deemed restored at the option of the aggrieved party.

In faith of which, et cetera.

(Place and date of signature)

824.6363 St 2/429

The Chief of the Division of the American Republics (Duggan) to the Counsel for the Standard Oil Company of New Jersey (Edwin Borchard)

WASHINGTON, December 15, 1939.

MY DEAR DR. BORCHARD: Mr. Flournoy has called my attention to your letter addressed to him on November 29, 1939⁴⁶ concerning the case of the Standard Oil Company of Bolivia.

I enclose a draft of a proposed agreement⁴⁷ between the Standard Oil Company of Bolivia and the Bolivian Government to settle the differences arising out of the decree of March 13, 1937 canceling the Company's concession contract. In a conference on December 8 last with the Bolivian Minister he was informed concerning this draft, Articles 2 and 3 of which were read to him. The phraseology of subdivision (a) of Article 2 would seem to meet the objections mentioned in the first two paragraphs of your letter. While the Bolivian Minister seemed to find no objection to the phraseology of subdivision (a), he expressed the opinion that, in order to meet the desires of his Government, it would be necessary to include in the agreement a provision under which the Commission would be required to consider a counter-claim of the Government against the Company, not only for the taxes referred to in subdivision (b), but also for damages on account of the alleged non-performance by the Company of its contract obligations. He also expressed the view that the agreement should contain in this connection a reference to certain charges made by the Bolivian Government against the Company in answering the suit of the latter to have the cancellation decree annulled, that is, the charges relating to the alleged violations by the Company of the concession contract.

Whatever views may be entertained concerning the validity of the charges brought by the Bolivian Government against the Company, it is difficult to see how it would be possible to deny the request of the Government to include in the proposed agreement provisions under which the Commission would be required to consider the Government's claims. Consideration will therefore be given to the question of including in subdivision (b) of Article 2 of the draft agreement the words "and damages" immediately following the word "taxes" in the first line, and adding at the end of Article 3 a paragraph reading somewhat as follows:

"In determining the question under section 2 (b) the Commission will take into account, in addition to the Government's claims of

⁴⁶ Not printed.

⁴⁷ *Supra*.

unpaid taxes, the Government's claims against the company due to nonfulfillment of its contract, as set forth in the Government's counter-suit before the Supreme Court of Bolivia."

Before discussing this matter further with the Bolivian Minister, the Department would like to be informed whether the Company would agree to the draft agreement of November 29, 1939 with the additions suggested above.

Sincerely yours,

LAURENCE DUGGAN

BRAZIL

ARRANGEMENTS FOR A GENERAL PROGRAM OF ECONOMIC COOPERATION BETWEEN THE UNITED STATES AND BRAZIL

033.3211 Aranha, Oswaldo/5: Telegram

The Acting Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, January 9, 1939—4 p. m.

8. Your No. 7, January 7, noon.¹ The President has sent today by telegram² to President Vargas an invitation to Aranha³ to come to the United States as the guest of this Government as soon after the first of February as possible. Since it will not be possible for the visit to take place before the first of February, I doubt the wisdom of adopting the suggestion contained in the second paragraph of your telegram.

I shall send to you by telegram within the next few days a list of the matters which we would like to discuss with Aranha when he reaches Washington so that you may discuss these questions with him and ascertain as well whether there are any additional points which he will wish to take up.

WELLES

033.3211 Aranha, Oswaldo/9: Telegram

The Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, January 16, 1939—8 p. m.

12. In accordance with the request contained in the telegram sent the President by President Vargas,⁴ and in accordance with my recent telegrams⁵ to you with regard to Aranha's visit here, I am sending you the suggested agenda for the discussions to take place in Washington. You will see that the questions outlined fall into two general headings, those listed under heading "A" to be taken up with Aranha

¹Not printed; in this telegram Mr. Scotten had suggested that it might be desirable to have Mr. Aranha travel to the United States on a U. S. naval vessel in order to enhance the publicity attending his visit (033.3211 Aranha, Oswaldo/2).

²For text of telegram of January 9, see Department of State, *Press Releases*, January 21, 1939, p. 38.

³Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

⁴For text of telegram of January 13, see Department of State, *Press Releases*, January 21, 1939, p. 38.

⁵Not printed.

by the Department of State and those listed under heading "B" to be taken up by Aranha directly with the Secretary of the Treasury.

A. (1) Consideration of the manner in which the Government of the United States may be able to cooperate with the Brazilian Government in such manner as the latter may desire in connection with the Brazilian program of national defense. These discussions may cover points already raised by the Brazilian Government and such other points as the Brazilian Government may desire to propose.

(2) Current trade. A review of trade relations in addition to exchange matters.

(3) Cooperation and the development of Brazilian resources and complementary trade. The long-run possibilities in this field are substantial. They would include:

- (a) the possibility of cooperation and assistance of agricultural experts;
- (b) progress of the development of the hydrographic service by American technicians;
- (c) possible joint study of the status of the growth and development of certain complementary products, such as rubber, oiticica oil, manganese and hardwoods.

(4) Shipping.

(5) Air mail; Pan American service and foreign competitors.

(6) Radio programs.

(7) Refugee problems.

(8) Cooperation between Brazil and the United States with regard to expediting a pacific solution of the Peruvian-Ecuadoran boundary dispute.⁶

(9) The Brazilian debt situation (Federal, state and municipal).⁷

(10) The prospect of further investment of American private capital in Brazil and in that connection any specific problems that are current as regards the treatment of American enterprises in Brazil (legislative action affecting foreign banks, insurance companies,⁸ public utilities).

B. Group I. Steps contemplated by the Brazilian Government to alleviate the existing exchange position.⁹ Specific action which this Government could take to assist the Brazilian Government in clearing up the existing arrears.

Group II. Steps contemplated by the Brazilian Government to establish a Central Bank; an estimate of the amount of reserves in gold, foreign exchange or the equivalent which the Central Bank would require, either in the form of Central Bank reserves or a sta-

⁶ See pp. 141 ff.

⁷ See pp. 357 ff.

⁸ See *Foreign Relations*, 1937, vol. v, pp. 360 ff.

⁹ See pp. 379 ff.

bilization fund. Methods by which the Brazilian Government plans to create and maintain these reserves. Specific action which this Government might take to help create immediate reserves or to assist in the gradual achievement of the desired objectives, including methods providing for continuing cooperation between the two treasuries.

Group III. The long range development program of the Brazilian Government. Estimate of amounts of foreign materials which will be required to carry out this program. Estimate of the effect on the Brazilian balance of payments position. Proposed methods of financing purchases of foreign materials. It is understood that the contemplated methods are those which would have the smallest immediate impact on the external position of the milreis. Specific action which this Government might take to facilitate the development of this program.

In order for this Government to have a complete understanding of these problems, the balance of payments position for 1939 and ensuing years should be thoroughly discussed as well as the anticipated effects of the proposed measures on future years.

This Government understands that in order to carry out the various aspects of a comprehensive program, large amounts of money will have to be contributed locally. For example, a long-range development program will doubtless require large expenditures for local materials and labor. It would be desirable to have information as to the methods proposed by the Brazilian Government to finance both the external and internal portions of the program because of their joint effect on the budgetary and governmental indebtedness position of the Brazilian Government.

Please inform the Minister that this Government is looking forward with the greatest satisfaction to the opportunity which his visit will afford for the discussion of all problems in which the two Governments have a common interest. If there are any further points beyond those above indicated, and which in Aranha's opinion could be usefully taken up during the time of his visit, please obtain such additional suggestions from him and telegraph me accordingly.

HULL

033.3211 Aranha, Oswaldo/10 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, January 17, 1939—3 p. m.
[Received January 17—2:35 p. m.]

16. For the Under Secretary. Your 12, January 16, 8 p. m. Aranha is highly pleased with the suggested agenda which he feels covers all matters to be discussed with the exception of immigration. He

explained that the question of Japanese and other immigration into Brazil is a subject of mutual interest and he desires during the discussions to ascertain our views . . .

He is planning to proceed on the *Nieuw Amsterdam* and his present plans are to take with him Joao Carlos Muniz, the chief of his Cabinet, and Sergio Lima E. Silva, a diplomatic secretary, who is a member of his staff.

SCOTTEN

832.5151/1353

*Memorandum by the Assistant Chief of the Division of
the American Republics (Briggs)*

[WASHINGTON,] February 21, 1939.

Discussions with Senhor Aranha have resolved the matter of economic cooperation between the United States and Brazil into three principal categories:

1. The provision of credits to enable Brazil to clear up exchange arrears due American exporters.
2. The extension of a line of credit to assist the Banco do Brasil, or a central bank if one is established, in regularizing seasonal fluctuations in the milreis exchange. Related to this is the whole question of the creation of a central bank.
3. Cooperation in a broad plan for the development of Brazilian production.

The first and the financial aspects of the third are questions which seem to fall naturally within the province of the Export-Import Bank and considerable preliminary discussion has already taken place with Mr. Jesse Jones.¹⁰ Little additional progress can be made, however, pending the resolution by Congress of the matter of the extension of the charter of the Bank.

The second topic, on the other hand, falls clearly within the scope of the Treasury, and in this field discussions could profitably be resumed at once. I believe that it might be appropriate to suggest this course of action to the Secretary of the Treasury.

ELLIS O. BRIGGS

¹⁰ Chairman of the Board of Directors, Reconstruction Finance Corporation.

832.51/1406

*The Brazilian Minister for Foreign Affairs (Aranha) to the
Secretary of State*¹¹

[Translation]

WASHINGTON, March 8, 1939.

MR. SECRETARY OF STATE: The Brazilian Government presents through Your Excellency, to your Government, its thanks for the courtesies which were extended to me and to my companions during my visit to your country.

Your Excellency may be assured that my grateful recollection of the period during which I had the honor of being my country's Ambassador to the United States, and that the amity of my people towards the American people and the mutual confidence that exists between our two Governments, have been enhanced by the repercussion of the new and expressive demonstrations of cooperation and of friendship towards Brazil which we have witnessed during the course of this visit.

With a desire to foster continued mutually beneficial economic relations between Brazil and the United States and to develop the national economy and natural resources of Brazil, the Government of Brazil, after due deliberation and the considered discussion of its authorized representatives with the authorized representatives of the Government of the United States of America, is undertaking or intends to undertake in the near future the following policies and actions to attain the objectives mentioned:

I

It is the decision of the Government of Brazil to issue a decree-law freeing the exchange market for commercial transactions. This will ensure the provision of funds in payments for imports from the United States in accordance with the note of the Brazilian Ambassador to the Secretary of State of the United States of February 2, 1935.¹² This measure will also facilitate the transfer of an equitable return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. The Brazilian Government will give further study to this matter. I believe that, as a result of the discussions between the authorized representatives of our respective governments during the course of my visit, a substantial accord has been reached as to the basis of these provisions and for the necessary cooperation between our institutions.

¹¹ For a summary of the discussions between the Brazilian Minister for Foreign Affairs and American officials published as an introduction to the letters exchanged between them, see Department of State, *Press Releases*, March 11, 1939, pp. 174-175.

¹² Executive Agreement Series No. 82, p. 34, or 49 Stat. 3808.

In order to proceed with this proposed facilitation of exchange transactions, the Government of Brazil finds it necessary to provide dollar exchange to meet amounts now due American exporters. To make this provision, my Government has addressed a communication to the Export-Import Bank of Washington with a view to obtaining the extension of appropriate acceptance credits for this purpose by that organization. A copy of this communication is enclosed as Appendix A.¹³

II

The Government of Brazil has decided to create a Central Reserve Bank which will have the functions of regulating the internal and external value of the milreis, and of controlling credit and the money market. The Central Reserve Bank will endeavor to eliminate unusual fluctuations in the balance of international payments and those arising from the irregular timing of in- and out-payments by a policy of adapting the balance of payments to normal exchange resources. To this end a line of credit in American currency, intended exclusively for this purpose, would be desirable in order to ensure relative stability in the value of the milreis within the policy described. A copy of a communication addressed by my Government to the Treasury Department regarding this matter is enclosed as Appendix B.¹⁴

III

With particular view to the systematic economic development of the Brazilian nation, my Government, in its communication to the Export-Import Bank of Washington, a copy of which is enclosed as Appendix A, took up the question of obtaining longer term credits to finance Brazilian purchases of industrial goods in the United States, and the terms of repayment of such credits. These credits are believed to be necessary to the proper utilization within a reasonable period of the known resources of Brazil, for the benefit of the Brazilian people and the further stimulation of Brazilian-American trade.

IV

The Government of Brazil is especially desirous of stimulating the systematic large-scale production of agricultural products native to Brazil or capable of successful introduction to Brazil which will complement production and find a market in the United States. The Government of Brazil will, of course, appreciate the cooperation of the Government of the United States in the study and development of such products which may provide the United States with assured sources of supply.

¹³ Department of State, *Press Releases*, March 11, 1939, p. 177.

¹⁴ *Ibid.*, p. 178.

V

In connection with all of the phases of economic relationships between the United States and Brazil, my Government has given renewed thought to the dollar bond indebtedness of the Government of Brazil and of the Brazilian States and Municipalities. The decision has been reached, as part of its general economic program, to resume payment on July 1, 1939 on account of interest and amortization on these external dollar debts. A transitional arrangement for a brief period to effect this has been discussed with the Foreign Bondholders Protective Council, Incorporated. These discussions in regard to the scale and amount of payment will be continued after my return to Rio de Janeiro and subsequent announcement will be made by my Government. It is the hope and expectation of my Government that with the improvement in its foreign commerce which it now foresees a permanent settlement which will be equitable and satisfactory to all interests involved will follow upon the expiration of this temporary arrangement.

VI

Still with the desire of giving to the friendship between our two countries economic and juridical bases commensurate with the purpose of promoting cooperation between our two peoples, I wish to emphasize that my Government intends to observe a general policy which will inspire the confidence of United States investors giving them no more restrictions than those to which Brazilian investors may be subjected. I can assure Your Excellency that my Government has decided to encourage in any way and means the valuable and desirable cooperation of United States citizens who have invested or who in the future may invest their capital and technical experience in the development of Brazilian resources and national economy.

Renewing my expressions of appreciation to your Government and to all the officials of the various Departments who have given us inestimably valuable assistance during the period of our negotiations, believe me your sincere friend,

OSWALDO ARANHA

832.51/1406

*The Secretary of State to the Brazilian Minister for Foreign Affairs
(Aranha)*

WASHINGTON, March 9, 1939.

EXCELLENCY: I have received with genuine appreciation Your Excellency's very friendly note of March 8, 1939, with reference to

the matters which I 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 cooperate with you in a comprehensive survey of all phases of the questions interesting our two countries, and I am convinced that that the traditionally close and cordial relations which have always existed between the people of Brazil and those of the United States will be materially strengthened as a result of the decisions taken during your visit.

I have noted with especial satisfaction that in your communication under acknowledgement you have enumerated policies and actions which the Government of Brazil, after due deliberation and the considered discussion of its authorized representatives with the authorized representatives of the Government of the United States, is undertaking or intends to undertake in the near future in order to foster continued mutually beneficial economic relations between the United States and Brazil and to develop the national economy and national resources of Brazil. As you well know, my Government is keenly desirous of taking any steps possible in order to continue and expand the economic cooperation between Brazil and the United States.

My Government is pleased to note that it is the intention of the Government of Brazil to establish and maintain a free exchange market for commercial transactions and to facilitate the transfer of an equitable return upon investments made in Brazil by United States citizens under normal conditions in the Brazilian balance of international payments. I am informed that the Export-Import Bank of Washington has found it possible to assist in the facilitation of exchange transactions by extending appropriate acceptance credits in order to provide dollar exchange to meet amounts due American exporters for imports from the United States.

I am also informed that the Treasury Department finds itself heartily in sympathy with the objectives stated in your communication to it regarding the establishment of a Central Reserve Bank, and will be glad to assist your Government in the establishment of such a bank and in its operations, by placing at your disposal its advisory facilities and by the extension of a line of credit. In the latter connection, I understand that the Secretary of the Treasury, with the approval of the President, is informing you that the President is prepared to make a recommendation to the Congress for suitable authorization.

I am further informed that the Export-Import Bank, with a view to cooperating in the facilitation of trade between the United States and Brazil and in the development of Brazilian natural resources, has agreed to consider the arrangement of suitable longer term credits

to finance Brazilian purchases of economic equipment in the United States.

Copies of communications in regard to these matters addressed to you by the Secretary of the Treasury and by the President of the Export-Import Bank are enclosed as Appendices A and B.¹⁵

The Government of the United States is interested in cooperating with the Government of Brazil in every practicable way in the study and development of agricultural products and production which will complement production in the United States. In this regard, as you are aware, legislation¹⁶ has already been enacted which authorizes the loan of experts of the Government of the United States to assist the Government of Brazil in specialized agricultural studies and developments. Plans have also been formulated for surveys of agricultural possibilities, including the development of tropical hardwoods, rubber, and other products, which surveys could readily include the coincidental study of many additional native products of Brazil. Draft legislation which would provide authorization for these surveys is now before the Congress.

In relation to this general program of economic cooperation between the United States and Brazil, I welcome the information that your Government plans to resume payment on July 1, 1939, on account of interest and amortization of the external dollar debt of the Government of Brazil and of the Brazilian States and Municipalities, in accordance with a transitional arrangement, and that it is the hope and expectation of your Government that with the improvement in its foreign commerce which it now foresees a permanent settlement which will be equitable and satisfactory to all interests involved will follow upon the expiration of this temporary arrangement.

I likewise welcome with sincere gratification the assurance that it is the intention of the Government of Brazil to observe a general policy which will encourage the participation of citizens of the United States in the economic life of Brazil.

In reiterating to Your Excellency the assurances of my most distinguished consideration, allow me to add my sincere thanks to you and to the officials of the Brazilian Government accompanying you for the close and valuable cooperation invariably accorded throughout the period of our important negotiations, and to wish you all a safe and pleasant journey in returning to Brazil.

CORDELL HULL

¹⁵ Department of State, *Press Releases*, March 11, 1939, pp. 180 and 181.

¹⁶ Approved May 25, 1938; 52 Stat. 442.

**EFFORTS OF THE DEPARTMENT OF STATE TO SECURE A RESUMPTION
OF PAYMENTS ON BRAZILIAN FOREIGN DEBTS¹⁷**

832.51/1477a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, June 8, 1939—3 p. m.

106. Do you have any further indication as to intention of Brazilian Government in regard to resumption payment on dollar bonds on July 1?¹⁸ Time for possible discussion is getting very short. Failure to afford opportunity for such discussion will be regrettable.

Please report by cable.

HULL

832.51/1480 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 10, 1939—1 p. m.

[Received June 10—12:45 p. m.]

187. Department's No. 106, June 8, 3 p. m. As the Department is aware at the time that Aranha signed paragraph V contained in his note to Secretary Hull of March 8, 1939,¹⁹ he was not convinced that his Government would carry out his undertaking. Upon his return here he was bitterly attacked especially by the army and even in the Cabinet for having made the promise (he had a near breakdown and had to go away for a month to recuperate) it is only recently that President Vargas has agreed that something should be done about it. In the meantime Aranha has hammered away consistently in an endeavor to have some sort of payments resumed on July 1. At the same time the Minister of Finance²⁰ has been referred insistently to prevailing unsatisfactory business conditions; to the state of the budget; and to the lack of available foreign exchange for making debt payments (obviously any large debt payments would have immediate effect on our present exchange arrangements).

As I have frequently reported Aranha has never failed to tell me that payments would be resumed in some form on July 1 but the President has not yet decided what sort of payments he feels able to make. Aranha said yesterday that the President was now contemplating

¹⁷ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 373 ff; see also *ante*, pp. 348 ff.

¹⁸ See paragraph numbered V in letter from the Brazilian Minister for Foreign Affairs, March 8, p. 352.

¹⁹ *Ante*, p. 352.

²⁰ Arthur de Souza Costa.

making payments on July 1 on arrears accumulated under the Aranha plan; ²¹ and then entering into discussions for a general plan of future payments.

Aranha said also yesterday that he would attempt on Tuesday next to secure a decision in the premises from the President.

CAFFERY

832.51/1481 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 15, 1939—5 p. m.

[Received 6:15 p. m.]

194. The Minister for Foreign Affairs told me last night that the Minister of Finance, who has always opposed resumption of payments on the foreign debt, came to see him yesterday afternoon and said that President Vargas had ordered him to call on Dr. Aranha and accept whatever plan Aranha proposed for resuming debt payments on July 1 next.

Aranha referred to the present weak position of the milreis (my 189, June 12, 5 p. m.²²). Adding "owing to the lack of export bills at this time the milreis will probably be in a difficult position in about a month from now". He then said "obviously if we make substantial payments on the foreign debt on July 1 the milreis will be very much affected and our carefully built up existing exchange arrangements might be destroyed". He attempted to have me make a suggestion as to exactly what the Brazilian Government should do, observing "it is not so much the question of the money; . . . we have about 15 millions reserve in foreign exchange but we will need that money very badly to protect the milreis this summer: what do you want us to pay?" For obvious reasons I declined to make the requested suggestion but did suggest that he attempt to get out of the Minister of Finance today an honest opinion as to the maximum amount which could be paid on the debts on July 1 . . . He said that he would do so.

Aranha finally remarked "in any event I know that the bondholders do not know or understand anything about this and we must make a payment on the first of July".

CAFFERY

²¹ See *Foreign Relations*, 1934, vol. iv, pp. 602 ff. For Spanish text of debt funding plan embodied in Decree No. 23,829, February 5, 1934, see Brazil, *Diario Oficial*, February 7, 1934, p. 2689; for translation, see Foreign Bondholders Protective Council, Inc., *Annual Report, 1934* (New York, [1935?]), p. 36.

²² Not printed.

832.51/1481 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, June 19, 1939—2 p. m.

114. Your 194, June 15, 5 p. m. Department agrees with your action in not responding directly to Aranha's request for suggestions. Please bear in mind in any discussions you may have with Aranha, when and as he seems prepared to define his offer (a) that the Council²³ would find it much easier to go along with reduced payments that are proposed as a purely temporary offer than one that appears to be put forward as a permanent basis of settlement and (b) that an offer that ran in terms of percentages of coupon rates would work out more satisfactorily for the holders of dollar bonds than an offer in terms of flat interest rates for different grades.

HULL

832.51/1484 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 22, 1939—2 p. m.

[Received 3 p. m.]

197. Department's 114, June 19, 2 p. m. The Minister for Foreign Affairs told me last night that he is still studying the debt matter but has not yet had his conversation with the Minister of Finance as the latter has been ill. He spoke again in discouraging terms of Brazil's exchange situation and referred to an article he said had appeared a few days ago in the *New York Times* contending that Brazil is now in no position to resume debt payments.

He agrees that the offer they will make will be a temporary offer and will not be presented as a permanent basis for settlement.

CAFFERY

832.51/1484 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, June 26, 1939—6 p. m.

118. Your 197, June 22, 2 p. m. Are there any further indications regarding the action to be taken by Brazil on July 1? In view of the recent increase in public interest in foreign loans and debt settlements (radio bulletins 145, 146, and 147) Mr. Aranha's forthcoming announcement of the terms of a transitional debt arrangement will command unusual attention.

HULL

²³ Foreign Bondholders Protective Council, Inc.

832.51/1490 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 28, 1939—4 p. m.

[Received 5:25 p. m.]

202. Department's 118, June 26, 6 p. m. Aranha told me very confidentially this morning that yesterday the Minister of Finance came to him with a draft note, addressed to me, which he had prepared for Aranha's signature (Aranha showed me the note) setting out that Brazil recognized its foreign debt and instructions were being given to the Bank of Brazil to set aside funds for a payment to be made thereon at a date to be fixed in the near future. The note also contained an invitation to the Foreign Bondholders Protective Council to send representatives here to discuss a final settlement of the whole debt business.

Aranha went yesterday afternoon to the President and told him that he was willing to sign the note but that it would be the last document he signed as a member of his Government. He said that if he remained in the Government a payment should be made as promised on July 1. The Minister of Finance was brought into the discussion and produced an article from the *New York Times* allegedly setting out that the Foreign Bondholders Protective Council would not accept any unilateral arrangements. Souza Costa said, "Therefore it would be better to make no payment at all at this time". Aranha still insisted on the July 1st payment, telling the President that "it is essential to reestablish the principle of honoring debts and of keeping promises". The President finally said that he agreed with Aranha.

The President is to see the Minister of Finance again today and Aranha hopes to let me have a reply this evening.

The milreis went to 23 yesterday on the open market.

CAFFERY

832.51/1491 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 29, 1939—1 p. m.

[Received 2 p. m.]

203. My 202, June 28, 4 p. m. The Minister for Foreign Affairs telephones me that the President has ordered the Minister of Finance to instruct the Bank of Brazil to deposit at once \$1,000,000 in New York banks as a pledge of good faith to be used for payments (on arrears) on the debt service.

An invitation will be sent to the Foreign Bondholders Protective Council to send representatives here in the near future to discuss:

1. In what form they desire the \$1,000,000 to be paid out;
2. The final settlement of the whole dollar bond debt business.

The Minister will discuss the matter further this afternoon with the Minister of Finance and will give me more pertinent information tomorrow at noon.

CAFFERY

832.51/1490 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, June 30, 1939—10 a. m.

121. Please inform Aranha, and request him to inform the President, that the steps reported in your 202 for meeting the debt situation on July 1 seem to us regrettably and decidedly inadequate.

We express this opinion out of a sense of the great possibilities that exist in the various fields of economic cooperation between the two countries. The agreements worked out in Washington contemplate such large-scale and permanent cooperation. This Government stands fully ready to go forward promptly with the discussions that are necessary preliminaries to translating those agreements into performance. It will be most beneficial and helpful if Brazil takes steps to regularize its debt situation in this country; that is the reason for including the matter in the arrangements worked out. Remembering that in our discussions with Aranha the sum of \$9,000,000 as an annuity on the service of the dollar bonds was the smallest sum mentioned, please suggest and urge upon Aranha that the amount proffered on July 1 should be raised to \$4,500,000. This would be a more adequate sign of Brazilian recognition of the debt and willingness to work out terms of settlement.

Furthermore it is believed that immediately and simultaneously an official invitation should be telegraphed by the Brazilian Government to the Protective Council to commence negotiations at once for a settlement.

HULL

832.51/1494 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 30, 1939—4 p. m.

[Received 8:40 p. m.]

205. When I saw Aranha he told me that a note (translation is being telegraphed to Department) was then on the way to the Embassy confirming the 1 million dollar payment and suggesting that the Foreign Bondholders Protective Council send representatives to Brazil to discuss the whole debt business. He wanted me to inform

our press representatives and in my presence instructed an aide to inform those representatives that they could quote him as having made a statement similar to the one I gave them.

As far as the amount to be paid on July 1st he repeated all the well known arguments.

(2) He referred to the tremendous opposition that developed here against his signing the promise at Washington to resume payments on July 1.

(3) . . . He reiterated that he has done his very best to secure a payment as large as possible and that one million dollars is all that he can get. President Vargas is not willing to pay more at this juncture (after further conversations in the last hour President Vargas and the Minister of Finance agree further sums will be deposited at New York as fast as the Government's financial situation allows of it. They hope another payment can be made within a fortnight).

(4) The Government has certain funds available but the President insists that they must be kept for repaying the Export Import Bank in regard to the exchange agreement especially in view of the threatening European situation.

(5) He referred again to the weak position of the milreis.

(6) He asserted that in his opinion the important points in all this is the fact that Brazil is reestablishing the principle of paying debts, it is a beginning even if only a modest one.

(7) Nothing is being paid at this time to the British, French and Dutch bondholders, although the amounts due them are three times as large as the amounts due us.

(8) He is afraid of the reaction here even to this small payment.

(9) Finally he referred again to the poor reception the Washington agreements²⁵ had received here. The Exchange Agreement had been interpreted as being designed only to help American exporters and he had been criticized for causing the Bank of Brazil to assume the obligation involved. There is general indifferent [*indifference?*] to the two other agreements signed. Aranha is a decided exception to this however and believes that the two other agreements are for the good of Brazil.

Although I discount some of Aranha's statements . . . I do believe that he has tried hard to get the best settlement possible and has had a big fight on his hands ever since his return from Washington.

CAFFERY

²⁵ See exchange of letters between the Secretary of State and the Brazilian Minister for Foreign Affairs, March 8 and 9, pp. 352-356.

832.51/1495 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 30, 1939—5 p. m.

[Received 9:11 p. m.]

206. First paragraph my 205, June 30, 4 p. m. The note received from the Minister for Foreign Affairs reads in translation as follows:

“June 29, 1939. Mr. Ambassador: Among the statements which I had the honor to make to your Government in Washington, by letter dated March 8, 1939, addressed to His Excellency the Secretary of State, there is included the following:

‘In connection with all of the phases of economic relationships between the United States and Brazil, my Government has given renewed thought to the dollar bond indebtedness of the Government of Brazil and of the Brazilian states and municipalities. The decision has been reached, as part of its general economic program, to resume payment on July 1, 1939 on account of interest and amortization on these external dollar debts. A transitional arrangement for a brief period to effect this has been discussed with the Foreign Bondholders Protective Council Incorporated. These discussions in regard to the scale and amount of payment will be continued after my return to Rio de Janeiro and subsequent announcement will be made by my Government. It is the hope and expectation of my Government that with the improvement in its foreign commerce which it now foresees a permanent settlement which will be equitable and satisfactory to all interests involved will follow upon the expiration of this temporary arrangement.’

2. After the approval by my Government at a meeting held on March 31 last, of everything which I agreed upon with the Government of the United States of America, His Excellency the President of the Republic ordered that an examination be made of the ways and means necessary for the carrying out of what had been agreed upon in the letters exchanged between me, the Department of State, the Treasury Department and the Export-Import Bank at Washington.

3. It has not been possible, however, for my Government, as Your Excellency is aware, due to the shortage of time and the increasing and alarming international difficulties to commence, up to the present moment, the carrying out of the general economic program in such a manner as to take advantage of the benefits of these agreements nor of the credit for the purchases on long term and reasonable interest charges offered by the Export-Import Bank of Washington, nor even of the collaboration promised by the North American Treasury for the creation of a Central Bank of Brazil.

4. Without being able to use these new resources, Brazilian importations have not been alleviated—which was an objective of these agreements—and the defense of the internal and external value of the milreis and the control of credit and the monetary market, could not be put entirely into practice. At the same time that, because of the facts mentioned above, my Government has not been able to avail itself of these advantages, the fall of coffee and cotton prices, products which are subject primarily to the influence of the American market, brought about a serious reduction in the value of our exports, eliminating the expectation of improvement of our trade balance, envisaged for the first semester of 1939.

5. The factors referred to above, and the impossibility, due to lack of time, of taking advantage of the benefits of the Washington agree-

ments, have consequently brought about the material impossibility of resuming the payments on July 1, 1939 on account of interest and amortization on dollar loans, in spite of the study and efforts made by the organs of the administration in an endeavor to arrive at the scale and the amount of these payments, as I had the honor to agree with your Government.

6. The Government of Brazil, in the situation into which it was happening, finds itself obligated, through the high intermediary of Your Excellency, to make known to the American holders of Brazilian dollar bonds that it will continue to have under consideration, with the same determination, the resumption of these payments, at a date to be announced later, and that, to this end, it has today given instructions to the Bank of Brazil, to take the necessary measures for placing in the United States of America, from its available resources, a special reserve of 1 million dollars.

7. It would appear to my Government that it would be a great help if the Foreign Bondholders Protective Council Incorporated would send to Brazil one or more representatives to examine together with our experts the date, scale and amount to be paid; because it is the principal preoccupation of the Brazilian Government to reconcile within the shortest possible time and under a definitive debt arrangement, the situation which is imposed upon it by present circumstances, with the high and respected interests of their American creditors.

I beg to request of this opportunity to renew to Your Excellency the assurances of my highest consideration. Oswaldo Aranha."

CAFFERY

832.51/1496: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, July 1, 1939—2 p. m.

[Received 2 p. m.]

209. Departments' 121, June 30, 10 a. m. Aranha referred again this morning to the debt matter and remarked that 4 months ago no one here, Brazilian or foreign, thought he could possibly secure a payment at this time on the dollar bonds. It had been necessary to bring about a change in the President's and the army's entire attitude. He said that it is "the first step that counts". Having once brought the President around, he believes that in the future the situation will continue to improve and that we will be able to secure a satisfactory settlement of our whole debt business.

The President decided yesterday afternoon to inform the Cabinet next Tuesday that he intends definitely to adopt a policy of full cooperation with the United States and for that reason is making a payment on the dollar bonds and no payments on the bonds held in the European nations. Aranha reminded me that many of the Cabinet are opposed to these payments, but he feels sure, after the President's declaration, they will change their attitude. "I know the amount is very small," he added "but the important thing is to implant the principle and to start the ball rolling in the right direction."

Observing "in any event this is a good example for the many other countries, especially those in Latin America, who owe you money and are paying nothing."

CAFFERY

832.51/1502 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, July 5, 1939—5 p. m.

[Received 9:03 p. m.]

211. Second paragraph my 209, July 1, 2 p. m. The Minister for Foreign Affairs tells me that at the meeting held yesterday the President stated that he had definitely decided that a settlement should be made with the holders of Brazil's dollar bonds and he had suggested that a representative of the Foreign Bondholders Protective Council come to Rio in the near future to that end. The Cabinet unanimously approved his decision. The President went on to say that he had definitely decided also on a policy of entire cooperation with the United States. The Cabinet again unanimously approved. The meeting was attended by the full Cabinet and the principal members of the Armed Forces. This of course represents an entire change of the attitude on the part of the President and army from that of a year and a half ago.

Aranha added that they were intensely annoyed with a telegram he had received from the Foreign Bondholders Protective Council.

CAFFERY

832.51/1506a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, July 6, 1939—7 p. m.

125. For the Ambassador from the Under Secretary.²⁶ I had this morning a long conversation with Francis White²⁷ with regard to the Brazilian debt situation. White has prevented his Executive Committee from issuing any statement to the public here and will refrain from sending any further telegrams to the Brazilian Government for the time being. He tells me that it is absolutely impossible for the Council to send any representatives to Rio de Janeiro to undertake negotiations there. They have no personnel that they can employ for that purpose, and they have literally no funds at their disposal to

²⁶ Sumner Welles.

²⁷ President of the Foreign Bondholders Protective Council, Inc.

utilize in payment of the expenses and work of some outside person whom they might engage.

As I explained to the Brazilian Ambassador here, while I recognize fully and appreciate greatly the efforts made by Aranha and I likewise recognize the value of the principle involved in the decision now reached by the Brazilian Government, the failure of the Brazilian Government to live up to the letter of the assurances officially given last winter has without question created a very unfortunate effect upon public opinion in the United States. The most helpful step that could now be taken would be the announcement on the part of the Council or on the part of the Brazilian Government that negotiations will be commenced on a definite date to be set as near in the future as possible for the purpose of arriving at a definite agreement for the resumption of service on that portion of the debt held in the United States. Since it is absolutely impossible for the Council to send a representative to negotiate in Rio de Janeiro, I hope you will urge as strongly as possible upon Aranha the desirability of sending a representative of the Brazilian Government to New York for this purpose. If such a step could be taken in the near future, I believe it would greatly remedy the unfortunate impression which now exists. Such a step would likewise avoid the possibility that negotiations for resumption of service on the American held debt might be confused with similar negotiations with regard to the debt held in England or in France. In the latter connection White informed me that he had received word from Lord Bessborough²⁸ by cable from London this morning that the British had been invited to send representatives to discuss resumption of debt service in Rio at the end of the present month. In his reply White will maintain the position that the American negotiations are separate from the negotiations of the British and French creditors.

Please telegraph me the result of your conversations with Aranha. [Welles.]

HULL

832.51/1508 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, July 7, 1939—7 p. m.

[Received 10 : 15 p. m.]

215. For Under Secretary. Department's 125, July 6. Aranha says that he is convinced that if they send a representative to the United States to undertake the negotiations, the negotiations will have no chance of success. He said ". . . I am willing to supply the neces-

²⁸ President of the Council of Foreign Bondholders, London.

sary funds for the expenses and work of a representative of the American bondholders incidental to his coming here. As soon as the Bondholders Committee is ready to give us the dates the Brazilian Government will be glad to announce the opening of the negotiations on the date the Committee chooses. I repeat that the negotiations in the United States would get absolutely nowhere. I am so deeply involved in this business that I want them to prosper".

CAFFERY

832.51/1518a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, July 14, 1939—7 p. m.

129. The Foreign Bondholders Protective Council today informed the Department that it had sent a cable on Tuesday, July 11, to Aranha stating that Council was prepared, provided the arrangement was satisfactory to the Brazilian Government, to send Dr. Dana Munro²⁹ to Rio to negotiate a debt settlement. If the Brazilian Government's reply is obtained in time, Dr. Munro could leave by plane from Miami on July 23, arriving Rio July 27. Dr. Munro can stay until September 9 if necessary, but must leave not later than that date in order to arrive in Princeton in time to organize his college work for the fall semester.

In view of the Council's willingness to send Dr. Munro and of the limitations on his time, it is hoped that the Council may receive a favorable response from Aranha as soon as possible.

HULL

832.51/1522 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, July 18, 1939—4 p. m.

[Received 5 p. m.]

219. For the Under Secretary. My 218, July 17, 7 p. m.³⁰ Unless the Council changes its belligerent attitude it will not be possible to accomplish anything satisfactory on the debts. If their telegrams do nothing else, they give Aranha an opportunity for building up a case

²⁹ Dana G. Munro, professor of Latin American history and affairs, Princeton University; former Department of State official and Foreign Service officer; vice president, Foreign Bondholders Protective Council, Inc.

³⁰ Not printed.

for washing his hands of the whole business. . . . Aranha has talked so much about the telegrams that there is now a very hostile atmosphere created toward the Council even all over the Foreign Office. . . .

Whether Aranha is sincere or not every time he gets a telegram from the Council it takes me considerable conversation to get him back into the mood of saying that he will go ahead with making arrangements for the negotiations with our bondholders.

Aranha finally went on to say that his present plan is to lay down a policy that Brazil will pay debts out of her commercial capacity to pay having regard to her balance of trade with each separate country. The result in our case of course would be that our bondholders would be favored; the French also to some extent; and the British not at all.

CAFFERY

832.51/1522 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, July 20, 1939—1 p. m.

131. Your 219, July 18, 4 p. m. The Council states that it has sent two telegrams to Aranha, the first on July 1, reminding the Brazilian Government of its agreement to resume service on July 1 (which the Department did its best to persuade the Council not to send), and the second on July 11, setting forth the arrangements for Dr. Munro's visit. The Council states that failing to have a reply from Aranha as to whether the arrangements were satisfactory, it has been compelled to release the passage which it had reserved for Dr. Munro on the plane leaving Miami July 23. A new reservation has been made on the next plane, leaving Miami July 26.

The Council has informed the Department that it will send no more telegrams but it cannot instruct Dr. Munro to proceed to Brazil unless it receives a reply from Aranha indicating that the arrangements outlined in its telegram of July 11 are satisfactory.

The Department is fully aware of the difficulties confronting Aranha and appreciates what he has done to advance matters even to this point. It is hoped that he can be induced to take the next essential step of telegraphing the Council as soon as possible in order that Dr. Munro can leave on July 26.

HULL

832.51/1528 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, July 22, 1939—2 p. m.

[Received 6 : 50 p. m.]

225. Department's 131, July 20, 1 p.m. Aranha approves designation of Munro and suggests that he arrive here by the 15th of August. The Brazilian Government will then be in a position to take up the debt matter seriously. He does not believe that the discussions need continue more than a couple of weeks. He suggests also that the Council fix a definite amount for Munro's expenses. He will not, however, pay for telephone conversations. (In my opinion the Council made a mistake in accepting Aranha's offer to pay these expenses. . . .) He [desires] the Department to transmit the invitation to Munro to the Council as he is not willing at their [*this?*] time to telegraph to the Council direct.

As set out in my telegram 219, July 18, 4 p. m., Aranha confirmed the statements he made to me in my previous telegram 215, July 7, 7 p. m., regarding treatment to be accorded to American bondholders.

CAFFERY

832.51/1543 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, August 2, 1939—2 p. m.

[Received 1 : 55 p. m.]

236. My 234, August 1, 4 p. m.³¹ Aranha says that the Brazilian Government agrees to pay Munro's expenses but confidentially trusts that his expenses will not reach anything like \$7500, a figure which they consider exorbitant. Aranha repeats that Munro should not arrive here earlier than the 13th.

CAFFERY

³¹ Not printed.

832.51/1578 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, August 31, 1939—4 p. m.

[Received August 31—3 : 55 p. m.]

278. Aranha insisted again this morning that Brazil must obviously make a debt settlement with the United States. Insisted also that settlements with the various interested countries should be made on the basis of respective balances of trade.

I observed that the negotiations were not making much progress. [Here follows explanation that negotiations were slowed up due to uncertainty as to the situation arising from the war menace. A rumor that the debts might be paid in milreis was denied as not worth attention.]

In closing I urged him to press the Minister of Finance for some action. He said that he would do so.

CAFFERY

832.51/1579 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, September 1, 1939—4 p. m.

[Received 5 : 05 p. m.]

284. My 278, August 31, 4 p. m. Brazilian financial circles are in a state of intense depression today but it is my opinion that when the present confusion clears up the Brazilian authorities will be in a position to negotiate a settlement with our bondholders. A member of the Brazilian Debt Commission gave Munro yesterday a memorandum in which the figure \$12,000,000 was mentioned as the amount Brazil might possibly be able to set aside for annual payment on all of her foreign bonds. Aranha mentioned the same figure to me yesterday as a "possible maximum".

However, Brazilian authorities will probably now plead inability to make commitments at this juncture in face of loss of important European markets.

Principal British bondholders representative is endeavoring leave Rio as soon as possible. Munro will remain until the 9th. (In any event there is no air passage available before that date.)

CAFFERY

832.51/1588

The Ambassador in Brazil (Caffery) to the Secretary of State

No. 1691

RIO DE JANEIRO, September 6, 1939.

[Received September 14.]

SIR: I have the honor to report that Dr. Dana Munro had another talk with the Minister of Finance yesterday afternoon. The Minister said that of course everything was being changed by the outbreak of war in Europe, that its repercussions had left them little time to think about the debt question during the past week, but that obviously the resulting uncertainty made it impossible to do anything about debt payments at present. He went on to say that if Brazil's export proceeds begin to show an improvement and conditions thus become favorable following the present uncertainty he will be glad to take up the debt matter again. He had made the same statement the day before to Sir Bertram Hornsby, the representative of the British bondholders.

Dr. Munro has accordingly arranged to return to the United States on the plane leaving here Saturday. While the outbreak of war has prevented any immediate concrete accomplishment on his part, his trip has enabled him to become familiar with the way things are going here, and any continuation of the negotiations that may be desirable can be carried on from the United States, probably through the Brazilian Ambassador there.

As Dr. Munro took leave of the Minister for Foreign Affairs, the latter assured him that he would be glad to carry on with him any correspondence about the debts that might be appropriate, and took occasion to reiterate that as far as he, the Minister, was concerned, the earlier communications from the Foreign Bondholders' Protective Council had not left him very well disposed toward negotiations with the Council.

The French and British bondholders' representatives have given Dr. Munro the impression that the present situation in Europe makes them so desirous of an immediate settlement that they would be willing to accept almost any terms, however unfavorable, that the Brazilians might offer them now. However, Sir Bertram Hornsby, who is the principal British negotiator, is leaving today to return to London, and it is understood that Mr. René Berger, the French representative, is also preparing to leave, indicating that they consider it hopeless to try to obtain even an unfavorable settlement in the present circumstances.

Mr. John Phillimore, the second British representative, is still here but this is primarily because he is now working in the British Em-

bassy, helping with its suddenly increased volume of business. The Portuguese negotiator never actually came to Rio de Janeiro.

Respectfully yours,

For the Ambassador:
WILLIAM C. BURDETT
Counselor of Embassy

832.51/1598

The Ambassador in Brazil (Caffery) to the Secretary of State

No. 1716

RIO DE JANEIRO, September 11, 1939.

[Received September 18.]

SIR: Referring to previous correspondence having to do with negotiations for the resumption of payments on the Brazilian foreign debt, I have the honor to report that in informal conversation today with the Brazilian Minister for Foreign Affairs I remarked to him that although I appreciate fully the present difficulties of the Brazilian Government in the way of making a settlement at this time of their foreign debts, I do not expect the Brazilian Government to take advantage of this situation and attempt to put off indefinitely the resumption of the interrupted conversations. The Minister for Foreign Affairs stated that he concurs with me on this.

Respectfully yours,

JEFFERSON CAFFERY

832.51/1622: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, November 10, 1939—1 p. m.

[Received 2: 50 p. m.]

392. My despatch No. 2003, November 3, 1939.³² Brazil's improved exchange position under temporary war conditions is reviving the question of servicing the foreign debt. The Minister of Finance has told the European bondholders representatives he likes the so-called Schroeder Plan under which if agreed upon Brazil would pay annually on the whole debt a fixed service of 3,000,000 pounds sterling plus a variable service contingent upon an increase in the price of certain exports. The plan is going forward by next air mail. It is familiar to the J. Henry Schroeder Banking Corporation of New York though possibly not to the Bondholders Protective Council.

The Europeans will oppose it in its present form. Moreover, they would prefer a temporary settlement although they are extremely eager for immediate payments on one basis or another. They are pre-

³² Not printed.

paring counter-proposals and have also made certain objections to the above plan which the Minister said he would study. He told them he would call them within a few days to a meeting at which he wanted to discuss specific proposals.

Minister of Foreign Affairs keeps me currently informed; he tells me Souza Costa suggested Schroeder Plan because he believes European representatives will reject it. Both Ministers want suggestions from me. If Council cares to express an opinion on Schroeder Plan or make other suggestions or proposals I can put Adams in touch with Costa.

British representative tells me he will suggest a scale of payments to the Brazilian Government which would be favorable to British interests and detrimental to ours. If we sit quietly by and take no part in the conversations the British, French and Portuguese representatives may eventually secure a settlement and we might find ourselves left out in the cold.

Please inform Treasury.

CAFFERY

832.51/1621 : Telegram

*The Acting Secretary of State to the Ambassador in Brazil
(Caffery)*

WASHINGTON, November 15, 1939—noon.

223. Embassy's 392, November 10, and despatch No. 2003, November 3.³³ The Brazilian Government has repeatedly assured us that the dollar debt would receive consideration before any other Brazilian foreign debt and that in any settlement it would receive terms at least as favorable as those extended to the creditors of any other nationality. This remains, of course, our expectation. The Department assumes that as and when you may find it necessary to recall statements to this effect by the Brazilian Government you will do so and will make completely clear the fact that any settlement with investors of other nationalities that ignored the dollar debt or had as a direct or indirect consequence discrimination against the holders of the dollar debt or unjust terms would of course create great criticism here.

The Department is ready to discuss the matter of resumption of debt service with the Brazilian Government.

For your information only as to the request of the Minister of Foreign Affairs and the Finance Minister to you for suggestions, the Department would prefer to postpone making such suggestions for a short while. We probably will apply ourselves to the task of trying to work out an adjustment of the Colombian bonds in the immediate future and believe we will be in a better position to deal with this

³³ Latter not printed.

Brazilian situation then. However, of course, if there is any danger of a development seriously threatening the interests of the holders of dollar bonds, we might have to revise this plan.

Please keep the Department fully informed.

WELLES

832.51/1656a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, December 12, 1939—4 p. m.

235. The Department has been apprized of the receipt by the Foreign Bondholders Protective Council of a telegram of November 23 from the Council of Foreign Bondholders in London expressing the hope that this Government will press the Brazilian Government to formulate debt service proposals without delay.

The Department was subsequently approached by the Financial Counselor of the British Embassy and by the Counselor of the French Embassy, independently, for a statement affirming this Government's support of a general settlement of the Brazilian foreign debt. The British official left an *aide-mémoire* stating that the British Council believes the Brazilian Government to be prepared to formulate proposals on the basis of the 1934 Aranha plan and that the British Government hoped the Department would accede to the British Council's suggestion that you be requested to approach the Brazilian Government in the premises. (The British and French representations to the Department apparently result from the reported attitude of the Finance Minister—please see your despatch 2136 [2126]).³⁴

Any independent settlement reached with the Europeans prior to a settlement of the dollar portion of the Brazilian debt might not only provoke violent criticism by American bondholders but it might also, by creating an opening for Congressional criticism, prejudice the future of our cooperative financial relations with Brazil (Aranha's explanation in your despatch no. 2112³⁵ that an agreement with the Europeans now would leave the way open for a "more generous arrangement with us" to the contrary notwithstanding).

It is therefore suggested, if you perceive no objection, that at an opportune moment you make informally the following points to Aranha:

1. The Department continues to believe that a settlement in the near future of the American portion of the debt is highly desirable. (This Government is in fact now giving special attention to the South American bond problem).

³⁴ November 25, not printed.

³⁵ November 24, not printed.

2. The Department is pleased to learn that the Brazilian Government, as part of the general plan for solving the debt problem and as an indication of Brazil's willingness to make a definitive settlement, is now exploring the European angle with the agents at present in Rio de Janeiro. It is hoped however that the Brazilian Government will give careful consideration to the effect which a solution of the European phase alone would have on Congress and on public opinion in this country, vis-à-vis Brazil, unless it will work out its settlement with dollar bondholders simultaneously, at least, with anything it works out with other bondholders. Certainly no scheme should be concluded before a settlement with dollar bondholders is reached.

3. The Department hopes that the present studies being undertaken by the Brazilian Government will result in providing a satisfactory basis for negotiations, and that this basis must assure dollar bondholders equitable treatment as compared with other bondholders. The comparative position of the dollar issues, including state and municipal issues, should be recognized as they were in the original Aranha plan, which was accepted as being relatively fair as between the holders of different issues.

HULL

832.51/1673 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 28, 1939—2 p. m.

[Received 3:45 p. m.]

456. Department's telegrams 223, November 15, noon, and 235 December 12, 4 p. m., my despatch number 2224, December 15.⁵⁶ I will review briefly below the debt situation.

As the Department is aware, on invitation from the Brazilian Government, representatives from the United States, English and French bondholders came here last August to begin debt negotiations; the war intervened; the United States representative returned to the United States; the other representatives remained here and continued negotiations (joined later by a Portuguese representative); these European representatives finally reached understandings with the Minister of Finance on the basis of which they could probably conclude an agreement acceptable to their principals. The Minister of Finance offered them a permanent settlement (of the total debt in all currencies) with annual service of 3,000,000 pounds sterling rising perhaps to 5 after a year or two. The Europeans were willing apparently to accept this figure on one basis or another.

They are not willing to accept lower terms than they were in August for two reasons: war conditions in their countries and the fact that their personal reputations as negotiators are at stake were they to leave empty handed after all these months here. They would prefer to have the above sum allotted to the Federal debt, ignoring for the pres-

⁵⁶ Despatch No. 2224 not printed.

ent the State and municipal issues in which we are more interested, and persuaded the Minister to agree to this. At this juncture I took action last week to prevent either a settlement of the Federal debt alone or any other agreement with the Europeans prior to negotiating with us. The Europeans are, of course, continuing to urge an immediate settlement.

For some time the Minister of Finance has been desirous of our taking part in the negotiations (and now insistently so) but my hands were tied by Department's telegram 223, of November 15, noon. In the meantime Aranha, as frequently reported, has been urging that a settlement should be made first with the Europeans and then he said a more favorable settlement could be made with us later.

If we are not going to negotiate until later and oppose any settlement before then I should like to make this clear to the Brazilian Government because the whole business is getting into a muddle.

The Minister for Foreign Affairs continues to urge us not to have anything to do with the Europeans . . . I have no doubt Aranha sincerely means this. However, it is my impression that once lower terms were accepted by the Europeans we would run into obvious practical difficulties in getting better terms for our bondholders for the Federal bonds at least: President Vargas says he is "interested in doing something for the Americans" but if faced with an European invoice on terms very favorable to Brazil he might readily adopt the position that we should be as easy on Brazil as they were (having in mind the fact that the public and particularly the army in general still do not see why the debt should be paid at all).

In view of their trade balances the Europeans are not in as strong a bargaining position as we are although they will use what pressure they can especially the fact that the English and French are now making considerable "war purchases" here. Were we to use real pressure we could either increase the above figures or obtain real preferential treatment; but this would be resented of course.

If we do wish to participate in the negotiations I should appreciate any instructions the Department may wish to give regarding constructive proposals—especially whether to propose maintenance of the relative status of the various issues in all currencies as defined in the Aranha plan. This would leave the total amount to be paid on the entire debt as the sole major matter for negotiation and determination.

To sum up, we cannot leave the situation as it now stands: we must either (a) negotiate ourselves or (b) attempt to stop all discussions between the Brazilians and the Europeans (this of course would be opposed by both those sides.)

CAFFERY

832.51/1673 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, December 29, 1939—7 p. m.

249. Your 456, December 28, 2 p. m. In view of Aranha's statements last March we have proceeded with various phases of the cooperative arrangements in the belief that Brazil would fulfill its undertakings. Therefore we have confidently expected at least equal treatment with respect to debts. Public opinion here (of bondholders, the press and in Congress) has closely followed developments since the conversations, such as failure to resume service on July 1, the suspension of negotiations with the Council and the several operations of the Export-Import Bank which have favored Brazil more than any other American republic. The Department must therefore again emphasize the importance of avoiding any postponement or appearance of postponement of action on behalf of American bondholders in deference to European bondholders.

On the other hand the Department does not wish to take any action which will discourage the gratifying desire manifested by the Brazilian Government to reach a settlement and feels that this opportunity to further a prompt settlement for the holders of dollar bonds should not be lost.

The Department is consequently orally informing the British and French representatives (please see Department's 235 of December 12, 4 p. m.) that this Government will actively support at Rio the interests of American bondholders, that it will not countenance any partial settlement favoring European bondholders at the expense of American bondholders, and that any agreement must make some provision for all dollar bonds.

You are therefore authorized in your discretion to participate informally and independently in debt discussions with the appropriate Brazilian authorities for the purpose of ascertaining what terms the Brazilians are prepared to offer.

If the Brazilian Government is prepared to enter into discussions of the dollar debt, as we greatly hope, the Department will give immediate consideration to the question of whether the Council can play a useful role in those discussions, and as to whether it should send a representative to Rio.

The basis of any terms must be comprehensive, i. e., there must be provision for all dollar bonds in some schedule similar to the Aranha plan. To leave the State and municipal debts in default—a condition created largely by the Brazilian control of exchange—while payments were being received by European bondholders on a large vol-

ume of securities would cause great dissatisfaction which would hinder us in all our dealings with Brazil in the economic and financial sphere.

The amounts currently discussed are small for such a settlement and the application of the proportions of the Aranha plan would result in payments on some categories so small as to defeat the purposes of a debt settlement. For this reason it might be difficult to conclude a permanent settlement at this time. You will in this connection recall that in the discussions with Aranha last February this point was brought up and his letter to the Secretary of State mentioned that a transitional arrangement would initially be adopted, to be followed, upon an improvement in Brazil's foreign commerce, by an equitable and satisfactory permanent settlement. Our surmise is that a plan based on small payments would be far more likely to secure acceptance if placed on a temporary basis.

HULL

832.51/1675: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, December 30, 1939—10 p. m.

[Received 11:33 p. m.]

461. Department's 249, December 29, 7 p. m. [Here follows passage commending Aranha's good faith and his efforts in the bond payment matter with the statement that Aranha was now in a better frame of mind with respect to the situation than at any time since the suspension of payments.] President Vargas has said several times recently and repeated yesterday that he is interested in doing something for "American and Portuguese bondholders only".

I sent my 456, December 28, 2 p. m., for three reasons:

(1) The situation described was brought about by the fact that the European representatives remained here after the outbreak of the war and continued persistent efforts to protect their interests the best way they could. [Apparent omission] did not suspend the "negotiations with the Council" as the Department apparently believes: Costa asked Munro to remain here and continue negotiating but Munro had to return for his Princeton classes; also at the time in view of the outbreak of the war the outlook for an early settlement seemed hopeless.

(2) In the meantime in view of Department's No. 223, November 15 I had to stand by and watch what was going on.

(3) I felt that the Department should authorize me to "participate informally and independently" (as set forth in Department's telegram No. 249).

Aranha writes me today and telegraphed Martins³⁷ to inform Department "in the discussions with the other creditors the Minister of Finance is endeavoring to find a reasonable basis for a solution of the debt problem which, however, will be communicated to those creditors only after an agreement has been reached with the American bondholders for the resumption of dollar payments." The Minister of Finance is informing the European representatives that he can resume conversations with them only after some sort of understanding on the subject with the Embassy.

Referring to the last paragraph of the Department's telegram I agree that a temporary settlement should now be envisaged.

Aranha says he will endeavor to arrange with the states and municipalities for resumption of payments on their dollar bonds only.

CAFFERY

ASSISTANCE OF THE DEPARTMENT OF STATE IN SECURING PAYMENT
OF AMERICAN COMMERCIAL ARREARS³⁸

832.5151/1273: Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, January 5, 1939—4 p. m.

[Received January 5—3: 55 p. m.]

2. Following is a translation of a note from the Minister for Foreign Affairs, dated January 4, in reply to the note which I presented on December 20,³⁹ as stated in the Embassy's 294, December 20, 2 p. m.⁴⁰

"Mr. Chargé des Affaires: I have the honor to acknowledge receipt of the note of the 20th of last month in which, referring to article 6 of the Commercial Treaty in force between the United States and Brazil⁴¹ as well as to the declarations made by the Ambassador of Brazil in Washington in a note addressed to the Secretary of State on February 2, 1936 [1935],⁴² you request the allocation of exchange for the payment of importations of American products, as such payments become due.

2. In answer, I have to inform you that the Brazilian Government does not spare efforts to direct the economy of the country with the object of freeing it, as soon as possible, from the exchange monopoly which was reestablished during the second half of last year due to

³⁷ Carlos Martins, Brazilian Ambassador in the United States.

³⁸ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 330 ff.; see also *ante*, pp. 348 ff.

³⁹ For text, see *Foreign Relations*, 1938, vol. v, p. 369.

⁴⁰ *Ibid.*, p. 372.

⁴¹ Trade agreement signed February 2, 1935, Department of State Executive Agreement Series No. 82, or 49 Stat. 3808.

⁴² Published as part of the trade agreement.

world economic conditions, thus giving again full freedom to exchange operations for commercial purposes, since it is correct that this is the only means to end complaints of foreign exporting commerce with respect to the allocation of foreign exchange.

3. The greatest obstacle which the Government is finding at the moment to achieve this desideratum is the small delay which now exists in the payment for imported merchandise which we believe reaches 2,500,000 pounds, more or less, with the United States. In case exchange freedom is reestablished, this amount, as well as the arrears with other countries, would weigh on exchange as a depressing element.

4. In order to remove this difficulty the Government is studying means of obtaining a credit which will permit the liquidation of these commercial arrears, over a reasonable length of time, in order thus to be able to normalize the exchange market and do away with all delay in the payment of imported merchandise, of which the foreign exporters complain.

5. This Government is desirous of examining this possibility with your Government, thereafter assuring it of furnishing sight exchange for merchandise of current and normal commerce.

I avail myself of the opportunity to renew to Your Excellency the assurance of my very distinguished consideration. Oswaldo Aranha."

SCOTTEN

8325151/1275a : Telegram

The Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, January 20, 1939—7 p. m.

20. What information can the Embassy secure as regards the details of exchange payments due American exporters. Can the Embassy procure from the Brazilian authorities material on the following: (a) amount of delayed exchange due American exporters for which no contracts have been issued; (b) amount of outstanding contracts which have been issued and which have not yet matured, subdivided into such time periods as may be feasible and significant; (c) division of the preceding along commodity lines. If nothing more is available, is it possible to tell how much of the preceding totals are due to oil companies.

Department is urgently in need of all available information on these points as it is trying to formulate immediately the basis of prospective discussions with the Brazilian Foreign Minister.

Can the Embassy also furnish estimate as to amount of earnings of American corporations in Brazil which might be transferred to this country if exchange could be secured.

HULL

832.5151/1284 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, January 24, 1939—5 p. m.

[Received 6 p. m.]

28. Department's 20, January 20, 7 p. m.

(a) Official figures: \$6,000,000. In addition estimated \$4,500,000 for unsold stocks of United States origin. Also \$2,500,000 which is an estimate of needs in excess of daily quotas over and above limits established by the bank and which companies operating on the basis of daily quotas allege represents a legitimate claim. Total \$13,000,000. (The estimate given above for needs in excess of daily quotas would undoubtedly be contested by the Bank of Brazil which would claim that this amount has already been absorbed in past remittances by the companies involved.)

(b) The Director of Exchange is unable to answer the Department's question. He points out that the amount of outstanding contracts which have been issued and which have not yet matured varies from day to day in accordance with maturities and new contracts issued.

I venture to point out that the amount of the outstanding contracts appears to be relatively unimportant as regards the discussions with Aranha. If an agreement is arrived at resulting in the supply of adequate exchange for future imports, I am convinced that American exporters will not push for immediate payment of the outstanding contracts. These contracts are being liquidated promptly on maturity by the Bank of Brazil and the Embassy has no reason to fear that this practice will be discontinued.

(c) Although no official division along commodity lines is available, following is an unofficial estimate of the position of the American oil companies:

- (1) Arrears of exchange for oil of United States origin for which no contracts have been issued; exclusive of stocks \$735,000
- (2) Arrears on stocks of United States origin \$3,000,000
- (3) Arrears on oil imported by American companies from countries other than the United States; exclusive of stocks \$990,000
- (4) Arrears on stocks imported by American companies from countries other than the United States \$2,400,000; this figure is in addition to the \$4,500,000 for unsold stocks given in (a).

Estimate of amount of earnings of American corporations in Brazil which might be transferred to the United States if exchange could be secured \$10,000,000.

Complete exchange report embracing all the points covered in this telegram and expanding thereon will be sent to the Department by air mail leaving here January 28th.⁴³

SCOTTEN

⁴³ Despatch No. 1133, January 27, not printed.

832.5151/1332 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, March 20, 1939—6 p. m.

[Received March 20—5:37 p. m.]

78. For Under Secretary.⁴⁴ The Director of Exchange of the Bank of Brazil has informed Embassy in strictest confidence that as he is in entire disaccord with the agreement signed by Aranha in Washington relating to exchange,⁴⁵ he is resigning on Wednesday afternoon.

He explained that his principal objections to the proposed decree law were: (1) that it would be a serious mistake for the Brazilian Government at this time to relinquish in whole or in part the right which it now enjoys of purchasing all of the export bills; (2) that he is convinced the Brazilian Government cannot carry out the provisions of the decree law relating to the compensation trade with Germany.

SCOTTEN

832.5151/1349 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, March 31, 1939—noon.

[Received March 31—10:43 a. m.]

96. For Under Secretary. My 78, March 20, 6 p. m. The Director of Exchange of the Bank of Brazil informs me that a full meeting of the Cabinet will be held at Petropolis this afternoon to consider various aspects of the agreement arrived at in Washington with Aranha and that as a result he expects that a new exchange decree law will be promulgated shortly. He adds that his resignation will in all probability take effect upon the promulgation of the new decree law at which time a new director will be appointed.

SCOTTEN

832.5151/1350 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, April 1, 1939—7 p. m.

[Received 7:20 p. m.]

100. My 96, March 31, noon. Francisco Alves Dos Santos, a Director of the Banco Commercial of the State of Sao Paulo, has been appointed today by President Vargas Director of Exchange of the Bank of Brazil and will take over his new office on Monday. He is well known

⁴⁴ Sumner Welles.⁴⁵ See letters exchanged between the Brazilian Minister for Foreign Affairs and the Secretary of State, March 8 and 9, pp. 352-356.

to the Embassy and informed me confidentially that the new exchange policy would be put into effect immediately.

SCOTTEN

832.5151/1357: Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, April 9, 1939—7 p. m.
[Received 8:47 p. m.]

107. My 100, April 1, 7 p. m. The President of Brazil signed on April 8 decree law No. 1201⁴⁶ establishing a new exchange policy. The text reads as follows:

“The President of the Republic, using the powers conferred upon him by article 180 of the Constitution, decrees:

Article I. Liberty for exchange operations is reestablished in the terms of this decree law.

Article II. Export drafts, as well as values [*securities?*] transferred from abroad, will be sold freely to banks established in this country which are authorized to conduct exchange operations.

Sole paragraph. The bank control (*fiscalizacão Bancária*) will supply export permits only upon presentation of proof by the exporter to show that the respective exchange has been sold in accordance with the terms of this decree law.

Article III. The banks purchasing export drafts are obligated to sell to the Bank of Brazil, on a sight draft on London or New York, in accordance with the official rate established daily and in money of international acceptance, 30 per cent of the amount of each bill of exchange purchased.

Article IV. The purchase of exchange for the payment of importations shall also be made in the free market, with the previous authorization of the bank control.

Article V. The exchange for the payment of importations already made and the liquidation of which, in accordance with the regulations now in force, is already assured by means of deposit in Brazilian money, cannot be purchased in the free market.

Sole paragraph. The payment of these importations will be effected by the Bank of Brazil at the rate to which they are entitled.

Article VI. Transfers abroad, other than those issuing from import trade, may only be made through the Bank of Brazil.

Article VII. Foreign tourists shall sell freely to the banks, banking or exchange first, the amounts of their letters of credit, ‘travellers’ checks’ or foreign currency, and may reexchange the national money should they so desire. The funds made available in this manner to the banks, banking or exchange firms, must be applied by them exclusively in the sale of drafts, letters of credit, payment orders or money, to persons duly authorized to purchase same by the bank control for purposes of travel or living expenses abroad.

Sole paragraph. Such operations must be entered separately and reported daily to the bank control.

⁴⁶ Brazil, *Coleção das Leis da República dos Estados Unidos do Brasil de 1939* (Rio de Janeiro, 1939), vol. iv, p. 71.

Article VIII. Exchange operations in compensated currencies will continue to be handled exclusively by the Bank of Brazil which shall alter its quotation in accordance with the fluctuations in the free market.

Article IX. With the exception of the Bank of Brazil, banks may not maintain 'bought' exchange needs beyond the limit to be fixed by the bank control.

Article X. The amount collected by the Bank of Brazil in accordance with the terms of article No. III, will be placed at the disposition of the Government, being utilized to meet the necessities of the public administration.

Article XI. There is maintained the tax created by paragraph No. 2, article II of decree law No. 97 of December 23, 1937,⁴⁷ and subsequently modified by decree law No. 485 of June 9, 1938⁴⁸ and 1170 of March 23, 1939.⁴⁹

Sole paragraph. This tax will also be imposed on transfers relating to obligations of the public administration.

Article XII. The present decree law will take effect on the date of its publication, all provisions to the contrary being revoked.

Rio de Janeiro, April 8, 1939. Signed Getulio Vargas, Arthur de Souza Costa."

Please inform Department of Commerce.

SCOTTEN

832.5151/1358 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, April 10, 1939—noon.

[Received 1:45 p. m.]

109. My 107, April 9, 7 p. m. The Director of the Exchange of the Bank of Brazil informs me that the official rate for the purchase of the 30% of export drafts referred to in article III of decree law No. 1201 is 16.500 milreis. Banks may purchase future export drafts but cannot sell future exchange for importations. Commercial banks will grant spot exchange for current importations. Banks may not maintain "bought" exchange position in excess of \$5000 for 24 hours.

Commercial banks as yet have not quoted rates for the purchase of the 70% of the export bills nor for the liquidation of import bills but it is believed that the rates will be known late today.

The decree law took effect today.

Please inform Department of Commerce.

SCOTTEN

⁴⁷ Brazil, *Coleção das Leis da República dos Estados Unidos do Brasil de 1937* (Rio de Janeiro, 1938), vol. III, p. 434.

⁴⁸ Brazil, *Coleção das Leis da República dos Estados Unidos do Brasil de 1938* (Rio de Janeiro, 1939), vol. II, p. 241.

⁴⁹ Brazil, *Coleção das Leis da República dos Estados Unidos do Brasil de 1939* (Rio de Janeiro [1939?]), vol. II, p. 127.

832.5151/1359 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, April 11, 1939—noon.

[Received 1:40 p. m.]

110. Embassy's telegram 107, April 9, 7 p. m. Referring to article No. 3 of the exchange decree law Aranha informed me this morning that the Government had found it necessary to increase from 10%, as agreed in Washington, to 30%, the Government's share of export drafts. He explained this was on account of the international situation and furthermore in order to enable the Government to build up a reserve to be used in making a payment on Brazil's dollar bonds.

SCOTTEN

832.5151/1360 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, April 11, 1939—6 p. m.

[Received 6:05 p. m.]

112. In conversation today with Aranha and with the Exchange Director of the Bank of Brazil both informed me that as soon as the acceptance credits of \$19,200,000 agreed upon at Washington are available, prompt action will be taken to clear up American exchange arrears. In view of this present cooperative attitude on the part of the Brazilian authorities, I think it would be well to make these acceptance credits available to the Bank of Brazil without further delay.

I venture to suggest the Embassy be advised by telegraph as to when these acceptance credits will be opened.

SCOTTEN

832.5151/1357 : Telegram

The Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, April 11, 1939—6 p. m.

57. Your 107, April 9, 7 p. m., and 109, April 10, noon. Comparison of the text of decree-law no. 1201 with the draft decree-law furnished the Department by Aranha, a copy of which was transmitted to the Embassy with instruction no. 307 of March 9, 1939,⁵⁰ indicates three principal differences:

1. The proportion of export drafts which must be sold to the Bank of Brazil at the official rate has been increased from 10 to 30 per cent.

⁵⁰ Not printed; this instruction merely transmitted the notes of March 8 and 9 exchanged between the Brazilian Minister for Foreign Affairs and the Secretary of State, and related memoranda (832.51/1432).

2. Article 9 of Aranha's draft, prohibiting the Bank of Brazil from maintaining a bought position in compensation currency, has been eliminated.

3. Article 11 of Aranha's draft regarding non-commercial exchange transactions has been eliminated.

It is also noted that the initial official buying rate has been set at 16.500 milreis, whereas it had been the Department's understanding that this buying rate would be established initially at the going rate, or 17.300 milreis.

Can you inform the Department why these changes have been made, and if it is the intention of the Brazilian Government to devote the additional 20 per cent of official exchange to external debt service and the transfer of earnings? In connection with the latter, reference is made to Section 1 of the letter of Aranha to the Secretary of State, dated March 8, 1939,⁵¹ and to the memorandum⁵² regarding the interpretation of Article 11 of the draft exchange decree, as regards the transfer of earnings of investments in Brazil of United States citizens, which was transmitted to you with instruction no. 307 of March 9.

Please inform the Department also what buying and selling rates for compensation marks are being maintained, with especial reference to the understandings indicated in the memorandum of February 17, 1939,⁵³ which was also transmitted with instruction no. 307 of March 9. Moreover, please inform the Department regarding movements of the "free" buying and selling rates for dollars.

Your telegram No. 110, just received, refers only to the first point mentioned above.

HULL

832.5151/1361 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, April 12, 1939—1 p. m.

[Received 2:49 p. m.]

113. Department's 57, April 11, 6 p. m. Supplementing Aranha's statement in my 110, April 11, noon, the Director of Exchange this morning informed me that it was found necessary to increase the proportion of the Government's share of exchange derived from export drafts from 10% to 30% because it was decided that 10% was inadequate based upon last year's official remittances which amounted to 9,549,998 pounds. This amount is roughly 17% of Brazil's total exports in 1938, which amounted to approximately \$295,000,000. Moreover it

⁵¹ *Ante*, p. 352.

⁵² Not found in Department files.

⁵³ Not printed.

was deemed advisable to establish a reasonable reserve fund for governmental purposes. The Director informs me in confidence that the Government may allocate part of the reserve fund for remittances of earnings and dividends.

Although the Bank of Brazil has not fixed a limit for its bought position on compensation marks, the Director informs me that it is his intention to maintain the position at a safe level for normal trading operations with Germany. With respect to the compensation mark situation the Director states that the bank has now adopted the following policy: The Bank of Brazil will maintain the monopoly and will allow German banks to purchase compensation marks only for the liquidation of their own collections and all transactions will be subject to the control of the Bank of Brazil. The Director states that he has issued instructions to alter the quotations on compensation marks in accordance with the fluctuations of exchange of international acceptance on the free market. Although the German banks are now quoting a selling rate of 6 milreis and a buying rate of 5 mil 500 reis for compensation marks, the Director states that he will take steps at once to bring these quotations into line with the policy outlined above.

The Director of Exchange is entirely disposed to allocate exchange for the remittance of dividends and earnings when the exchange position of the bank permits. The Director has called for a statement of the actual amount of arrears of earnings and dividends now due to American companies operating in Brazil. At my suggestion the Director will today receive the manager of the local subsidiary of the American and Foreign Power Company to discuss their exchange problems.

The Director states that the Government decided upon an official buying rate of 16.500 milreis in order to acquire at this lower rate exchange for official requirements of the Government. It appears to the Embassy that an official selling rate for dollars based in part upon the official buying rate of 16.500 milreis is more advantageous to American exporters than the former rate of 17.300 milreis. For example, today banks are selling dollars in liquidation of import bills at 18.500 milreis exclusive of the 5% tax. If the official buying rate were 17.300 the selling rate in the free market for dollars for payment of imports would be increased correspondingly.

On the day the decree law went into effect firms offered export drafts on the free market at 19 milreis and gradually reduced quotations to 18 milreis yesterday. The milreis firmed today with banks buying 70% of export drafts at from 18.300 to 18.400 milreis and banks are selling dollars for the liquidation of import bills at from 18.420 to 18.500 milreis exclusive of the 5% tax.

832.5151/1360 : Telegram

The Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, April 14, 1939—8 p. m.

58. Your 112, April 11, 6 p. m. Export-Import Bank is prepared to make acceptance credits available promptly on receipt of advices re allocation of total amount \$19,200,000 among commercial banks which are to conduct actual operations. In this connection Export-Import Bank has been awaiting reply to Mr. Pierson's ⁵⁴ letter of March 16th ⁵⁵ to Dr. Souza Dantas ⁵⁶ and cablegram of March 21 ⁵⁵ to Banco do Brasil (SateIgeral). Upon receipt of such advices the Export-Import Bank will notify the agent commercial banks, which will in turn transmit individually by airmail to the Banco do Brasil the final details of the arrangement.

Terms of arrangement are substantially as follows: Banco do Brasil is to draw on designated banks within amounts separately allotted drafts of a tenor not exceeding three months sight signed by duly authorized officers and for individual amounts to be specified by the drawees. Said drafts are to be accepted by the drawees and thereafter discounted by them at the rate of 3.6% per annum proceeds being held at disposal of Banco do Brasil. One day prior to maturity of acceptances Banco do Brasil to pay not less than 10% of face amount in cash and present a renewal draft for balance for acceptance and discount. One day before maturity of renewal acceptance Banco do Brasil is to pay a further 10% or more of amount of original draft in cash and present another renewal draft for balance for acceptance and discount. And so on except that the cash payment at time of seventh renewal is to be not less than 20% of amount of original draft, leaving assuming no augmentation of payments 20% for the final draft. Thus all drafts would be liquidated in full within 2 years. No original draft may be presented for acceptance after June 30 of this year and no renewal draft after March 30, 1941 it being understood and agreed that all acceptances shall be retired on or before June 30, 1941.

The proceeds of these acceptance credits are, of course, to be used by the Banco do Brasil only for the purposes envisaged in the exchanges of letters with Aranha at Washington.

HULL

832.5151/1361 : Telegram

The Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, April 14, 1939—9 p. m.

59. Your 113, April 12, 1 p. m. Reference is made to the exchange arrangements mentioned in Section 1 of the letter of Aranha to the

⁵⁴ Warren L. Pierson, President, Export-Import Bank of Washington.

⁵⁵ Not found in Department files.

⁵⁶ Marco de Souza Dantas, official of the Bank of Brazil.

Secretary of State, dated March 8, 1939,⁵⁷ and described in more detail in the documents transmitted to the Embassy with instruction no. 307 of March 9, 1939.⁵⁸

It is the Department's position that, while minor modifications were of course expected, it was anticipated that no important changes would be made without prior discussion. The Department is of the opinion that the increase from 10 to 30 percent in the proportion of export drafts which must be sold to the Bank of Brazil at the official rate is of considerable importance. Nevertheless it feels that the present situation is acceptable if the increased yield is devoted primarily to external debt service and transfer of earnings. We feel that the Brazilian government should keep us fully and currently informed as to the disposition of this official exchange.

Regarding transactions in compensation currencies, the Department assumes that the understandings indicated in the memorandum of February 17, 1939,⁵⁸ will be carried out in substance.

Concerning the penultimate paragraph of the Embassy's telegram, the Department, although it is not of the opinion that the point must be pressed further, fails to agree with the Embassy's argument. Since the spread between the official and free buying rates is not fixed, the free rate being a market rate, it would be expected on purely theoretical grounds that if the official buying rate were 17.300 milreis, the free buying rate would be slightly lower than 18.300 to 18.400, and the free selling rate correspondingly decreased.

HULL

832.5151/1363 : Telegram

The Chargé in Brazil (Scotten) to the Secretary of State

RIO DE JANEIRO, April 17, 1939—5 p. m.

[Received 6 : 04 p. m.]

119. Embassy's 103, April 5, 2 p. m.⁵⁸ The Bank of Brazil closed exchange today for maturities and daily quotas for February 16.

A circular issued today by the Bank of Brazil authorized an increase in the commercial banks "bought" position in free exchange from \$5000 to \$10,000 daily. Authorization is now given for the closing of future exchange for (a) merchandise already imported (stocks), within the limits for daily quotas now established, and, (b) a maximum of 2,000 pounds (also daily) for remittances without drafts (open accounts).

Commercial banks are purchasing 70% of export drafts at 18.350 milreis to 18.420 milreis and selling free exchange for payment of

⁵⁷ *Ante*, p. 352.

⁵⁸ Not printed.

import drafts as 18.500 milreis to 18.550 milreis. The Bank of Brazil has increased the selling rate for compensation marks from 6 milreis to 6.100 milreis and the buying rate from 5.500 milreis to 5.700 milreis. In this connection the Director of Exchange informs me in confidence that the Bank of Brazil has effected a substantial reduction in its "bought" position so that today it amounts to only 3,723,226 compensation marks.

SCOTTEN

832.5151/1363 : Telegram

The Secretary of State to the Chargé in Brazil (Scotten)

WASHINGTON, April 20, 1939—4 p. m.

65. Your 119, April 17, 5 p. m. and previous correspondence. Reference is made to points 4, 5 and 6 of the memorandum of February 17, 1939, regarding transactions in compensation currencies which was transmitted to the Embassy with instruction no. 307, March 9, 1939.⁵⁹ The Brazilian representatives agreed that the cross selling rate between the compensation mark and the dollar should be maintained at not greater than 2.95 compensation marks to the dollar, and further agreed in principle that an attempt should be made to retain the existing spread between the buying and selling rate of the compensation mark, exclusive of tax, of 8½ percent of the selling rate, but stated in the event that it seemed advisable they would wish to feel free to amend policy in the latter matter, discussing the subject with us.

The Department notes that the present cross rate between the free selling rate of 18.500 milreis to the dollar and the selling rate for compensation marks of 6.100 milreis is 3.03 compensation marks to the dollar. The spread between the selling rate of 6.100 milreis and the buying rate of 5.700 milreis for compensation marks is 6.6 percent.

The Department assumes that the understandings regarding transactions in compensation currencies will be carried out in substance, but places at the discretion of the Embassy whether or not to take these specific points up with the Minister for Foreign Affairs. The Department notes with interest that there has been a substantial reduction in the Bank of Brazil's bought position in compensation marks.

Please inform the Department, but without, however, bringing the matter in any way to the attention of the Brazilian Government, whether any progress is being made towards the establishment of a Central Reserve Bank and whether there are any indications that the Brazilian Government will request a loan of gold such as was envisaged in the recent arrangements.

HULL

⁵⁹ Neither printed.

832.5151/1368 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, April 21, 1939—1 p. m.

[Received 2: 07 p. m.]

126. Department's 65, April 20, 4 p. m. The Director of Exchange informs me that he intends gradually to bring the cross selling rate between the compensation mark and the dollar and the spread between the compensation mark and the dollar into line with the agreements arrived at in Washington. He would not make a definite promise as to when this will be accomplished as he states that the bank wishes to avoid perturbing rudely trade between Brazil and Germany and working hardships on Brazilian firms who already have contracts for purchases of German merchandise. (In my opinion a contributing factor is the strong pressure of the Sao Paulo cotton interests to protect their sales in Germany) the Director assured me that he will continue to maintain a strict control of the commerce between the two countries and to prevent the Banco do Brasil's "bought" position from becoming too large.

Commercial banks are purchasing export drafts on the free market at 18.740 to 18.750 and selling free exchange for payment of import drafts at 18.900 to 3 milreis.

The selling rate for the compensation mark remains at 6.100 and the buying rate at 5.700.

While I understand that the question of the Central Reserve Bank is being studied no great progress appears to have been made and from present indications the Brazilian Government will not request the loan of gold in the near future.

CAFFERY

832.5151/1374 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, May 4, 1939—noon.

[Received 2: 30 p. m.]

135. My 118, April 17, 4 p. m.⁶⁰ The Director of Exchange informs me that the Bank of Brazil has not yet received letters from the First National Bank and the Continental Illinois Bank both of Chicago, and the Guaranty Trust Company of New York, confirming their participation in the 19,200,000 dollar acceptance credit; also that the letter from the Chemical National Bank of New York in this respect is incomplete. The latter bank did not transmit the original and one copy of its agreement with the Bank of Brazil. When these letters are received here the bank will proceed to liquidate the American arrears.

⁶⁰ Not printed.

The Director assures me that the bank will modify the exchange policy to permit the purchase of future exchange and the opening of credits. This will be of great assistance to American exporters.

CAFFERY

832.5151/1374 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, May 6, 1939—noon.

77. Your 135, May 4, noon. The two Chicago Banks state they mailed letters to the Banco do Brasil on April 25. The Chemical National Bank states that it definitely mailed three copies of its letter in one envelope, but to expedite matters it is forwarding two more copies. Negotiations with the Guaranty Trust Company are pending and a final determination is expected on Monday.

HULL

832.5151/1379 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, May 9, 1939—1 p. m.

[Received 2: 52 p. m.]

150. The Bank of Brazil today closed exchange for maturities and daily quotas for February 17 and 18.

The Director of Exchange informs me that although he has not yet received the letter from the Continental Illinois Bank and a final decision regarding the participation of the Guaranty Trust Company he has decided to proceed with plans for liquidating the arrears of American firms. If the Guaranty Trust Company continues to reject the proposal he will either give their quota of \$2,000,000 to a new bank or distribute it among the banks already included in the group. Before doing so however he will consult the Export-Import Bank.

The Bank of Brazil's original estimates of American firms exclusive of earnings and dividends totaled \$47,000,000. The Embassy pointed out that this figure was too high and that it probably included commercial arrears of other countries which invoice merchandise to Brazil in dollars. At the request of the Embassy the Bank of Brazil reexamined the records and is checking with all the commercial banks operating in this country.

The revised estimate of American arrears now approximates \$26,000,000. The Director of Exchange states that in order to make up the difference between the acceptance credit of \$19,200,000 and the foregoing figure of \$26,000,000 the bank will use part of its current credits in New York and London which amount to \$16,000,000 and 600,000 pounds (sterling) respectively.

The Director states he will send to the Export-Import Bank on May 13 a letter outlining the procedure for the liquidation of American arrears. He states that it is his intention to make a public announcement next week both in the United States and Brazil concerning the payment of American arrears.

Please repeat first paragraph to Department of Commerce.

CAFFERY

832.5151/1379 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, May 10, 1939—6 p. m.

80. Your 150, May 9, 1 p. m. The Export-Import Bank yesterday telegraphed the Banco do Brasil that the Guaranty Trust Company has decided not to participate, and requested that its quota be distributed to the other banks suggesting the addition of a Cleveland bank to the group.

The Department notes the difference between the revised estimate of American arrears of \$26,000,000 and the total of \$13,944,000 furnished by Dr. Souza Dantas in his letter of March 8, 1939^{a1} to Mr. Warren Lee Pierson. It is possible that a portion of this difference represents new arrears resulting from the increased lag in closing exchange for maturities and daily quotas. Please inform the Department to what extent, if any, this is the case, what other explanations there may be for the difference, and whether the foreign dollar and sterling balances of the bank have increased correspondingly over the last 2 months or so.

HULL

832.5151/1381 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, May 11, 1939—5 p. m.

[Received 5 : 53 p. m.]

156. Department's telegram 80, May 10, 6 p. m. The Bank of Brazil has transferred to the National City Bank of Cleveland the quota of \$2,000,000 originally allotted to the Guaranty Trust Company.

The Director of Exchange informs me that the difference between the revised estimate of American arrears of \$26,000,000 and the total of \$13,944,000 furnished by Dr. Sousa Dantas in his letter of March 8, 1939,^{a1} to Warren Lee Pierson chiefly represents new arrears resulting from the increased lag in closing exchange for maturities and daily quotas. My opinion is that Dr. Sousa Dantas' figures were too

^{a1} Not printed.

low. The Bank of Brazil is still checking the records of commercial banks in order to ascertain the true amount of American commercial arrears and the Director of Exchange is of the opinion that the final figures may be lower than \$26,000,000.

The foreign dollar and sterling balances of the bank have increased correspondingly over the last 2 months, mainly because of the seasonal sale in free foreign exchange of the Sao Paulo cotton crop.

CAFFERY

832.5151/1380 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, May 11, 1939—6 p. m.

[Received 6:04 p. m.]

157. As the Department is aware the Bank of Brazil has not granted exchange for a number of shipments of merchandise imported into Brazil before September, 1937, by firms operating on open accounts and daily quotas. The Embassy has constantly reminded the Bank of Brazil of the importance of allocating this exchange. Today the Bank authorized purchases in the free market of exchange covering importations cleared through Brazilian customhouses before September, 1937, and for which exchange has not yet been granted. Inasmuch as these transactions are limited to firms operating on daily quotas and open accounts, the Bank has decided to increase their daily quotas by 1000 pounds each until the firms' arrears are liquidated. Firms must present proof of actual importation and sale of merchandise in Brazil.

Please inform Department of Commerce.

CAFFERY

832.5151/1384 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, May 13, 1939—1 p. m.

[Received 4:21 p. m.]

160. Department's 80, May 10, 6 p. m. The Bank of Brazil today took steps to liquidate exchange arrears of American firms by forwarding to the participating banks into the United States 90-day sight drafts corresponding to the credit allotted to each bank, and a letter outlining the procedure for liquidating the arrears. The chief points of the letter are summarized as follows:

The American banks will confirm by telegraph to the Bank of Brazil the actual opening of the credits on May 22nd. Bank of Brazil will release to the press in Brazil and the United States the following notice:

"The Bank of Brazil offers to liquidate promptly all pending collections covering merchandise of American origin for which milreis have been deposited subject, however, to a discount of six-tenths of 1 percent. If the American exporter does not wish to take advantage of this offer the Bank of Brazil will liquidate said deposits by 60 days exchange contracts without discount (interest charge). The American exporters who avail themselves of the offer of prompt liquidation of their collections are requested to take immediate steps to issue the necessary instructions of their respective collecting banks. If said instructions are not received by the collecting banks within a period of 20 days from the date of this announcement, the Bank of Brazil will reserve the right to liquidate these collections by means of 60 days exchange contracts."

Although the foregoing notice refers only to collections (drafts) not covered by exchange contracts, the Director of Exchange informs me that similar treatment will be accorded to the deposits of firms operating on daily quotas and open accounts for which contracts have not yet been granted.

On the same date the Bank of Brazil will advise holders of exchange contracts here that it will liquidate the contracts by sight draft on American banks subject, however, to interest charge correspondence 3.6% per annum. The holders of the contracts (chiefly firms operating on open account and daily quota) will have 10 days in which to accept or reject the offer. If they reject it they will receive exchange upon maturity of the contracts. It is understood that the Bank of Brazil will liquidate arrears on the basis of the exchange rate and the exchange tax in effect at the time of the deposit of the milreis.

Bank of Brazil states definitely that it must impose an interest charge correspondence 3.6 per annum. The Director states that although the acceptance credits will cost Bank of Brazil 4.86% over a period of 2 years it is willing to restrict the charge to the basis of 3.6% per annum for all American arrears.

The Director states that the interest charge will not apply to the drafts of American companies under \$1000 for which no exchange contracts have been granted but he does not want to disclose this information. I repeat that the plan refers only to American arrears.

Please inform Department of Commerce.

CAFFERY

832.5151/1390 : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, May 22, 1939—4 p. m.

94. The Export-Import Bank has informed the Department that the Bank of Brazil proposes to charge six-tenths of 1 percent to American exporters who receive immediate payment of their claims.

This has disturbed the Export-Import Bank inasmuch as it was not contemplated at the time the credit was arranged that such charges would be made. After full consideration, however, the Bank has concluded that no complaint should be lodged with the Bank of Brazil on this ground. You may, however, when appropriate occasion presents itself, indicate informally to officials of the Bank and of the Government the disappointment of the Export-Import Bank.

For your information the basis of the Bank's decision not to make any complaint is that the six-tenths of 1 percent for 60 days is equivalent to $3\frac{3}{10}$ percent per annum, which is what it costs the Bank of Brazil to make the cash immediately available. In addition, the funds now advanced will go to shippers who made sales with the full knowledge that exchange was being provided upon a delayed basis and who undoubtedly made provision therefor in their prices.

HULL

832.5151/1391: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, May 24, 1939—1 p. m.

[Received 2:16 p. m.]

171. My 160, May 13, 1 p. m., Department's 94, May 22, 4 p. m. The Embassy has finally been able to persuade the Director of Exchange that the Bank of Brazil should not collect the discount of 0.6 per cent (six tenths of 1 per cent) in liquidating deposits for payment of merchandise of American origin made from February 19 to April 8 inclusive for which exchange contracts have not been granted. This decision which becomes effective at once applies to all deposits whether for collections, open accounts or daily quotas. The Bank has instructed its agencies in Brazil to liquidate promptly all of these obligations. This ruling does not affect the payment of exchange contracts already allocated which the Bank is now paying subject to an interest charge corresponding to 3.6% per annum.

Please request the Export-Import Bank to notify the 12 participating banks of this decision and the Department of Commerce to advise exporters through its district offices.

CAFFERY

832.5151/1392: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, May 27, 1939—1 p. m.

[Received May 27—11:30 a. m.]

179. A list of American arrears is proceeding satisfactorily and the Director of Exchange informs me that all American arrears not covered by exchange contracts will be paid in full before the middle of June.

The Bank of Brazil has instructed its agency in Bahia to suspend the purchase of German compensation marks in payment for cocoa for exportation to Germany. This decision was made after the bank received notice that German firms had contracted for 240,000 bags of Bahia cocoa. (Director of Exchange suspects that the German firms intend to dispose of most of this cocoa in other countries.)

Please inform Department of Commerce.

CAFFERY

832.5151/1405a : Telegram

The Secretary of State to the Ambassador in Brazil (Caffery)

WASHINGTON, June 26, 1939—7 p. m.

119. Your 197, June 22, 2 p. m.⁶² The Department would find the following information important in its study of Brazilian exchange developments:

1. What use is being made of the 30 percent of exchange acquired by the Bank of Brazil at the official rate? How much exchange has been acquired in this manner, and how has it been utilized? How much of this exchange is left at the disposition of the authorities? Are transfers of earnings and interest being made out of these foreign balances? If so, at what rates are the foreign balances being sold for these purposes?

2. Have the American commercial arrears all been cleared up, and are commercial payments to Americans now on a current basis? Please transmit by airmail a statement of the arrears cleared up, indicating whether they represented deposits for collections, open accounts, or daily quotas, for which exchange contracts had not been granted, or the payment before maturity of exchange contracts already allocated. Please indicate the names of the holders of, and amounts of, the major arrears balances liquidated.

3. What has been the effect of the São Paulo cotton sales upon the compensation mark balances of the Banco do Brasil?

HULL

832.5151/1406 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, June 30, 1939—3 p. m.

[Received 8:05 p. m.]

204. Department's 119, June 26, 7 p. m.

1. It is estimated that the 30% of exchange acquired by the Bank of Brazil at the official exchange rate which will approximate

⁶² *Ante*, p. 359.

\$75,000,000 annually has already produced \$15,000,000. The present unexpended balance of the latter figure amounts to \$2,373,000. About \$50,000,000 may cover all the currently estimated annual official exchange requirements of the Government (Embassy's telegram 113, April 12). The balance will be used as a working fund for the Bank of Brazil. Since the new exchange regime began the official exchange requirements of the Government have been averaging about \$50,000,000 annually the balance has permitted the Bank of Brazil to check sharp breaks in exchange rates without entering the market as the largest buyer. When expedient the bank also draws on the balance to pay quotas of \$360,000 daily (Embassy's despatch No. 1396, June 26⁶³).

Earning and interest transfers are not regularly made but the bank has in exceptional cases granted exchange for earnings and administrative expenses. In some instances it grants weekly quotas and when the amounts are small it sells exchange for the entire amount (Embassy's despatch No. 1155 [1255], April 29 and telegram 159, May 13⁶⁴). These remittances are made through the special free exchange market and not from the 30% fund of official exchange. The selling rate on the special free market is now 21 mil 850 reis plus a tax of 10%. The Bank of Brazil has sanctioned private transactions provided that the foreign exchange offered represents new capital for investment in Brazil. In such cases the bank receives 30% of the exchange at the official rate and imposes a remittance tax of 10%. Such transactions have been made recently at rates approximating 25 milreis for the 70%. The Director of Exchange informs me in confidence that the present tax of 10% on the special free market will shortly be reduced to 5%, also that commercial banks will be permitted to purchase personal checks not in excess of \$500 each at the buying rate on the special free market. This will tend to restrict bootleg operations. The director States that commercial arrears of countries other than the United States and Germany for which exchange has not been closed amount to 15,522,640. He intends to expedite the liquidation of these arrears and when accomplished to inaugurate a plan of regular remittances of earnings and dividends. The delay in the liquidation of these arrears results from current negotiations with the Bank of Brazil for unfreezing agreements similar to the American agreements.

2. American commercial arrears have been cleared up although some of the drafts are still en route to the United States. Commercial payments are being made to Americans on a current basis. The director again informs me that a detailed statement of the settlement of Amer-

⁶³ Not printed.

⁶⁴ Neither printed.

ican arrears as described in the second paragraph of your telegram will not be available for about 15 days because of the delay in receipt of information from banks in remote parts of the country (Embassy's despatch No. 1339, June 2 and 1346, June 5⁶⁵).

3. On June 1 the Bank of Brazil's "bought" position in compensation marks amounted to 3,400,000 compensation marks. During [apparent omission] German firms purchased approximately 36,000 metric tons of Sao Paulo cotton with the result that on June 29 the "bought" position reached 15,985,488 compensation marks (Embassy's telegram 189, June 12 and despatch No. 1359, June 12⁶⁵). The director informed me that the cotton will be exported in such a way as to allow the market to absorb the compensation marks and reduce the risk of the bank.

CAFFERY

832.5151/1407 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, July 4, 1939—11 a. m.

[Received 11 : 15 a. m.]

210. Reference my telegram No. 204, June 30, 3 p. m. A decree promulgated July 3 reduces the tax on exchange remittances for payment of other than import bills from 10 to 5 percent. Hereafter all remittances will be subject to a uniform tax of 5 percent.

CAFFERY

832.51/1550 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, August 7, 1939—2 p. m.

[Received August 7—1 : 25 p. m.]

238. The Bank of Brazil is today sending to the commercial banks participating in the 19,200,000 dollar acceptable credit the first renewal drafts and instructions to pay 10 percent of the face amount of the original credit in accordance with the terms of the arrangement.

The Director of Exchange informs me in confidence that the Bank of Brazil authorized from April 10 to date remittances of approximately 3,500,000 dollars for earnings of which 75 percent represents profits of American companies granted at the request of the Embassy.

CAFFERY

⁶⁵ Neither printed.

832.5151/1434 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, August 28, 1939—4 p. m.
 [Received August 28—3:05 p. m.]

269. Owing to the European situation the Bank of Brazil is restricting the purchase of exchange to dollar export bills. The bank is selling dollar exchange at 19 milreis 950 for dollar collections received by it and for daily quotas. Firms applying for other exchange for the liquidation of import bills are requested to deposit milreis at the rates in effect on August 24 or purchase from other banks at prevailing rates.

Other banks are restricting purchases to actual requirements. They are paying 19 milreis 950 to 20 milreis for export bills and selling dollar exchange for their own collections at approximately 20 milreis 150.

The Director of Exchange informs me that the bank's position in pound is just about equal to the current unpaid obligations in pound. Also that the bank's position in German compensation marks is approximately 7,400,000 compensation marks and that in the event of war the bank could liquidate this position without loss.

CAFFERY

832.5151/1443 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, September 9, 1939—5 p. m.
 [Received September 9—2:50 p. m.]

317. The expected switch in orders to the United States is very noticeable. The principal obstacle is the exchange of cash in the United States before shipment. This is further complicated by Brazilian exchange regulations.

In view of the number of appeals received by the Embassy from Brazilian importers, the Embassy today discussed this matter with the Director of Exchange and obtained an important concession.

Although the banks are permitted to open credits abroad (my telegram number 251 of August 17, 1939⁶⁶) they are reluctant to do so because the Bank of Brazil is not guaranteeing the delivery of future exchange. The Director of Exchange now assures me that the bank will close future exchange for credits opened in the United States for the purchase of essential products. This action will facilitate purchases of steel products, chemicals, pulp, et cetera formerly imported from European countries. Each case will be decided upon its own merits.

⁶⁶ Not printed.

The bank has also resumed the sale of future exchange for payment of merchandise cleared through Brazilian customhouses.

The exchange balance of the bank now approximates \$7,200,000. The bank continues to fix the buying and selling rates for dollars at milreis 19.830 and milreis 19.980 respectively. Exchange operations are normal.

CAFFERY

832.5151/1445 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, September 16, 1939—7 p. m.

[Received September 16—6 : 58 p. m.]

329. The exchange situation is very favorable. There is adequate cover for prompt payment of imports from the United States and as a result of the sharp increase in sales of export bills and the current decline in the import trade the Bank of Brazil is augmenting its reserve of foreign exchange. Banks are buying export bills at milreis 19.780 to milreis 19.880 (and selling at milreis 19.980). The milreis continues to firm on the curb market with purchases reported at milreis 21.700 to milreis 22.0.

The foreign exchange balance of the Bank of Brazil on September 15, amounted to \$16,792,000 as compared with approximately \$7,000,000 on August 31.

The bank continues to liquidate the "bought" position [in] German compensation marks. The balance on September 15, amounted to 5,450,000 compensation marks.

CAFFERY

832.5151/1454 : Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, October 3, 1939—4 p. m.

[Received October 3—4 p. m.]

346. Embassy's despatch 1768, September 18.⁶⁷ The Director of the Exchange informs me that Bank of Brazil will resume the allocation of dollar exchange for remittance of earnings and administrative expenses of some foreign (predominantly American) companies operating in Brazil.

CAFFERY

⁶⁷ Not printed.

832.5151/1475: Telegram

The Ambassador in Brazil (Caffery) to the Secretary of State

RIO DE JANEIRO, November 7, 1939—2 p. m.

[Received 3:45 p. m.]

387. The Director of Exchange informs me that in order to provide equitable treatment in the allocation of exchange for remittance of earnings, dividends, royalties, and other items apart from import bills, the Bank of Brazil has established classifications and fixed percentages for monthly exchange quotas for these items. Companies whose records have been approved by the Bank will receive monthly quotas within the exchange possibilities of the Bank.

American companies that have not applied for this exchange should do so at once.

The total allotment for November is approximately \$800,000. Hereafter the Bank will fix the total monthly quota at the beginning of each month.

Detailed information will be forwarded by air mail.

CAFFERY

[Arrears of profits and dividends of American companies were liquidated during 1940. In telegram No. 563, November 4, 1940, 3 p. m., the Chargé in Brazil reported that the Bank of Brazil would pay the third and final installment, approximately \$900,000.00 (832.5151/1590).]

CHILE

PROVISIONAL COMMERCIAL AGREEMENT BETWEEN THE UNITED STATES AND CHILE, SIGNED FEBRUARY 20 AND 24, 1939¹

611.2531/319 : Telegram

The Chargé in Chile (Frost) to the Secretary of State

SANTIAGO, February 15, 1939—noon.

[Received 1:55 p. m.]

33. Referring exchange of notes between Embassy and Chilean Foreign Office, Embassy [dated?] February 1, 1938,² pursuant to Department's telegram No. 13, February 4, 4 p. m.,³ regarding provisional duration of *modus vivendi* of January 6, 1938,⁴ I have the honor to report that as Chilean Congress has not ratified *modus vivendi* the latter lapsed on January 31, 1939. Foreign Office entirely agreeable that it be promptly signed again, as of February 1, 1939, in accordance with concluding sentence of the notes of February 1, 1938 cited above. Suggest instruction authorizing this at early date.

FROST

611.2531/319 : Telegram

The Secretary of State to the Chargé in Chile (Frost)

WASHINGTON, February 18, 1939—3 p. m.

33. Your 33, February 15. In the absence of the Ambassador you are authorized to effect a new exchange of notes bearing the date February 1, 1939. The texts of the new notes should be the same as that of the notes exchanged January 6, 1938 with the following exceptions:

A. Omit all of the language in numbered paragraph 7, and insert in lieu thereof the following:

"The present Agreement shall come into force definitively 30 days after the date on which it is ratified by the Chilean Congress and shall continue in force until superseded by a more comprehensive commercial agreement or by a definitive treaty of friendship, commerce and navigation, or until denounced by the Gov-

¹ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 421 ff.

² Department of State Executive Agreement Series No. 119, or 52 Stat. 1479.

³ *Foreign Relations*, 1938, vol. v, p. 430.

⁴ For text, see Executive Agreement Series No. 119, or 52 Stat. 1479.

ernment of either country by advance written notice of not less than 30 days."

B. Insert a new paragraph bearing the number 8, and reading as follows:

"Pending ratification by the Chilean Congress, the present Agreement shall come into force provisionally on February 1, 1939, and, unless terminated in the manner provided in numbered Paragraph 7 of the present Agreement, shall remain in provisional effect until after the expiration of 1 year, whichever date occurs first. If the Agreement has not come into force definitively after the expiration of 1 year from February 1, 1939, it may within the discretion of both Governments be signed again and by this means be continued in provisional effect."

C. Renumber numbered paragraph 8 so that it will appear as numbered paragraph 9.

The sole effect of the foregoing amendments is to amalgamate the texts of the Agreements of January 6, 1938 and February 1, 1938 into one agreement.

HULL

611.2531/320: Telegram

The Chargé in Chile (Frost) to the Secretary of State

SANTIAGO, February 20, 1939—6 p. m.

[Received February 20—5:39 p. m.]

39. Department's No. 33, February 18, 3 p. m. Foreign Office accepts substitute paragraphs and has arranged signature of new exchange of notes for noon February 23rd. Foreign Office believes that paragraph 6 might well be omitted,⁵ but is willing to include it subject to Department's desires.

FROST

[For the text of the provisional commercial agreement, signed February 20 and 24, 1939, see Executive Agreement Series No. 144, or 53 Stat. 2177.]

NEGOTIATIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND CHILE⁶

611.2531/353

Memorandum of Conversations, by Mr. James C. Sappington III of the Division of Trade Agreements

[WASHINGTON,] August 10, 14, 15, and 17, 1939.

Participants: Señor Gazitua, Counselor of the Chilean Embassy;
Señor Campbell, Commercial Counselor of the

⁵ This paragraph remained in the agreement.

⁶ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 431 ff.

Chilean Embassy (attended the conversations on August 14, 15 and 17); Mr. Hawkins⁷; Mr. Duggan⁸ (attended the conversations on August 10); Mr. Deimel⁹ (attended the conversations on August 15 and 17); Mr. Stinebower¹⁰; Mr. Collado¹¹; Mr. Sappington.

It was made clear that any informal trade-agreement conversations undertaken would be conducted on an *ad referendum* basis; Mr. Hawkins stated that he would report the results of the conversations to the Committee on Trade Agreements, and Señor Gazitua (who is returning to Chile at the end of August) indicated that he would report to his Government.

It was pointed out that the discussion of a possible trade agreement could be divided into three parts: the general provisions, the concessions which would be requested of Chile, and the concessions which we might be able to grant to Chile. It was decided to discuss first Chilean export products to the United States. In this connection, it was explained that no commitment whatever could be given regarding any concession prior to notice and hearings in this country, and therefore we could merely indicate those Chilean products which, on the basis of preliminary study, might be considered for concessions in a trade agreement. Señor Gazitua expressed interest in all products so indicated and, in addition, on the basis of data prepared by the Chilean Government, inquired about the possibility of considering tomatoes, celery, processed garlic (later Señor Gazitua indicated that no garlic in paste, etc. is exported from Chile to the United States), cherries, and chick peas. He also inquired as to whether, if it should be found that duty reductions could be granted on peaches and prunes, such reductions might be considered in the case of peaches for the period January 1 to April 15 and in the case of prunes for the period December 15 to March 30. After consideration of these inquiries, Señor Gazitua was informed that evidently imports from Chile into the United States of tomatoes and celery (the duty on which was reduced by 50 percent from April 15 to July 31 in the United Kingdom agreement) are negligible; that it might be possible to consider Chilean chick peas on the basis of size; and that the duty on fresh cherries had already been reduced by 50 percent in the Canadian agreement. Señor Gazitua was also informed that it would appear that consideration could be given to the seasonal periods he suggested in regard to peaches and plums if it should be found possible to grant concessions on those products.

⁷ Harry C. Hawkins, Chief of the Division of Trade Agreements.

⁸ Laurence Duggan, Chief of the Division of the American Republics.

⁹ Henry L. Deimel, Jr., Assistant Chief of the Division of Trade Agreements.

¹⁰ Leroy D. Stinebower, of the Office of the Adviser on International Economic Affairs.

¹¹ Emilio G. Collado, of the Division of the American Republics.

Señor Gazitua inquired as to the major suppliers to the United States of limes and lemons during the period from June 1 to September 30 and the amounts supplied in that period. He also inquired—whether the manganese concession in the Brazilian agreement covers Chilean manganese; asked about glue for carpenters, the duty on soap bark cut in pieces; and indicated that Chile might be interested in baldo leaf.

Concerning copper, Señor Gazitua was advised that further study was being given to that product. It was pointed out that the question of copper was an involved one and Señor Gazitua indicated that the matter of a possible concession on copper would be largely left to our determination.

Señor Gazitua indicated that in regard to a number of products, which our preliminary studies had not indicated as possible concession items, Chile was interested only in most-favored-nation treatment.

In regard to the question of tariff concessions by Chile, Señor Gazitua was informed that we did not contemplate requesting drastic duty reductions which would worsen Chile's exchange position. He was informed, however, that the United States would desire an improvement in or continuance of existing Chilean customs treatment on such American export products as automotive vehicles and parts, rice, lumber, raw cotton, radios, cotton yarn, refrigerators, typewriters, etc.

Señor Gazitua referred to the possibility of a concession on automobiles on a weight classification basis, (mentioning particularly the new Crosley light-weight car), and to the fact that the development of rice production in Chile would make a concession on that product difficult. In regard to lumber, it was indicated that there were imports into Chile of Douglas fir and some imports of Southern pine. Señor Gazitua stated that American typewriters encountered strong competition in Chile from German typewriters and that there is domestic production of parts in Chile. He also stated, in connection with cotton, that Chile had made tariff quota reductions in cotton cloth (Tacna cloth) to Peru. Señor Gazitua also mentioned that articles, such as razor blades and cigarettes, which are now subject to smuggling into Chile might be considered as concession items.

Our position, as embodied in the pertinent general provisions, regarding internal and compensating taxes and charges (other than ordinary customs duties) imposed on the importation of scheduled products, was fully explained. Señor Gazitua indicated no objection in regard to these matters. He stated that Chile has internal taxes only on tobacco, liquors and sparkling wines. In regard to the tax on tobacco, he said American tobacco was not now accorded equal treat-

ment with Cuban tobacco and assumed that we would wish this adjusted under the internal tax provisions of an agreement.

The "standard" provisions concerning the bases and methods of determining dutiable value in the case of ad valorem rates were discussed and Señor Gazitua requested an informal memorandum setting forth this Government's construction of these provisions. He also requested an explanation of the method used by our Treasury in regard to determining the dutiable value of Chilean products subject to ad valorem rates. In this connection, he stated that the conversion rate used by our Treasury in the case of Chilean products was the Chilean official exchange rate, which is not used in Chile for commercial transactions, rather than the higher export draft rate, and that this resulted in the collection of a greater amount of duty on those Chilean products to which ad valorem rates apply. He also stated that the Chilean Government now converts currency for duty purposes in terms of the gold peso but might wish to change its conversion rate.

This Government's position in regard to quantitative restrictions was explained at length in general discussion and on the basis of the pertinent articles. Señor Gazitua indicated general concurrence both as regards the provisions and the explanation given him as to the method of administering quotas contemplated by those provisions.

Our position in regard to the imposition of quotas on scheduled products was carefully explained and the usual grounds on which quotas could be established on such products was outlined. In addition it was indicated, subject of course to the *ad referendum* character of the conversations, that an agreement might also permit the establishment of quotas for the protection of the exchange value of the currency of either country.

Señor Gazitua indicated that Chile had established quotas on a number of products and stated that the present Chilean quotas on automobiles, while not imposed for any of the reasons which would permit a quota under an agreement, were established to benefit American automobiles as compared with German automobiles.

It was proposed to Señor Gazitua that the Chilean Government, under a trade agreement with the United States, change from its present method of controlling imports by means of prior permits and exchange rates to a product quota system administered in accordance with the quota provisions proposed by this Government, the United States obtaining a proportional share, based on a previous representative period, of any quota established. It was pointed out that if this method of import control were adopted by Chile quotas could be established on any product, including scheduled products if necessary to maintain the exchange value of the Chilean currency.

Señor Gazitua stated that a product quota system of this nature would mean a restriction of imports of products subject to quotas from countries with which Chile has compensation agreements even

though compensation currency should be amply available to pay for such imports. He stated, however, that Chile's compensation agreement with Germany is the only obstacle to the suggested method of import regulation since it would result in a curtailment of Chile's exports to Germany. In this connection he stated that Chilean exports of lentils, apples and wine to Germany had increased; that these are additional and not diverted exports, and that the increased German demand for these products had caused artificially increased production in Chile. It was pointed out to Señor Gazitua, that it is considered only fair that the control of imports be borne equitably by all supplying countries.

Although indicating that, under present circumstances, he would not recommend the suggested change in Chile's import control system to his Government because he was convinced his Government would not accept it, Señor Gazitua stated that Chile will eventually adopt such a system. He stated that he would strongly recommend to his Government that it endeavor to divert Chile's export trade from compensation to free currency countries. Señor Gazitua said that he realized that sales promotion work regarding Chilean agricultural products and manufactured novelties would have to be undertaken in this country. Señor Gazitua referred to the high freight rates on Chilean shipments to the United States.

After discussing the question of exchange availabilities, Señor Gazitua stated that Chile is doing well by United States trade now in the matter of exchange. He suggested that a trade agreement contain exchange provisions which would assure exchange coverage for normal United States exports to Chile, and provide that additional exchange would be accorded American products as it became available. This formula was objected to because of its bilateral character.

Señor Gazitua later suggested that no exchange provisions be included in a trade agreement but that there be an exchange of notes, not included in the agreement and unpublished, assuring United States trade all exchange facilities available. The assurances contained in the proposed notes would look to the eventual elimination of Chile's compensation agreements and provide that this Government, if it should not be satisfied with Chile's treatment of United States trade, could terminate the agreement.

It was pointed out to Señor Gazitua that, while there is no question of Chile's good intentions, his proposal would leave United States trade without any assurances regarding competition from compensation countries. It was also pointed out that all notes are published by this Government and that any provisions providing for termination of the agreement would have to be a part of the agreement.

Señor Gazitua said he would submit a draft of his proposal and was informed that any proposal he wished to submit would be care-

fully studied. He was also requested to give careful consideration to our standard exchange provisions and suggestions regarding the control of imports on a product quota basis.

611.2531/355a : Telegram

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

WASHINGTON, September 13, 1939—8 p. m.

118. Following conversations regarding which you are being informed by air pouch, a basis has been agreed upon with Gazitua for announcement of trade-agreement negotiations with Chile, possibly in about 3 weeks. It is understood that the proposed basis has been submitted to his Government for consideration.

The basis leaves the exchange control question open for discussion in the light of the Chilean situation at the time of negotiations.

HULL

611.2531/370

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] September 15, 1939.

Señor Campbell called at the Department to leave a copy of the definitive list of products¹² in which the Government of Chile would be interested in securing concessions in a trade agreement with the United States. The list consisted of three parts (of which the first two are attached): a group of items on which tariff reductions were requested (some on a seasonal basis); another group on which the binding of the present tariff treatment was desired; and a third list of items on which most-favored-nation treatment was desired. It was explained to Mr. Campbell that it was not necessary to give any consideration to the third group of items as Chile would continue to receive most-favored-nation treatment on such products without their being specifically referred to in an agreement.

Señor Campbell was informed that consideration would be given as rapidly as possible to the list which he had presented. He indicated that the list had not yet been approved by his Government and that it would therefore be necessary to transmit it to Santiago as soon as we had expressed our opinion regarding the various items therein with respect to the possibility of including them in the public announcement of intention to negotiate a trade agreement with Chile. It was indicated that it was desired to issue that announcement during the period of the Panama Conference,¹³ preferably on September 25.

¹² Not printed.

¹³ See pp. 15 ff.

611.2531/369

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] September 19, 1939.

Participants: Señor Guillermo Gazitúa, Counselor, Chilean Embassy.
Señor Carlos Campbell, Commercial Counselor,
Chilean Embassy.
Mr. Smith.

I called at the Chilean Chancery and spent about two hours discussing with Señor Gazitúa and Señor Campbell the list of products which had been approved by the Trade Agreements Committee for publication in connection with the announcement of trade-agreement negotiations with Chile.

It was pointed out to Señor Gazitúa that although no change in substance in the tariff classifications of the items appearing on the list would be made, it was probable that various changes of a technical nature would be made in the listing of certain of the items in order to have them conform to the proper legal terminology. I mentioned that this was particularly true with respect to copper.

During the course of the conversation, Señor Gazitúa raised questions about various of the items which he had introduced into the conversations held between August 10 and 17 and with regard to certain items appearing in the list of Chilean exports to the United States which had been sent to the Department several days previously. It was indicated to Señor Gazitúa that the Chilean products which had been considered by the trade-agreements organization prior to the formulation of the list which was being handed to him today covered more than 95 or 96 percent of imports into the United States from Chile and included practically every item of any importance at all in that trade, and while in view of such extensive consideration it was not believed it would be possible to include in the list for publication any additional items, further study would be given to a few products, particularly certain typical Chilean furs or fur skins.

In order to make every effort to issue the announcement of negotiations on September 25, during the Panama Conference, Señor Gazitúa agreed to cable at once to his Government the list of products handed to him and endeavor to secure his Government's approval of it as a minimum list, it being understood that while, of course, there could be no assurance that any other items would be added to the list, it might be possible that further consideration within the next two or three days would reveal one or two additional products which might be included. Señor Gazitúa also agreed to ask his Government to expedite consideration of the general basis for the proposed agreement.

In answer to an inquiry, Señor Gazitúa stated that he believed it would be helpful if the American Embassy in Santiago were requested to assist in expediting consideration by the Chilean Government of the general basis and the list of products. I indicated that a telegram would be sent to the Embassy along those lines. (Such a telegram was sent later in the evening of September 19.)^{13a}

It was made clear to Señor Gazitúa at various points in the conversation that what we were discussing at the moment was merely the list of Chilean products for publication, a procedure which was distinct from a consideration of such products in connection with concessions which might be granted upon them.

611.2531/357a : Telegram

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

WASHINGTON, September 19, 1939—9 p. m.

122. 1. In case you have not received instructions 2 and 3 of September 15¹⁴ referred to in the Department's telegram 118 of September 13, agreement was reached with Gazitua on all important general provision questions except exchange control, which was left open for discussion during the negotiations on the understanding that the Chileans would be requested again to accept the "standard" article. (It is understood Gazitua has sent text to Santiago).¹⁵ If in the then existing circumstances it were still unacceptable, it would nevertheless be written into the agreement with a protocol suspending during continuance of special circumstances those parts with which the Chileans could not comply. Thus far Gazitua has received no indication that his Government has approved the foregoing as a basis for announcement of negotiations.

2. Approval was given today to the list of Chilean products to be published in connection with the announcement. Gazitua is now cabling the list to Santiago for approval. The list, while not indicative of the concessions to be granted, covers more than 95 percent of imports from Chile and it is not believed the trade-agreements organization would approve additional items. As you know, consideration with respect to the possible granting of concessions will be limited to the items in that list in the absence of later additional public announcement and hearings. The list approved today covers all items requested for inclusion by Gazitúa except one or two unimportant products.

^{13a} *Infra.*

¹⁴ Neither printed.

¹⁵ For text, see telegram No. 125, September 23, 6 p. m., to the Ambassador in Chile, p. 412.

3. As it is greatly desired that Chilean negotiations be announced during the Panama conference preferably September 25, it is hoped that the Chilean Government will approve within the next three days the general basis and list mentioned above. You should therefore keep in close touch with the appropriate officials in an endeavor to expedite consideration and approval.

HULL

611.2531/358 : Telegram

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

SANTIAGO, September 21, 1939—noon.

[Received 12:11 p. m.]

157. Department's telegram No. 122, September 19, 9 a. m. [*p. m.*] Ortega¹⁶ and Wachholtz¹⁷ were seen together last night and informed regarding commercial agreement. Both manifestly pleased. Ortega thinks the basis for negotiations satisfactory but asks postponement of announcement, during Panama meeting until the 27th, when the full Chilean delegation will be present. This request should be granted.

Neither Ortega nor this Embassy has yet received the list of items and a positively definitive answer from Ortega cannot be expected until it arrives, probably this morning.

BOWERS

611.2531/359 : Telegram

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

WASHINGTON, September 23, 1939—6 p. m.

125. Your 158, September 22, 5 p. m.¹⁸ There follows the text of the "standard" exchange article in its current form, as presented to Gazitua:

"If the Government of either country establishes or maintains any form of control of the means of international payment, it shall, except as may otherwise be agreed upon in special circumstances, (a) impose no prohibition, restriction, condition or delay on the transfer of payments for articles the growth, produce or manufacture of the other country or of payments necessary or incidental to the importation of such articles; and (b) accord unconditionally, with respect to rates of exchange and taxes or surcharges on exchange transactions in connection with such payments, and with respect to all rules and formalities in connection with such payments, treatment no less favorable than that accorded in connection with the importation of any article the growth, produce or manufacture of any third country."

¹⁶ Abraham Ortega, Chilean Minister for Foreign Affairs.

¹⁷ Roberto Wachholtz, Chilean Minister of Finance.

¹⁸ Not printed.

You will note that the foregoing is similar in substance to the exchange article which you have, except for the elimination of the final paragraph providing for possible termination and the inclusion of the special circumstances clause. That clause is intended to provide a sufficient degree of flexibility to cover emergency conditions which may arise in the Chilean exchange situation in the future.

HULL

611.2531/363 : Telegram

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

SANTIAGO, September 25, 1939—1 p. m.

[Received 2:01 p. m.]

161. We are informed that the Government is eager to accept the basis for negotiations but that it cannot reach a decision without definite information regarding the suspension feature in the protocol. It definitely indicated that it cannot accept the standard exchange article under conditions imposed by the war today and that Gazitua is instructed to send definite information on the protocol. With the major German trade definitely lost the standard article would jeopardize the remaining trade with the other compensation countries. We are agreed here that their point of view is reasonable if not inevitable. Please provide Gazitua and this Embassy with details on proposed protocol.

BOWERS

611.2531/363 : Telegram

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

WASHINGTON, September 25, 1939—8 p. m.

126. Your 161, September 25, 1 p. m. Basis for a protocol suspending certain features of "standard" article in the event of Chilean inability to comply fully therewith at time of negotiations, will be found in memorandum of conversation with Gazitua of September 9,¹⁹ enclosed with instruction no. 2 of September 15.²⁰

Point 2 of that basis would refer probably to Chilean inability to supply exchange without delay for all imports from the United States, if it were found impossible to use quotas as the sole means of controlling imports.

A definite answer cannot be given on point 4 at present, as this will naturally depend on the outlook at the time of negotiations, but you may assure the Chileans in strict confidence that we are disposed to take fully and sympathetically into account their economic position at that time.

Other points would not seem to require comment.

HULL

¹⁹ Not found in Department files.

²⁰ Not printed.

611.2531/383

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] September 27, 1939.

Participants: Señor Guillermo Gazitua, Counselor of the Chilean
Embassy
Mr. Hawkins;
Mr. Briggs;²¹
Mr. Woodward;²²
Mr. Smith

Señor Gazitua called by appointment to discuss the question of announcing negotiations for a trade agreement between the United States and Chile. He was informed that subject to final approval by the Secretary, which it was anticipated would be received shortly, we were now prepared to issue the announcement at any time.

Señor Gazitua referred to the fact that he had received instructions from his Government on two points: that agreement should not be given by him to the announcement of trade-agreement negotiations until this Government had given assurances that the *Compañía Sudamericana de Vapores* would be admitted to the West Coast steamship conference; and that lemons would be included in the list of products to be considered by the United States in connection with the agreement. On the latter point Señor Gazitua indicated that he had received later instructions that his Government would not insist upon including lemons in the published list, but that his original instructions had not been changed on the first point.

It was pointed out to Señor Gazitua with respect to the shipping matter, that this was a question entirely distinct from that of the trade agreement and as far as this Government was concerned the issuance of the trade-agreement announcement could not be made contingent upon a solution of the shipping problem. It was indicated also that the Chilean steamship line had only made application to the conference under its current proposal on September 15; that the conference had agreed to hold hearings on or about October 3, which was relatively prompt action; that the Maritime Commission could not enter the picture until the conference had acted on the Chilean application; and that the Department would continue as it had in the past to suggest to the Maritime Commission the desirability of prompt and thorough consideration of the Chilean case. In the meantime, it was not believed that the Department could take any further action. It was further in-

²¹ Ellis O. Briggs, Assistant Chief of the Division of the American Republics.

²² Robert F. Woodward, of the Division of the American Republics.

icated to Señor Gazitua that the Maritime Commission was an independent Government agency operating under its own legislation and it would not be appropriate for the Department to attempt to exert any pressure on the Commission.

Señor Gazitua stated that in view of the foregoing he did not see that there was anything further that he could do for the moment regarding the trade-agreement announcement as he did not wish to take the responsibility, in view of the instructions from his Government, of agreeing to the announcement without assurances on the shipping matter. He indicated that he might possibly receive further instructions from Santiago, and in the meantime he would attempt to secure advance assurances of favorable action by the conference on the shipping matter from one of the officials of that group. If such assurances could not be secured, the trade-agreement announcement would have to be delayed at least until after the hearing by the shipping conference the early part of next week.

Señor Gazitua was told that he would be informed of the Secretary's decision on the trade-agreement announcement as soon as that had been received.

611.2531/367: Telegram

The Chargé in Chile (Frost) to the Secretary of State

SANTIAGO, September 30, 1939—2 p. m.

[Received 5:56 p. m.]

166. Referring to the Department's No. 126, September 25, 8 p. m. Ortega has just promised to prepare this afternoon a statement for the press accepting our offers for the trade agreement which statement he hopes to deliver to me after discussing its wording sometime between 7 and 9 o'clock this evening. The announcement of intention to negotiate could then be given to the press simultaneously at Santiago, Panama, and Washington during the night or tomorrow morning.

If Department desires announcement thus expedited I suggest that arrangements be made for action upon a telegram from this Embassy this evening although past experience indicates the possibility that some delay may yet arise.

Ortega's acceptance is based upon his understanding that the Department will definitely use its best efforts to secure the admission of the Cía. Sudamericana de Vapores to the steamship conference; and it would be well for the Department to confirm this understanding at the earliest possible moment.

FROST

611.2531/368: Telegram

The Chargé in Chile (Frost) to the Secretary of State

SANTIAGO, September 30, 1939—10 p. m.

[Received October 1—1:07 a. m.]

167. Referring to my telegram No. 166, September 30, 2 p. m. After discussion tonight Ortega despatched the following two telegrams. Translations. First to the Chilean Delegation, Panama.²³

"Please proceed to announce in accordance with Sumner Welles the negotiation of commercial agreement with the United States, in the confidence that the Secretary of State will continue sponsoring in the manner offered the entry of the Cía. Sudamericana de Vapores to the freights conference,²⁴ whose meeting is to be held next Tuesday. Have telegraphed Washington to this same effect."

Second telegram to Chilean Embassy Washington.

"Have telegraphed today to delegation at Panama Conference that it may announce at the conference the negotiation of the commercial agreement in accord with Sumner Welles and in the confidence that the Secretary of State will continue to sponsor in the manner offered the entry of Cía. Sudamericana de Vapores to the freights conference."

The foregoing telegrams have been given to the press here for publication in tomorrow Sunday morning's newspapers in the expectation that similar information will be released to the press immediately in Washington and Panama. I regret inclusion of the phrase respecting freights conference but it was considered *sine qua non* by Ortega. I should suppose that it need not be given to the press at Panama or Washington at least by us—its value for publication being local here to Chilean Government.

FROST

611.2531/367: Telegram

The Secretary of State to the Chargé in Chile (Frost)

WASHINGTON, October 1, 1939—2 a. m.

128. Your 166, September 30, 2 p. m. It is not possible for us now to get an announcement to the press for Sunday's papers. The earliest practicable time for announcement would therefore be Monday forenoon, for immediate release. In order to clear the way as promptly as possible for simultaneous announcement here, at

²³ Meeting of the Foreign Ministers of the American Republics Held at Panama, September 23—October 3, 1939; see pp. 15 ff.

²⁴ The Chilean Government was at this time supporting the efforts of Chilean steamship companies to develop shipping lines to foreign countries. Because of the outbreak of the European war, the Compañía Sudamericana de Vapores had given up a line to Europe and wanted to establish one to New York. The Chilean Government was insisting that this company be admitted to the American Shipping Conference in return for opening negotiations for entering into a trade agreement.

Santiago, and at Panama Monday morning, it is suggested that you telegraph Ortega's proposed statement in order that we may send you a reply Sunday. If it is too lengthy to telegraph in full, please telegraph a summary with full quotations of any passages bearing upon the two following points.

As you know, it is a cardinal point in our procedure that no binding commitments are made regarding our tariff rates prior to our public hearings following announcement of intention to negotiate. It is therefore important that the Chilean announcement contain no statement or implication which might seem to indicate that any such commitments have been made. Of course they have not in fact been made.

The Chilean announcement should also not contain any statement or implication to the effect that the question of admitting the C. S. A. V.²⁵ to the steamship conference has been made the subject of any understanding or commitment in connection with the announcement of trade agreement negotiations. Gazitúa was informed Wednesday that this shipping matter is a question entirely distinct from the question of trade agreement negotiations, and that so far as we are concerned the announcement of trade agreement negotiations cannot be made contingent upon a solution of the shipping question.

We have as a matter of fact facilitated Gazitúa's direct contact with the Maritime Commission in connection with this shipping question. The C. S. A. V. presented its current application to the conference only on September 15. The conference has scheduled hearings for Monday or Tuesday, which is prompt action in the circumstances. If the conference should reject the application, the Commission would then be in a position to review the case, but until the conference has acted the Commission is not in a position to take action. Gazitúa was informed that in that event the Department would urge upon the Commission the desirability of prompt and full consideration of the case, but that it would not be appropriate for the Department to attempt to exert pressure upon an independent Government agency.

HULL

611.2531/368 : Telegram

The Secretary of State to the Chargé in Chile (Frost)

WASHINGTON, October 1, 1939—6 a. m.

129. Your 167, September 30, 10 p m. Endeavor obtain postponement release message under reference to press if possible. Earliest practicable time release our announcement to press Monday morning.²⁶

HULL

²⁵ Compañía Sudamericana de Vapores.

²⁶ October 2.

611.2531/371 : Telegram

The Chargé in Chile (Frost) to the Secretary of State

SANTIAGO, October 1, 1939—11 a. m.

[Received 12:55 p. m.]

168. Department's telegram No. 129. Announcement at Panama City and Washington was reserved for Department and Under Secretary Welles. Announcement here in this morning's local press is relatively brief, inconspicuous and discreet and does not refer in any way to shipping conference problem. It does not mention list of articles for tariff concessions or imply any commitment by the United States either specifically or generally, merely indicating that Chile's sales in the United States of products formerly sent to Europe should be increased and hinting that intention to negotiate shows good relations between the United States and Chilean Government.

Ortega has gone to the country for the week end and could not recall release to press here already used as outlined above. I am asking American and other news agencies at Santiago not to use story but to have their office at Washington and Panama consult with the Department and delegation regarding it.

FROST

611.2531/395

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] October 1, 1939.

Participants: Señor Guillermo Gazitua, Counselor, Chilean Embassy
Mr. Duggan
Mr. Hawkins
Mr. Deimel
Mr. Smith

Señor Gazitua called by appointment at Mr. Duggan's office to discuss difficulties in connection with the announcement of trade-agreement negotiations between the United States and Chile, which had risen as a result of a request by the Chilean Government that the Department give assurances regarding the admission of the Compañía Sudamericana de Vapores to the West Coast shipping conference as a condition to assent by that Government to the announcement of trade-agreement negotiations.

The above question was discussed both in general and in relation to the time at which trade-agreement negotiations might be announced. With respect to the general question, Señor Gazitua read in translation telegrams exchanged between him and his Government on the matter, as a result of which it was pointed out to him that

he appeared in his messages to his Government to have gone beyond the statements which had been made to him during the past few days by various officers of the Department. It was again indicated clearly to Señor Gazitua that the matter was one which had to be settled in the first instance by the steamship lines concerned; that if the shipping conference at the hearings scheduled for October 3 rejected the application of the Chilean line for admission, the Maritime Commission would only then be in a position to review the case and any action by the Department would necessarily be limited to an expression of interest in the case and a request that the Commission expedite consideration of the matter.

In view of the fact that there appeared to be some doubt that the Chilean Government had received an accurate indication of the Department's position in the shipping matter, the suggestion was made that perhaps an *aide-mémoire* or memorandum might be prepared setting forth correctly the Department's position and that this might be initialed by both Señor Gazitua and officers of the Department. (It was decided later, however, to have the matter cleared with the Chilean Government through our Embassy in Santiago.)

With respect to the immediate question of the time of the announcement once a definite understanding had been reached with the Chilean Government on the shipping matter and its relation to the announcement of the trade-agreement negotiations, it was agreed that the announcement would have to be delayed until the shipping matter was settled.

611.2531/371 : Telegram

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

WASHINGTON, October 1, 1939—8 p. m.

130. Your 168, October 1, 11 a. m. After further discussion with Gazitua this morning we still have some doubt as to how accurately the Chilean Government understands our position regarding the shipping conference question. In view of your 166, September 30, 2 p. m. and 167, September 30, 10 p. m., it is essential to be assured of mutual understanding on this point before we issue our announcement of trade agreement negotiations.

Accordingly please present the following statement in writing to the appropriate Chilean authorities with a view to obtaining such assurance:

“As the Chilean Embassy here states that it has informed its Government, there is no link whatsoever between the shipping conference matter and the announcement of trade agreement negotiations. Our position is that on the shipping matter we are strictly limited to the expression of informal interest to the Maritime Commission with a

view to expediting the Commission's consideration in accordance with its usual procedure. The Commission would be in a position to act only if the conference should reject the application. Since the Commission is an independent semi-judicial agency, the Department's action would have to be strictly limited to urging upon the Commission the desirability of prompt and full consideration of the case; it would not be appropriate or helpful for the Department to exert pressure to influence the Maritime Commission's ultimate decision."

You may use the appropriate portions of Department's 128, Oct. 1, 2 a. m. if necessary to explain Department's position more fully. Please endeavor to clear this matter as speedily as possible since we must withhold our announcement until we receive a reply indicating full understanding of our position. We can release our announcement on very short notice, and as it is desired to do so tomorrow if at all possible, particularly in view of the announcement already made at Santiago, please telegraph or telephone immediately if you have been able to obtain such indication from the Chilean authorities.

HULL

611.2531/374a : Telegram

The Secretary of State to the Chargé in Chile (Frost)

WASHINGTON, October 2, 1939—7 p. m.

131. Your telephone message, October 2, 6 p. m. Announcement is now being issued here for publication in Tuesday morning papers.²⁷

Accompanying the announcement is a statement by me noting the appropriateness of such an announcement coming at the time of the Panama meeting, the need for closer economic cooperation and the maintenance of liberal trade principles in the Americas especially at this period and the importance of commercial and financial relations between this country and Chile.

HULL

611.2531/396

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] October 7, 1939.

Participants: Señor Guillermo Gazitua, Counselor, Chilean Embassy
Señor Carlos Campbell, Commercial Counselor, Chilean Embassy

²⁷Department of State *Bulletin*, October 7, 1939, pp. 346-349. The press release contained the list of products on which the United States would consider granting concessions to Chile.

Mr. Hawkins
Mr. Woodward
Mr. Smith

Señor Gazitua and Señor Campbell called by appointment to discuss in a preliminary way the procedure to be followed for the negotiation of the proposed trade agreement between the United States and Chile, now that the announcement of intention to negotiate had been issued on October 2.

Mr. Hawkins pointed out that it was our desire that the negotiations for the proposed agreement be conducted in Washington, indicating that with negotiations with other countries in prospect it would not be feasible for the Department to send any representative to Santiago in the near future to assist in the Chilean negotiations. Mr. Hawkins also mentioned the desirability of proceeding as rapidly as possible with work on the general provisions, with the exception of the exchange and quota articles, which would by mutual agreement be left open for discussion at a later date.

Señor Gazitua indicated that he believed it would be agreeable to his Government to have the negotiations take place in Washington as he had already been authorized to carry on the discussions here up to the present time. With respect to the discussion of the general provisions, he agreed that it would be desirable to proceed immediately with these questions but requested that the Department ask our Embassy in Santiago to request the Chilean Foreign Office to expedite consideration of the preliminary text of provisions which he had transmitted to his Government in August but regarding which he had not yet received any reaction. It was agreed that such an instruction would be sent to the American Embassy in Santiago.

Señor Gazitua raised again a question which he had brought up at a previous meeting, namely, the procedure followed in the United States by the Treasury Department in determining the dutiable value of imports on which duties are levied on an ad valorem basis. He pointed out that in the case of melons imported from Chile it appeared that the Treasury Department was doing two things which it was felt were unfavorable to Chilean exports of that commodity: there was being utilized as the rate for converting Chilean to United States currency the "official" Chilean exchange rate of 19.37 pesos to the dollar, a rate which was not used in Chile for general commercial purposes; and the selling price in the United States of melons imported from Chile was being taken as a basis for the assessment of ad valorem duties rather than the f. o. b. price in Chile. Señor Gazitua pointed out that, in his opinion, the rate for converting currencies for customs purposes which should be used was the so-called export draft rate of 25 pesos to the dollar. Señor Gazitua was informed that within the next few days an officer of the Treasury Department would be invited

to discuss with him at the Department the practices followed by the Treasury Department in the two matters mentioned above and the reasons therefor.

Señor Gazitua also raised a question as to the exact nature of the product which had been listed in connection with the public announcement of intention to negotiate as spermaceti wax, and it was agreed that he would be furnished with information on this question.

The Chilean Counselor also raised certain specific points regarding the classification for customs purposes in this country of peas and beans imported from Chile and he was informed that we would be glad to discuss this and similar questions with him when our technical studies had advanced sufficiently.

Señor Gazitua mentioned that consideration was being given by his Government to the tentative list of products on which this Government might be interested in securing concessions in the trade agreement, and he indicated that his Government was giving favorable consideration to a number of these, including products the duty on which was so high as to encourage a great deal of smuggling into Chile.

It was agreed that the Chilean representatives would be supplied within the next few days with a copy of the current text of the "standard" general provisions and that it would be desirable as a means of expediting consideration by their Government of the general provisions if each article were to be translated and submitted to their Government as soon as agreement had been reached here with respect thereto.

611.2531/397b

The Secretary of State to the Chargé in Chile (Frost)

No. 22

WASHINGTON, October 11, 1939.

SIR: As you were informed in the Department's telegram no. 131 of October 2, 1939, 7 p. m., announcement of intention to negotiate a reciprocal trade agreement with Chile was issued during the evening of October 2 for use in newspapers appearing the following morning.

Since that date a conversation has been held by officers of the Department with the Counselor and the Commercial Counselor of the Chilean Embassy, a memorandum of which is enclosed²⁸ for your information, concerning the procedure to be followed with respect to the negotiations for the proposed agreement.

As will be noted from the enclosed memorandum of conversation, the desire of the Department has been expressed to the Chilean representatives that the negotiations be conducted in Washington. Due to the necessity of sending officers of the Department abroad to assist in the negotiation of trade agreements in prospect in the near future

²⁸ *Supra.*

with other countries, the Department does not believe that it will be possible at this time to send any officers to Santiago to assist in carrying on negotiations there.

In accordance with the promise made to the Counselor of the Chilean Embassy as reported in the memorandum of conversation under reference, you are requested to discuss with the appropriate Chilean officials the desirability of providing the Chilean Embassy as soon as possible with their comments on the general provisions of the agreement on which it is understood Señor Gazitua submitted a report to his Government in August. It is desired to utilize the next few weeks for discussion of those provisions with the Chilean representatives, except the exchange and quota articles, as definitive negotiations cannot take place with respect to the schedules until after the close of the public hearings which will open on November 27.

There is also enclosed for your information a copy of the press releases issued by the Department on October 2²⁹ in connection with the announcement of intention to negotiate a trade agreement with Chile.

Very truly yours,

For the Secretary of State:
HENRY F. GRADY

622.2531/444

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

No. 97

SANTIAGO, October 25, 1939.

[Received November 1.]

SIR: I have the honor to refer to the Department's instruction No. 22 of October 11, 1939, with reference to the consideration by the Chilean Government of the general provisions of the projected Chilean-American trade agreement, on which it is understood that the Counselor of the Chilean Embassy at Washington submitted a report to his Government in August.

On consultation with Señor Cayetano Vigar, Chilean Under Secretary of Commerce, it is learned that the latter has now received a copy of the current text of the "standard" general provisions. He has undertaken to study these at once, omitting the provisions respecting exchange and quotas, and he hopes to transmit his comments to the Chilean Embassy at Washington within the next week or so if possible. It is assumed that the general provisions as reported by Señor Gazitúa in August have now been superseded, so that comments on the revised provisions will be more suitable. In connection with approving the announcement of intention to negotiate the agreement the Chilean Minister for Foreign Affairs indicated to Mr. Frost on September 30th a general acceptance of the provisions pro-

²⁹ Department of State *Bulletin*, October 7, 1939, pp. 346-349.

posed by Señor Gazitúa; but this attitude was not based upon any detailed study here, and the latter is now being made by Under Secretary Vigar.

Señor Vigar raised no objections in respect to the Department's intention of negotiating the agreement at Washington, and appeared to understand the difficulties which the Department would encounter in detailing officers to Santiago in order to pursue the negotiations here. It is believed, however, that he plans to follow the course of the discussions rather closely; and if this Embassy can be of service at any time I should of course be glad to receive instructions. A copy of the current text of the standard general provisions might perhaps be helpful to the Embassy, and is presumably being forwarded by the Department.

It may be of interest to report that Señor Vigar, while appreciating the value of the trade agreement, does not anticipate that a sufficient volume of Chilean agricultural exports to the United States can be built up to correct radically the Chilean shortage of international exchange. He referred to the relative smallness of the fruit trade, and to the fact that dried vegetables have not been needed in large quantities by the United States; and he also volunteered the statement that it can hardly be expected that the United States will take Chilean copper in quantities sufficient to affect adversely the American copper industry. His mind is still running on the necessity of promoting industries within Chile which will obviate certain of her imports of manufactured goods; and he spoke particularly of ship-building in this connection. He feels that it will be difficult for Chile to purchase new vessel tonnage abroad at prices which she can afford; while she already possesses a rudimentary ship-building industry, with many of the elements which could justify its expansion. It appeared that he has not yet held extensive conversations with Señores García and Pedregal of the Fomento Corporation, since his return; but he apparently plans to advocate industrial developments, as indicated, in early discussions with them.

I shall endeavor to keep in contact with Señor Vigar to ensure his prompt submission to the Chilean Embassy at Washington of the comments desired by the Department, and will report from time to time as the situation develops.

Respectfully yours,

CLAUDE G. BOWERS

611.2531/572a

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

No. 48

WASHINGTON, November 29, 1939.

SIR: With reference to the conversations being conducted here looking toward the negotiation of a reciprocal trade agreement between

the United States and Chile, it now appears that it will not be possible to hand definitive proposals on the two Schedules to the Chilean representative in Washington earlier than about December 6 or 7. As nearly a week will be required for these proposals to reach the Chilean Government if they are transmitted by air mail, it will probably be necessary, in view of the time element discussed later, to send them to Santiago by telegraph. As it is believed that telegraphic communication can be more expeditiously handled through the Department than through the Chilean Embassy in Washington, our definitive proposals on the Schedules will be telegraphed to you as soon as they have been handed to the Chilean representative here, and you will be requested to transmit them to the appropriate officials in the Ministry of Foreign Affairs as quickly as possible.

With regard to the general provisions of the proposed agreement, the Chilean Embassy has already transmitted this Government's proposals on all of the twenty articles, together with a Spanish translation of those articles made by the Chilean Embassy which had previously been submitted for the Department's comment.

There is enclosed for the Embassy's information a text in English and Spanish of the twenty articles proposed by this Government.³⁰ A comparison of this text with the mimeographed text of the "standard" provisions transmitted with the Department's instruction no. 26 of October 24, 1939,³¹ will reveal a few changes, particularly in Articles I, VII and XX. With respect to the last sentence in Article VII, this was inserted at the request of the Chilean representative and has not yet been submitted to the Trade Agreements Committee. Article XX has been drafted with existing Chilean practice in mind, and would require that the agreement be ratified by the Chilean Congress within one year from the date of its provisional entry into force. The inclusion of the clause in parenthesis in Article XII is conditional upon acceptance by the Chilean Government of Article IV in the form proposed by this Government.

There is also enclosed a draft headnote³¹ in English and Spanish for Schedule I, which may be used in the proposed agreement. It will be noted that this is similar to the headnote which may be used for Schedule II, with appropriate change for the name of the country.

In case it should be found necessary during the next few weeks to communicate with the Embassy by telegraph regarding the general provisions, reference will be made to the enclosed text and not to the mimeographed version. As of interest to the Embassy there is also enclosed a copy of the informal memorandum handed the Counselor of the Chilean Embassy on November 25³¹ regarding Articles III,

³⁰ Not attached to file copy.

³¹ Not printed.

IV and XII of the proposed agreement, a translation of which Señor Gazitua has already sent to his Government.

With regard to the proposed agreement in general, it is considered essential by the Department that signature take place by January 1, 1940. It is desired, therefore, that you stress with the appropriate Chilean officials the desirability of proceeding as rapidly as possible at this time with consideration of the general provisions, and later, of our proposals on the schedules.

Very truly yours,

For the Secretary of State:
HENRY F. GRADY

611.2531/579a: Telegram

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

WASHINGTON, December 8, 1939—7 p. m.

162. With reference to the Department's instruction no. 48 of November 29, in which it was stated that we feel it essential to conclude the trade agreement by January 1, you should express to Señor Wachholtz the exceeding regret of the Department that circumstances have indicated the importance of making every effort to move up the schedule of procedure as compared with the indications in the Department's telegram no. 140 of October 14.³² The Department is gratified to learn of Señor Wachholtz' continued interest in the possibility of visiting this country and hopes sincerely that the unforeseeable change in conditions which has counseled especially rapid action in the trade agreement negotiations will not prejudice the plans he may have made in this respect. This Government would be very pleased to have Señor Wachholtz come to the United States for conclusion of the agreement if he should find it practicable to do so.

Our definitive proposals on the schedules should be in the hands of the Chilean Embassy by December 9 and will also be telegraphed to you by that date, in accordance with instruction no. 48. The proposals on the general provisions have been in the hands of the Chileans for some time. Every effort has been made to grant the fullest concessions possible in order to facilitate the Chilean action upon which the negotiations will then be dependent.

The situation with respect to the possibility of further financial assistance to Chile remains the same as stated under point (2) of the Department's telegram no. 140 of October 14, and it likewise continues to be undesirable that there be any publicity which might prejudice congressional action on the program of financial cooperation.

HULL

³² *Post*, p. 454.

611.2531/579b : Telegram

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

WASHINGTON, December 9, 1939—1 p. m.

163. Department's instruction no. 48, November 29. Definitive offers were presented to the Chilean Embassy today on the following products, identified by tariff paragraphs:

735, fresh apricots, one quarter cent per pound, December 1 to last day of February, inclusive; 745, fresh peaches, one quarter cent per pound, January 1 to April 30, inclusive; 745, fresh nectarines, one quarter cent per pound, January 1 to April 30, inclusive; 748, fresh plums, one quarter cent per pound, December 1 to March 31, inclusive; 752, honeydew melons, 17 and one half percent ad valorem, December 1 to April 30, inclusive; 767, lentils, bind existing rate of one half cent per pound; 769, chickpeas or garbanzos, dried, one cent per pound on sizes of 50 grains and more per 30 grams; 770, garlic, one cent per pound, March 1 to May 31, inclusive.

Also the following free list bindings:

1669, soap bark or quillaya; 1681, nutria furs and fur skins; 1685, guano; 1685, potassium-sodium nitrate mixtures; 1698, iodine, crude; 1700, iron ore, including manganiferous iron ore; 1766, sodium nitrate, crude or refined; 1766, sodium sulphate, crude, or crude salt cake; 1777, sulphur in any form, and sulphur ore.

The following offer was also made, subject to the conclusion of the Argentine agreement prior to the conclusion of the Chilean agreement:

742, grapes in bulk crates, barrels or other packages, 15 cents per cubic foot of such bulk or the capacity of the packages, according as imported, March 1 to June 30, inclusive.

The foregoing offer was also made subject to the condition that this government might find it necessary to restrict it to other than hothouse grapes and modify the seasonal period.

The descriptions of the products listed above are not in the exact form in which they will appear in the agreement, but changes will not affect the substance of any concession offered.

For your confidential information, bindings may be offered on the following products if the Chileans insist:

52, spermaceti wax; 1611, argols, etc.; 1611, calcium tartrate; 1681, raw lamb and sheep furs; 1765, raw sheep and lambskins. These items are not included in the original offers because of Chile's minor importance as a supplier.

A reduction in the tax on copper definitely cannot be granted.

The above items cover all those appearing in the public notice of October 2 except pears, which had been rejected as a concession for

Argentina, a much more important supplier than Chile, onions, on which no concession was possible on account of a crop surplus here and purchases of excess stocks by the Surplus Commodity Corporation, and beans, which are discussed below.

The foregoing offers are subject, of course, to Chilean acceptance of our Schedule I requests, which will be sent you shortly, and to agreement upon the general provisions.

The Department transmitted to you by pouch on December 6 the text of the note proposed for presentation to the Chilean Ambassador containing our Schedule Two proposals, which included an offer on beans. Subsequently the Trade Agreements Committee reconsidered that offer and voted that it should not be proposed to the Chileans. In transmitting the proposals outlined above to the Chileans, therefore, you should omit beans. If asked to explain the absence of that item, give the same reason as noted above for onions.

Please convey the appropriate parts of the foregoing to the Chilean officials as soon as possible, stressing most strongly the need for expeditious consideration of our proposals, both those above and on the general provisions. Please keep the Department currently informed by telegraph of developments.

HULL

611.2531/579c : Telegram

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

WASHINGTON, December 9, 1939.

164. Department's instruction no. 48, November 29, 1939. The following Schedule I requests were handed the Chilean Embassy today:

Reductions: 47, softwood lumber, rough or sawn, to 35.00 c. m.; ex 607, men's felt hats valued at more than 24 dollars per dozen, to 10.00 each; 1072, lubricating oil, to .20 g. k.; 1275, razor blades, to .25 per dozen; ex 1415, storage batteries and parts, .40 net k.; ex 1473, metal stampings and shapes for the manufacture of bus bodies, covered with anti-rust protecting coat only, to .30 g. k.; 1480, tractors, to .30 g. k. eliminating 10 percent surtax; ex 1487, pneumatic tires, casings and tubes, to 2.00 g. k. eliminating 10 percent surtax; 1492, automobile parts, n. e. m., to 1.32 g. k. eliminating 10 percent surtax; 1609, fiber board, to .25 g. k.; 1856, adding and calculating machines and parts, to 3.00 legal k.; 1857, typewriters and parts, n. e. m., to 3.00 legal k.

Bindings: 43-I, fuel oil, 15.75 m. t.; 138, fresh fruit, except grapes, free; ex 172, raw cotton, under one and one-eighth inches, .02 g. k.; 271, cotton yarn, .037 g. k.; 289, silk and rayon yarn for sewing, embroidering, etc., 5.00 l. k.; 326, osnaburgs, .75 n. k.; 1085, rosin, 1.50 g. q.; 1193, iron or steel sheets not coated or galvanized, .075 g. k.;

1197, tinplate, .075 g. k.; 1246, lavatories, water flushers and pans, cast iron, for water closets, .35 g. k.; 1343, mining machinery, n. e. m., .18 g. k.; 1344, mining apparatus, n. e. m., .25 g. k.; 1345, parts, n. e. m., for mining machinery and apparatus, .45 g. k.; 1347, agricultural machinery, n. e. m., .18 g. k.; 1351, parts for agricultural machinery, .45 g. k.; 1388, conveyor belting, .20 g. k.; 1396, parts for motors, turbines, etc., .45 g. k.; 1410, electrical apparatus, n. e. m., .25 g. k.; ex 1415, electric batteries and parts, .35 g. k.; ex 1487, tires for tractors and agricultural machinery, 1.00 g. k.; 1562, refractory brick, 3.80 g. q.; 1824, motion picture films, exposed, 25.00 l. k.

The above requests appear to cover about 39.3 percent of Chilean imports from the United States in 1938, bindings representing about 30.8 and reductions about 8.5 percent.

You should transmit the foregoing information at once to the appropriate officials, pointing out the need for expeditious consideration.

It is expected to send you detailed information on Schedule I by the next air pouch.

HULL

611.2531/585a

The Secretary of State to the Chilean Ambassador (Cabero)

WASHINGTON, December 9, 1939.

EXCELLENCY: You will recall that pursuant to conversations between officials of our Governments which established a mutual readiness to undertake the negotiation of a reciprocal trade agreement between the United States and Chile, there was issued by my Government on October 2, 1939 a public notice of intention to negotiate such an agreement, together with an accompanying list of products on which the United States would consider the granting of concessions, the text of this notice and list having previously been shown to you and having received your concurrence on behalf of your Government.

The public hearings scheduled pursuant to that notice were held in Washington on November 27, 1939, and thereafter the appropriate departments of my Government have been engaged in making the customary studies of the information received orally and in writing as a result of the notice. These studies having been completed, I now have the honor to submit, in the form of a memorandum which is enclosed,³⁴ the proposals of my Government with respect to the concessions which it is willing to grant in the present tariff treatment accorded certain Chilean products upon their importation into the United States, in return for concessions with reference to the tariff treatment accorded certain United States products upon their impor-

³⁴ Not printed, but see telegram No. 163, December 9, 1 p. m., to the Ambassador in Chile, p. 427.

tation into Chile, concerning which a memorandum is also enclosed.⁸⁵ The offers of the United States set forth in the attached memorandum are, of course, contingent upon agreement being reached on the general provisions to be included in the trade agreement, which are now the subject of discussions between representatives of our Governments.

In setting forth the concessions which my Government is prepared to grant to facilitate the importation of Chilean products into the United States, full account has been taken of the desirability of bringing the present negotiations to an early conclusion. The concessions offered, therefore, represent the maximum which my Government finds itself in a position to grant. Likewise, in preparing the list of United States products upon which concessions are requested of Your Excellency's Government, every effort has been made to restrict the requests therein to a minimum which can be accepted by the Chilean Government without difficulty or undue delay, and which will represent a fair equivalent for the benefits offered for Chilean products.

Accept [etc.]

For the Secretary of State:
HENRY F. GRADY

611.2531/605

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] December 9, 1939.

Participants: Assistant Secretary Grady
Señor Guillermo Gazitúa, Counselor, Chilean Embassy
Mr. Smith

Señor Gazitúa called on the Assistant Secretary by appointment, to receive the proposals on Schedules I and II which had been formulated by this Government for the proposed trade agreement between the United States and Chile.

In giving the proposals to Señor Gazitúa, Mr. Grady noted that copper had not been included in Schedule II for the principal reason that the trade-agreements organization, after a very thorough study of the subject, had come to the conclusion that a reduction in the import tax to the extent permitted in a trade agreement would be of little value to the Chilean Government. Señor Gazitúa admitted that his Government had not, in the original stages of the conversations, placed particular emphasis on copper, but stated that in view of the extreme opposition which had developed in the United States against any concession on copper and the considerable comment which had appeared in the Chilean press, his Government might feel it necessary to explain why that item would not appear in the proposed trade agree-

⁸⁵ Not printed, but see telegram No. 164, December 9, to the Ambassador in Chile, p. 428.

ment. Mr. Grady suggested that we might be able to supply Señor Gazitúa with some information for such an explanation.

Señor Gazitúa noted particularly the absence of dried beans and onions from the list of products on which the United States was prepared to offer concessions and stated that he believed his Government would find it extremely difficult to conclude an agreement which did not contain concessions on those products. Señor Gazitúa was assured that onions and beans had been the subject of thorough investigation by the trade-agreements organization and it was finally concluded that, in view of the existing domestic situation of crop surpluses and purchases by the Federal Surplus Commodity Corporation of excess stocks, no concessions could be offered.

Upon leaving Mr. Grady's office the conversation was continued in the Trade Agreements Division and Señor Gazitúa was supplied with statistical information on those products appearing in the published list of October 2 which had not been included among those on which concessions had been offered by the United States. Señor Gazitúa stated that he would transmit the proposals to his Government by airmail on December 11 and he was informed that, in accordance with a previous oral understanding, the lists of concessions offered and requested by this Government were being sent to our Embassy in Santiago for expeditious presentation to the Chilean Government.

611.2531/584 : Telegram

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

SANTIAGO, December 12, 1939—noon.

[Received 1:30 p. m.]

221. Department's numbers 163 and 164, December 9, 1 p. m. Estimates here indicate that the Department is offering reductions on Chilean exports to the United States whose value in 1938 was between 200 and 250,000 dollars. Moreover Chile's production and exports of the products is not susceptible of great expansion. In other words the offer is so restricted as to have little value. On the other hand the reductions sought for American products sold to Chile affect some 3 to 3½ million dollars worth of trade.

In my judgment the submission of such a proposal is not only likely to be rejected but our Good Neighbor policy toward Chile is certain to be seriously discounted, unless we offer Chile concessions on red kidney beans, onions, bulk wine, et cetera, and at the same time greatly reduce our requests from it in our Schedule I.

We are actually asking Chile to give up in customs revenue more than the total value of the trade on which we are making reductions which is less than 1 percent of Chile's exports to the United States.

If we cannot make further concessions as above suggested and reduce our demands the postponement of negotiations indefinitely on some pretext or other would probably do less damage to us here. Request instructions.

BOWERS

611.2531/629

The Ambassador in Chile (Bowers) to President Roosevelt

SANTIAGO, December 13, 1939.

MY DEAR MR. PRESIDENT: Because I am genuinely alarmed over the nature of the trade agreement proposals to be made by us to Chile I have thought it my duty to write personally to Secretary Hull setting forth the very strong and unanimous conviction, not only of myself, but of Mr. Frost, the Counselor, Mr. Bohan, the Commercial Attaché, and Mr. Trueblood, the Second Secretary. In fact there is not one man in the Embassy who does not share the views therein expressed. We are offering precious little to a country that needs help, but that would not be bad if we ourselves were asking proportionately little, but the contrary is the fact.

We have great investments here, and looking to the future, we are afraid that unless we are able to do something more for Chile than the meager \$5,000,000 credits there may be a reaction which will change the feeling for us here. And there is grave danger that from sheer desperation and necessity she may be forced to suspend payment on the American debt to get the dollars to buy in America the things she needs.

You will note from the letter what the British are doing.

I am sorry you got the wrong impression about the Alessandri matter.³⁶ It never occurred to me that he should not be received. In view of his action in sending to the anti-Government press here complimentary things said, not for publication, by Mr. Hull and Mr. Welles, I had no doubt it was my duty to warn Washington of what had been done to the end that you might not say anything to him as a matter of cordiality that could be used by the opposition press as an implied expression of a preference for the former Government.

Warmest regards,

Sincerely,

CLAUDE G. BOWERS

³⁶ On his return to Chile from a European trip, ex-President Arturo Alessandri stopped in the United States and was received by President Roosevelt and other high officials, including the Secretary of State and the Under Secretary of State, but no public statements were made by them.

611.2531/595

The Chilean Ambassador (Cabero) to the Secretary of State

No. 2798/107—

[WASHINGTON,] December 15, 1939.

1.—I have read with greatest interest Your Excellency's confidential note of December 9, 1939, as well as the Memorandum attached, thereto, relative to the concessions which Your Excellency's Government is willing to grant in the present tariff treatment accorded to certain Chilean products upon their importation into the United States, and to the concessions in tariff treatment, which Your Excellency would like to have accorded to certain United States products upon their importation into Chile, in the reciprocal Trade Agreement which is the subject of negotiation between representatives of our governments.—

2.—In the note under acknowledgment, Your Excellency stated that the concessions offered on some products of my country represent the maximum which Your Excellency's Government finds itself in a position to grant, and that the tariff concessions requested on certain products of the United States have been restricted to a minimum, which could be accepted by my Government without difficulty or delay. You also state that such concessions on products of the United States represent a fair equivalent for the benefits offered to certain Chilean products.—

3.—Commercial relations between Chile and the United States, although very cordial, have been suffering from various obstacles in the last few years, due to the scarcity of foreign exchange³⁷ available in Chile to cover the cost of the articles which exporters of the United States have desired to send into Chile.—

This lack of exchange has its origin in the balance of payments between the two nations, which is decisively favorable to the United States.—

4.—One of the most effective means for solving the problem of the scarcity of exchange in Chile, is the increase of Chilean exports to the United States. Approximately 90% of Chilean imports come in here free of duty, and consist of fertilizers, iodine, iron ores, sulphur and other products in minor quantities. The balance of 10% represents agriculture products, which are harvested in Chile at seasons opposite to those in the United States. As is natural, in negotiating a Trade Agreement with the United States, my Government must of necessity request tariff concessions on these latter products subject to duties. From this derives the interest with which I awaited the decision on the tariff concessions asked by this Embassy, and which were transmitted to me in Your Excellency's note of the 9th, instant.—

³⁷ See *Foreign Relations*, 1937, vol. v. pp. 430 ff.

5.—Having thoroughly studied these concessions, as well as the concessions which Your Excellency's Government has requested on some products of the United States, it would seem that the Trade Agreement under discussion does not have as its main purpose the improvement of the balance of payments between the two nations. In this connection I should like to call attention to some data which it is felt should be taken into consideration in the current negotiations:

First. Due to the nature of the products and to reasons of competition with similar domestic articles, exports from the United States to Chile have increased steadily during the last few years notwithstanding the lack of exchange available in Chile, while Chilean exports to the United States diminished in almost 40% during 1938 as compared with the preceding year.—

Second.—If we analyze imports of Chilean articles in the United States for which tariff concessions are offered and compare them with exports of United States goods to Chile for which tariff concessions are asked, it may be well noted that while the former amounted to \$239,000 in 1928 [1938?], the latter amounted to \$1,794,000, not in 1938, but in 1937, when exports of United States articles to Chile had less value than in 1938.—

Third.—That in the event such exports from Chile for which tariff concessions are offered are doubled, which does not seem probable, the value of such doubled exports would amount to only 27% of the normal annual exportation to Chile of articles from the United States for which tariff concessions are requested.—

6.—For the reasons pointed out, and taking into account the difficulty of obtaining any improvement in the balance of payments between the two countries unless substantial tariff concessions are considered for those products which Chile exports to the United States subject to duties, I beg leave to request that Your Excellency be good enough to use your good offices to obtain a reconsideration on the part of the proper authorities of their decisions regarding the following products and their consent to the solicitations indicated:

a). Spermaceti, reduction in duties to the limit provided for in the law of June 12, 1934;³⁸

b). Beans, the fixing of an annual quota equal to 3% of the normal domestic production, on the quota of which there will be charged duties reduced by 50%. The present duty corresponds to 100% of the value of the beans and the reduction, in the opinion of this Embassy, will in no way affect domestic production;

c). Onions, a reduction of 50% in the duty in effect during the months of March and April in which there is no national production.—

d). Grapes, reduction in the duties in effect to \$0.20 per cubic foot during the months of February to June, inclusive, if the agreement with Chile is signed before that which is being negotiated with Argentina.—

³⁸ Trade Agreements Act, approved June 12, 1934; 48 Stat. 943.

e). Lentils, reduction by 50% in the duty in effect due to the fact that the prices of the Chilean product must depreciate in view of the large surplus now in Chile as a result of the outbreak of hostilities in Europe;

f). Chick peas, reduction in duties to the limit provided for in the Law of June 12, 1934, for those smaller than 50 grains per ounce of 30 grams;

g). Garlic, reduction in duties up to the limit of 50%, during the months of February to May, inclusive.—

h). Binding on the free list of furs, sheepskins, lambskins, tartar, and calcium tartrate.—

Knowing that Your Excellency will give your best attention to these observations, I avail myself [etc.]

A. CABERO

611.2531/591b : Telegram

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

WASHINGTON, December 16, 1939—6 p. m.

173. Department's 172, December 16, 5 p. m.³⁹ In view of developments here, and because a definite decision has already been reached that no reduction in or binding of the copper tax can be included in the trade agreement, it has been decided to issue a public statement to that effect. Before doing so, however, we wish to assure ourselves that the Chilean Government has no objection to such action. Please get in touch with the appropriate officials at once, therefore, in the sense of the foregoing and reply as soon as possible. This proposal has been mentioned to Gazitua, who is agreeable to its being taken up through you in this manner. He suggested that you confer with the Undersecretary of Commerce, mentioning the statement by the latter reported at the end of page 2 of your despatch 181 of November 29.³⁹

If your reply is received in time, our statement will be issued on Monday and you will be informed by telegram.

HULL

611.2531/596

The Chilean Ambassador (Cabero) to the Secretary of State

WASHINGTON, December 18, 1939.

EXCELLENCY: I beg leave to invite Your Excellency's notice to my communication of December 15, 1939, in which were formulated certain observations with respect to the Reciprocal Trade Agreement which is now the subject of conversations between representatives of our Governments.

³⁹ Not printed.

Since writing the above mentioned note I have been in consultation with my Government on the matter and am now in receipt of instructions to confirm that the points of view expressed therein are, in every respect, those of my Government.

Accept [etc.]

CABERO

611.2531/619

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] December 19, 1939.

Participants: Señor Guillermo Gazitúa, Counselor, Chilean Embassy
Mr. Hawkins
Mr. Smith

Señor Gazitúa called to discuss certain questions in connection with the general provisions of the proposed trade agreement, concerning which he had received cabled instructions from his Government.

With regard to Article I, on most-favored-nation treatment, the proposal of the Chilean Government was for the use of the formula developed by the League of Nations on this subject.⁴⁰ Señor Gazitúa was informed that his Government's proposal was acceptable in principle, subject to a close examination of the actual language of the League of Nations' formula in relation to that proposed by this Government, but it was believed that the final clause of the League of Nations' formula, on exceptions for frontier traffic and customs unions, should remain in Article XVI with other exceptions, as set forth in the draft proposed by this Government.

With respect to Article V, on monopolies, the Chilean Government expressed a desire that this be eliminated from the proposed agreement. It was indicated to Señor Gazitúa that we wish to retain this Article, and before considering its elimination, we would wish to know the reasons why the Chilean Government desired to have it dropped.

The Chilean Government also desired to eliminate Article IX of the proposed draft which provides specifically that the schedules annexed to the agreement and the notes included in them will be considered as integral parts of the agreement. It was indicated to Señor Gazitúa that we might eliminate Article IX provided the appropriate changes were made in Articles VII and VIII to the effect that the schedules were to be considered parts of the agreement.

In Article XIV, the general safeguard provision, the Chilean Government desired to have a thirty day escape clause inserted. Señor

⁴⁰League of Nations, *Official Journal*, Special Supplement No. 138, p. 128.

Gazitúa was informed that such a proposal would be acceptable to this Government and that appropriate changes should be made in the first and third paragraphs of Article XX.

Señor Gazitúa stated that his Government desired to have Article XVI broadened to include exceptions to most-favored-nation treatment in connection with trade between Chile and its contiguous countries (Peru, Bolivia and Argentina). He was informed that this Government was opposed in principle to such exceptions to most-favored-nation treatment, that the Cuban exception on our side was a special case based on historical considerations and was much less comprehensive than the Chilean proposal respecting contiguous countries, that it would be to Chile's disadvantage if the United States were to permit exceptions in the case of Canada and Mexico, (which we would not in any case desire), and finally that in view of the fact that various countries with which Chile has treaties or agreements do not reciprocate in the matter of exceptions of contiguous countries, the exception proposed by Chile would have little practical significance. On the basis of the foregoing, this Government could not agree to the Chilean proposal.

With regard to the third paragraph of Article XVII, respecting the constitutional limitations on the authority of the Federal Government in the United States with respect to the sale, taxation or use of imported articles, the proposal of the Chilean Government was to make this provision reciprocal. It was indicated to Señor Gazitúa that there would be no objection to this proposal.

Señor Gazitúa pointed out with respect to Article XX, the termination provisions, that his Government had stated that only the schedules and the related general provisions could be put into effect provisionally, the entry into force of the remaining general provisions being subject to ratification by the Chilean Congress. It was suggested to Señor Gazitúa that he inquire of his Government whether it was believed possible that the agreement could be ratified by the Chilean Congress within thirty days following signature, and if so that the provisions of Article XX be drafted so as to provide for the entry into force of the entire agreement on that basis. If it should develop that Congressional ratification could not be secured within thirty days then the suggestion was made that the schedules and related general provisions be put into effect provisionally thirty days after signature and the remainder of the agreement following exchange of the instruments of proclamation by the President of the United States and of ratification by the Chilean Congress.

Señor Gazitúa said that he would send a cable immediately to his Government conveying the foregoing information.

611.2531/606 : Telegram

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

SANTIAGO, December 21, 1939—1 p. m.

[Received 12:45 p. m.]

239. Referring to my telegram No. 238 of December 20, 7 p. m.,⁴¹ conveying Chile's consent to the publication of a statement at Washington to the effect that the pending trade agreement will not affect the copper tax in the United States,⁴² it is important to explain that Chile's consent was based upon the telephone communication received by the Embassy from the Department on the afternoon of December 18 to the effect that Chile's acceptance would result in very sympathetic consideration by the Department to a revision of Schedules I and II to render them more favorable to Chile.

BOWERS

611.2531/629

The Secretary of State to President Roosevelt

[WASHINGTON,] January 3, 1940.

MY DEAR MR. PRESIDENT: I have received your memorandum of December 20, 1939,⁴³ enclosing a letter from the Honorable Claude G. Bowers, American Ambassador of Chile, commenting on the proposals for Schedule II of the trade agreement with Chile.

I am enclosing a draft reply for your signature if you deem it appropriate.

Faithfully yours,

CORDELL HULL

[Enclosure]

Draft of Letter From President Roosevelt to the Ambassador in Chile (Bowers)

DEAR CLAUDE: I have received your letter of December 13. In regard to the trade agreement proposals, it seems to me from information furnished by the State Department that you may not have taken sufficiently into account in your appraisal of the situation that in an arrangement of this kind the binding of duties may be of as much or greater importance than duty reductions from a long-range viewpoint. I am told that on the basis of both duty bindings and reductions, our proposals cover 55 percent of our imports from Chile

⁴¹Not printed.⁴²For statement to the press December 21, see Department of State *Bulletin*, December 23, 1939, p. 733.⁴³Not printed; it requested the Secretary to draft a reply to the enclosed letter (*ante*, p. 432).

in 1938, whereas our requests cover only 39 percent of Chilean imports from this country. One of the bindings which we offered was on nitrate, and we were able to make this offer only after considerable discussion necessitated by certain views expressed by the War Department. Your computation does not seem to give weight to the importance of this concession to Chile.

I agree that on the whole, the concessions we are now able to offer leave something to be desired. It must be kept in mind, however, that we are facing bitter opposition to the continuance of the trade-agreements program which will come to a head when the Trade Agreements Act comes up for renewal at the next session of Congress. In these circumstances, it is necessary to proceed with caution.

With regard to our requests for tariff concessions from Chile, it may be that these can properly be regarded as excessive, but it must be borne in mind that in formulating our requests, we naturally must indicate what would serve our interest. If the Chilean Government considers them unreasonable and will indicate the ground on which it finds them so, we will, of course, be glad to reconsider them.

We are hopeful that Pedregal can present specific proposals for the proper utilization of the \$5,000,000 credit, for the mutual benefit of both countries. As yet, however, there seems to be little of a concrete nature to report. I have asked the State Department to keep you currently informed.

Very sincerely yours,

FINANCIAL ASSISTANCE BY THE UNITED STATES TO THE
GOVERNMENT OF CHILE

825.51/1055

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

No. 526

SANTIAGO, February 24, 1939.

[Received March 3.]

SIR: I have the honor to inform the Department that I arrived in Santiago by plane returning from the United States on Tuesday, February 21st last. This morning, having had an appointment to visit the Minister of Foreign Affairs⁴⁴ for the purpose of signing and exchanging notes prolonging the *modus vivendi*,⁴⁵ he raised the question of my visit to Washington and I took the occasion to explain to him briefly the situation at the time I left: which was to the effect that the charter of the Export-Import Bank having been due to expire

⁴⁴ Abraham Ortega.

⁴⁵ See pp. 403 ff.

in June next the question of its extension was then before Congress and until this had been decided and the exact terms of the new or revised charter were known, it would be impossible to give any definite reply to the Chilean Government on the proposals submitted by the Minister of Finance. I explained to the Minister, however, that I felt sure that once the question of the Bank's charter had been settled our Government would be disposed to give every consideration to the Chilean proposals. I ventured to suggest, however, that the amounts involved were very high and that it would probably be advisable to take up first the most urgent and necessary measures which I presumed would be those involving supplies and materials to be used in reconstruction arising out of the earthquake disaster. I also explained to the Minister that the 3 percent rate of interest mentioned in the Chilean Government's memorandum was, I felt, too low, and that I thought that the Bank would probably not be able to consider a figure below $4\frac{1}{2}$ to 5 percent. Subject to these qualifications, however, I felt sure that if the charter of the Bank were renewed, our Government would do what it could in the matter of extending credit to Chile for the purchasing in the United States of needed materials.

Following my interview with Señor Ortega I received word that the Minister of Hacienda would like to see me later in the afternoon, and I have just returned from a conversation of more than an hour with Señor Wachholtz. I was accompanied by the Counselor of the Embassy,⁴⁶ but the Minister himself was alone.

I outlined to Mr. Wachholtz the situation as I had given it to the Minister of Foreign Affairs, only in more detail as of course Señor Wachholtz is more familiar with the various proposals and is the one bearing the brunt of trying to secure favorable consideration by Congress of the Government's proposed tax bill. Señor Wachholtz appeared tired and worn and showed plainly the effect of the arduous two weeks he had been through in his negotiations with Congress since my departure.

After expressing appreciation of the sympathetic reception which I told him his proposals had received in Washington, he asked me whether I could give him any assurances as to the possibility of loans from the United States either from the Government or bank loans of some nature or other. I told him quite frankly that all that I could do was to assure him that once the charter of the Bank had been renewed I felt sure our Government would be willing to receive him or any delegate he might decide to send with a view to examining the various proposals, but reiterated that I thought it would be a wise move on his part to reduce the amounts for the present, at any rate to essentials and to materials for projects most urgently required.

⁴⁶ Wesley Frost.

I said that of course anything having to do with necessary earthquake reconstruction would naturally commend itself to the particular sympathy of the Government and the people of the United States, and that I wondered whether it would not be a wise move to begin with certain of these measures, then later perhaps presenting the more urgent aspects of his general economic (*fomento*) plan. At the same time I explained to the Minister as I had already done in my talks with him prior to my departure that a determination by the Chilean Government to continue with the maintenance of the present debt plan and a moderate attitude toward American companies and investments in Chile would do more in my opinion to secure favorable consideration of the various projects he had in mind than any other factor. Not unnaturally, perhaps, I said New York and even Washington were looking with some apprehension as to what the new Government's attitude might be in these directions, and I felt it my duty to state quite frankly that drastic action against the American companies would make it very difficult, if not impossible, for our Government or for one of its agencies, e. g. the Export-Import Bank, to consider favorably or with the same sympathetic approach the plans the Minister was putting forward.

The Minister said that he understood the situation clearly but that on the other hand he was in a very difficult position as the Government must have money and must get it somewhere. We suggested that possibly the abandonment for the present at least of the proposed construction of two cruisers might help out. The Minister admitted that this would yield a saving of \$4,000,000 a year which over his proposed 5 year period would certainly amount to a very considerable sum. However, he refused to commit himself on this subject and both Mr. Frost and I received the distinct impression that the Government's decision on this point, which both parties have avoided publicly discussing, has not yet been taken.

The Minister asked if I could give him any indication as to up to what amounts the Export-Import Bank would be willing to give credits to Chile. I replied that I felt that discussion of amounts was futile at this time, certainly until we had some further word as to the terms under which the charter of the Bank would be renewed.

The Minister went on to say that credits for the purchase of needed materials in the United States would not be enough, that actual cash would also be required, and that this they would have to secure from outside Chile. Pressed on this point he explained that using as a basis of argument a total of \$80,000,000 over a five-year period this would be \$16,000,000 a year, of which he thought 70 percent could be in materials furnished, but the remaining 30 percent would have to be cash.

The Minister asked me whether I could give him definite information as to our Government's proposals with regard to the charter of the Bank. I explained that the hearings were in progress when I left and that various changes had been suggested, among them being one to restrict to \$100,000,000 the total amount which the Bank could have outstanding at any one time in the form of credits. I understood that the bill renewing the charter of the Bank had been favorably acted upon by the Senate with this proviso and returned to the House, where I thought it possible that further changes might be made, perhaps even in the direction of increasing the amount mentioned above. The Minister seemed to be somewhat concerned over the limitation suggested, adding that he thought it probable that Brazil alone would be able to use up the \$52,000,000 remaining,—\$48,000,000 being the sum which he understood was already outstanding. I told the Minister that I felt sure that every consideration would be given to Chile's needs and that frankly for the present more than that I could not say. The Minister seemed to be most anxious to know whether, under the new or revised powers of the Bank, it would not be possible to have a cash loan in some form made available. I told him that this was a question which I could not answer: that up to the present I understood that the Bank's powers had not included loans of that type and from the tenor of Congress when I left it seemed unlikely that the powers of the Bank would be enlarged in this direction: that the general inclination seemed on the contrary to be to restrict the powers of the Bank.

I told Señor Wachholtz, who appeared to be very discouraged at the prospects before him, that I expected within the next few days that we would have more definite word with regard to the renewal of the Bank's charter and that then I hoped to be in a position to discuss the whole question with him in more definite form. He said that his main difficulty was that in his sessions with the Congressional Committee he was being pressed as to the possibility of an external loan being accorded Chile, and until he was able to give some definite reply on this point the situation was going to remain difficult if not critical for the Government. I told him that naturally the question of loans by private banks, or agencies not connected with the Government, was outside of my jurisdiction and was a question which he and his Government would have to take up with the banks themselves. I said that much as I should like to give him some encouragement I could not properly do so at this time: that it would only create misunderstanding later if we were to give him the impression now that something along these lines might be forthcoming or he on his part should give the impression to the Congress here that a loan or loans of some nature from the United States would be forthcoming later. I did say, however, that I felt that if he would be willing to proceed for the present

on the basis of continuing under the present foreign debt arrangement and to show a moderate attitude in dealing with American companies and others having investments in Chile and content himself with securing consideration of the immediate needs of the Government through credits extended by the Export-Import Bank, I felt that such procedure would create a most favorable impression abroad and very possibly increase Chile's credit to the extent of later enabling them to secure loans or credits of some sort along the lines which he had envisioned.

The Minister admitted that perhaps what I said might well be true, but frankly the Government was faced with a difficult problem and that he feared that more immediate assistance would be required and that for this purpose the Government might find it necessary to have recourse to the American companies for financial assistance as well as possibly revising their stand on the foreign debt. In any case he said he would proceed very carefully, particularly bearing in mind what I had said about the necessity of doing nothing to upset the favorable impression which the Chilean Government had already created and the good will with which he knew the government at Washington would approach the proposals he had placed before them in his memoranda⁴⁷ which I had taken with me on my visit to Washington.

Respectfully yours,

NORMAN ARMOUR

825.51/1055 : Telegram

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

WASHINGTON, March 9, 1939—7 p. m.

40. The Department has received your despatch no. 526 of February 24 and is in entire accord with your excellent presentation of this Government's position to the Minister of Finance.

The Department is now giving earnest and urgent consideration to the Chilean situation and hopes to be able within the next few days to telegraph you an indication of what this Government may be in a position to do.

HULL

825.51/1057 : Telegram

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

WASHINGTON, March 11, 1939—3 p. m.

41. Reference Department's telegram no. 40, March 9, 7 p. m. and Embassy's telegrams nos. 49, March 10, 3 p. m. and 50, March 10, 7 p. m.⁴⁸

⁴⁷ Not found in Department files.

⁴⁸ Telegrams Nos. 49 and 50 not printed.

The Department continues to be greatly interested in the development of events in Chile, especially as bearing upon American investment and trade. The position in Washington at the moment appears to be as follows:

(1) It is believed that it is essential to keep before the Chilean Government the necessity of avoiding all action vis-à-vis American interests of a confiscatory or discriminatory character. It is expected that the Chilean Government will deal with them according to the established rules of international law. American enterprise of course must make an equitable contribution to the needs of the country and government.

We hope of course that the Chilean Government will not suspend payments on its dollar external loans. The maintenance of such payments would make any action by this Government easier to carry through and complete suspension would make American governmental assistance difficult. However, the Department is not prepared to take a rigid stand in this matter and if, as part of its general program, the Chilean Government should reduce debt payments for a limited period, it might be that we would not assume a critical position.

(2) The Chilean economy appears to be in real difficulty. Neither the Chilean Government nor the American enterprises operating within the Chilean economy can expect to overcome the necessity for adjustments or sacrifices by securing large scale financial assistance from the American Government. Nor would such a policy, involving as it might the creation of substantial new debt without proper adjustment of underlying conditions, be mutually beneficial in the long run.

(3) Keeping clearly in mind these observations, the American Government would like to be helpful in the circumstances. It is therefore fully prepared to give consideration to such proposals for financial assistance or cooperation as the Chilean Government may wish to present. However, before any action could be taken on such proposals this Government, and the Treasury and the Export-Import Bank in particular, would have to be convinced that the whole program contemplated by the Chilean Government promised to establish a sound working basis for Chile, and that the assistance requested of the United States would be a fair contribution to the general adjustment undertaken by the Chilean authorities and the private economic interests involved. Furthermore, such assistance could probably only be carried through with the consent of Congress as it would likely involve the necessity of raising the present limit upon the operations of the Export-Import Bank or other congressional authority.

If the Chilean authorities formulate any requests or you wish to formulate any, the Department will discuss them promptly with the Treasury and Export-Import Bank. For your own guidance:

(a) The Chilean plans for expenditures amounting to 25 hundred million pesos seem over-ambitious if they are contingent upon raising four-fifths of the amount by foreign loans. We doubt whether an appreciable amount, if any, could be raised abroad. It would seem that the program should be started on a small enough scale to give reasonable assurance that it can be financed internally and externally and that any credits granted may be repaid within a reasonable period of time.

(b) The housing project might be deferred except possibly that part within the earthquake area.

(c) Funds for all domestic labor and materials should be raised in Chile. Your despatch no. 537, March 1,⁴⁹ would indicate that this is feasible, particularly if the funds for the cruiser purchase plan should be diverted, at least temporarily, for this purpose. However, the Government of the United States cannot of course undertake to advise the Chilean Government with respect to the diversion of these funds.

(d) The Export-Import Bank might consider the extension of short-term acceptance credits to enable Chile to liquidate the present exchange arrears for imports of American products. (It would be desirable to have information indicating the composition of exchange arrears by countries and by type, that is, imports, remittances of earnings, et cetera.)

(e) The Export-Import Bank might consider specific proposals for the longer term financing of exports of American products necessary in the furtherance of the Chilean program.

The Department believes that no useful purpose would be served by having a Chilean representative come to Washington at this moment to discuss solely the exchange situation, and that decision on this matter should be deferred until the Department has conferred with the other Government agencies upon the entire plan.

WELLES

825.51/1079a : Telegram

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

WASHINGTON, April 25, 1939—6 p. m.

64. At a meeting held yesterday between representatives of the Department, the Secretary of the Treasury and Mr. Warren Lee Pierson of the Export-Import Bank, it was agreed that it would be desirable to extend an invitation to the Chilean Minister of Finance to come to Washington to discuss economic cooperation between Chile and the United States as soon as his Government had drawn up a specific economic and rehabilitation plan to place before us. It was also agreed to proceed to attempt to secure from the Congress increased loaning powers for the Export-Import Bank, probably in the form of loaning powers specifically reserved for transactions with the other American republics. In addition it was agreed that if the Chilean Government submitted a request for a loan of gold, similar to that

⁴⁹ Not printed.

envisaged in the Brazilian arrangements,⁵⁰ as a part of a reasonable program of economic cooperation, an endeavor would be made to secure congressional authorization.

The Department is very perturbed over the vacillating attitude of the Minister of Finance reported in your despatch no. 636 of April 19.⁵¹ It feels in particular that an essential condition of any arrangement for economic cooperation would be an assurance from the Chilean Government that at least the present small interest payments on the external debt be continued. In view of this attitude of the Minister of Finance it is suggested that in your discretion you may find it desirable to discuss the entire situation with the Minister of Foreign Affairs and the President outlining the Department's position as indicated in previous telegrams, and extending the invitation mentioned above if you deem it expedient.

HULL

825.51/1083 : Telegram

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

SANTIAGO, April 28, 1939—5 p. m.

[Received 8:40 p. m.]

73. Department's telegram No. 64, April 25, 1 [6] p. m. After a talk with the Under Secretary of Foreign Affairs for Commerce in which I brought the substance of the Department's telegram No. 64 to his attention we agreed that it would be advisable for me to have another talk with the Minister of Finance and to extend to him an invitation to go to Washington for the purpose mentioned in the Department's telegram. I found the Minister of Finance in a much more optimistic mood following the successful passage of his reconstruction bill. He expressed appreciation of the invitation and assured me that it is his intention to prepare more specific plans to place before us and probably to have one or more officials proceed to Washington when these are completed. He hopes this will be not later than the middle of May. He thinks it would not be advisable to proceed himself for the present, first, because his presence will be required here and also as his visit might create comment. He might, however, follow later after the preliminaries had been concluded.

At the same time he has asked me to assure the Department, as did the Under Secretary for Commerce, that while the authorization to use the funds set aside for the debt service remains in the law just passed the Government has no intention of availing itself of this power. He intimates that the clause once reinserted could not, for political reasons, be deleted.

ARMOUR

⁵⁰ See pp. 348 ff.

⁵¹ Not printed.

825.51/1138

The Chargé in Chile (Frost) to the Secretary of State

No. 856

SANTIAGO, August 19, 1939.

[Received August 25.]

SIR: I have the honor to report that yesterday Señor Wachholtz, the Chilean Minister of Hacienda, who was a dinner guest in my home, took occasion late in the evening to bring up the question of his visit to Washington, a question which I had studiously avoided.

The Minister stated that he had received information to the effect that the Export-Import Bank still has substantial funds at its disposal, due to the fact that the Brazilian Government has not availed itself of the credits offered by the Bank. I replied that my personal impression has been that the Bank may still be in a position to grant moderate credits to Chile, although I have had no information to the effect that this was due to any non-implementation of our Brazilian undertakings. The Minister stated that the Corporations of Fomento and Reconstruction will desire credits for electrical machinery, road-making machinery, and agricultural machinery, possibly to the amount of 10 or 15 million dollars. He added that he has received offers of credits from Germany, and without intimating that he will refuse them nevertheless suggested that he prefers American credits in so far as feasible. He inquired whether any credits granted by the Export-Import Bank could be made direct to the two Corporations in question. I answered that in general the credits were granted to American export firms, but that it has not been my understanding that the granting of direct credits to the Corporations would be entirely impossible. He mentioned that he would not wish the credits to be granted to the Chilean Government (perhaps alluding to the Brazilian arrangements) but rather to the Corporations, so that the transaction would be a commercial one between the Bank and the Corporations. Finally he alluded once more to the possibilities for the conclusion of a trade agreement between Chile and the United States.

I am disposed to feel that, without the faintest solicitation on my part, Señor Wachholtz has thus more or less outlined the terms under which he would consider a visit to Washington to be generally advantageous. At the outset of our talk he mentioned that he has been feeling that the present time is not very propitious, either from the standpoint of Chilean internal politics or the standpoint of American internal politics, for negotiations, and from his remarks it was evident that he has given a good deal of attention to the situation in the United States. As these statements were merely prefatory to his further statements outlined in the preceding paragraph, it seems evident that they

were intended principally to assume a tactical position before indicating the conditions which might render the Washington visit fruitful.

There would appear to be no doubt that the types of machinery specified by Señor Wachholtz will be needed here in the near future, and that they will be imported either from Germany or the United States. It seems not unlikely that imports will be made from both countries, and that the share which comes from the United States will be determined to a good extent by the granting or the withholding of Export-Import Bank credits. There are two motives which would impel the Minister to conclude contracts in the United States, (a) his belief that American machinery is on the whole superior, and (b) his desire to demonstrate to his countrymen that the present Chilean Government and the Corporations which it has created command confidence in the United States. The second motive is presumably much the stronger of the two. It may be added that Señor Wachholtz would probably be pleased by the personal prestige and honors incidental to a journey by him to Washington; and also that he is friendly to the United States and is by no means indifferent to the building up of amity and goodwill from genuinely patriotic and idealistic motives.

I must frankly state that his interest in the trade agreement seemed to be minor; although, as the Department is aware, in my own mind the trade agreement is more important from the standpoint of the general and permanent relations between the two countries. I have the impression that the considerations which render it important are less familiar to the Minister than are the considerations directly affecting the financial plans which he has sponsored for the economic upbuilding of Chile, although this is not the case with regard to the group of superior officers who have been for years associated with the Chilean Government and its problems, and which includes Señores García,⁵² Vigar,⁵³ Goytia,⁵⁴ Steegers,⁵⁵ Vergara,⁵⁶ and Guillermo Gazitúa.⁵⁷

If the Department should decide that the Wachholtz visit is still desirable, after an examination of the terms which he has sketched, I should personally still be disposed strongly to urge that an attempt be made to reach the stage of announcing the intention to negotiate a trade agreement with Chile synchronously with any announcement which may be made respecting Export-Import Bank credits. The two announcements taken together would manifestly constitute an important event in Chilean-American relations, whereas the granting of

⁵² Desiderio García, Under Secretary for Commerce.

⁵³ Apparently Cayetano Vigar Fontecilla, Sub-Secretary for Commerce.

⁵⁴ Medardo Goytia, member of the Chilean Exchange Control Commission.

⁵⁵ Francisco Steegers, member of the Chilean Exchange Control Commission.

⁵⁶ Germán Vergara Donoso, Under Secretary for Foreign Affairs.

⁵⁷ Guillermo Gazitúa, Counselor of the Chilean Embassy in the United States, formerly an economist in the Ministry for Foreign Affairs.

credits alone, in the limited amounts which it is understood might be managed, could perhaps not very readily be presented to the public as of outstanding importance. It would moreover leave unsatisfied the group of informed and patriotic Chilean economic officials who continue to be earnestly preoccupied by the balance of payments between the two countries, and would thus be inconclusive.

. . . I have the impression that Señor Wachholtz is now so firmly entrenched in his position, and enjoys so thoroughly the confidence of President Aguirre, that he will expect and insist upon carrying through the negotiations personally rather than transferring them to Foreign Affairs Minister Ortega or any other official. If he is accompanied by Señores García and Goytia, as the latter has hinted to me is apt to be the case, there would seem to be no reason why a delegation headed by him could not negotiate fully as effectively as one headed by the Foreign Minister.

It need not be added that any expression of the Department's views for the guidance of the Embassy would presumably be most helpful to Ambassador Bowers when the latter reaches Chile in the immediate future.

Respectfully yours,

WESLEY FROST

825.51/1136 : Telegram

The Chargé in Chile (Frost) to the Secretary of State

SANTIAGO, August 24, 1939—1 p. m.

[Received 2:48 p. m.]

127. Referring to my airmail despatch No. 856 of August 19, 1939 Wachholtz today through Goytia and Commercial Attaché orally but definitely requested Embassy to ascertain at once whether Export-Import Bank can grant the Corporation of Fomento direct credits to not less than 10 million dollars if possible for 3 years, 5 million dollars to be used during remainder of 1939 primarily for purchase of agricultural machinery, balance to be used as occasion arises during 1940 for electrical and other machinery. Question of interest rate was not discussed. Goytia brought out again the fact that the Corporation is being constantly urged by the German Embassy to avail itself of favorable offers of German agricultural and other machinery. In this connection the Department's instructions are requested as to whether if the response is favorable Wachholtz should be invited again to visit Washington in the immediate future at which time the granting of the credits would be announced. Also whether Department's announcement of intention to negotiate a trade agreement with Argentina⁵⁸ may signify that a solution of the exchange question has

⁵⁸ Department of State *Bulletin*, August 26, 1939, pp. 166-170.

been formulated which might permit a similar announcement as to a Chilean-American trade agreement during Wachholtz's presence in the United States. It should be borne in mind that the credits mentioned above are desired at the earliest possible time.

FROST

825.51/1136 : Telegram

The Secretary of State to the Chargé in Chile (Frost)

WASHINGTON, August 26, 1939—5 p. m.

108. Your 127, August 24, 1 p. m. As you are aware the activities of the Export-Import Bank are severely restricted as a result of the failure of the House of Representatives to consider a bill including a provision which would have increased the lending power of the Bank. Nevertheless, the Export-Import Bank has indicated that it is prepared to consider the extension of credits of up to \$5,000,000 to facilitate exports during the next 6 months of American equipment urgently required by the Chilean development program. Under the present circumstances the Export-Import Bank is not in a position to undertake any commitments beyond this amount, but it would, of course, consider further credits if its lending functions were increased at some subsequent date.

The operation would take the form of facilitating the financing of specific exports by American concerns, and would in no sense be a "direct" credit which would place freely disposable funds in the hands of the Chilean authorities. There would be no objection to sales of American products to the Corporation of Fomento, but it would be assumed that this was a governmental agency. The mechanism would probably be a discounting by the Export-Import Bank, with or without partial or full recourse, of notes received by American exporters from the Chilean purchaser. It is assumed that provision would be made for amortizing the notes out of the proceeds of the new copper and other revenues.

It will be necessary for this Government to have full information as to what materials and equipment would be included in the \$5,000,000 amount, and the relation of these specific requests to the whole Chilean development program. It is assumed that first purchases will be for the most urgent purposes.

The rate of interest on such credits of 8 years is a matter for discussion with the Chilean authorities. The rate of interest for similar arrangements with other countries has been set at 5 percent. There is at present some discussion of moderate reduction in this rate, but a rate of three percent appears to be out of the question.

Regarding your inquiry concerning a visit by the Minister of Finance to Washington, this Government has already invited Wachholtz to come to this country, and will be pleased to receive him.

Extensive informal preliminary discussions regarding a trade agreement are taking place between members of the Department and the Chilean Counselor of Embassy. Information regarding this phase of possible discussions with the Minister of Finance will be made available to you shortly.

HULL

825.51/1141: Telegram

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

SANTIAGO, September 9, 1939—1 p. m.

[Received 1:55 p. m.]

144. Department's telegram number 108, August 25 [26], 5 p. m. Goytia and Garcia informally state that Fomento Corporation wishes to accept the 5 million credit and more later if possible suggesting an interest rate of 4 percent. They are preparing detailed information. Export and Import Bank should be notified. I expect to confer formally with Wachholtz within a few days.

BOWERS

825.51/1147

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

No. 14

SANTIAGO, September 13, 1939.

[Received September 19.]

SIR: Referring to the Department's confidential telegraphic instruction No. 108 of August 26, 5 p. m., and to my telegram No. 144 of September 9, 2 [1] p. m., I have the honor to report that on September 11th I visited the Chilean Minister of Hacienda, don Roberto Wachholtz.

I informed the Minister of the substance of the Department's telegram above cited, leaving with him a brief minute for the guidance of the officials of the Fomento Corporation. The latter had already been informally apprised, through conversations with Señores Goytia and García of the attitude of the Department and of the Export-Import Bank.

Señor Wachholtz promised to secure the full information requested by the Department as to the precise equipment and materials to be acquired through the credit of five million dollars, together with the relation of these purchases to the program of the Corporation as a whole. There is some question as to whether complete details can be furnished, as the Corporation's plans, while now in fairly complete form, have not been worked out fully on all specific points.

Señor Wachholtz likewise confirmed the statement made by officials of the Fomento Corporation to the Commercial Attaché that the Corporation hopes for an interest rate of four percent. He was informed that this indication had already been telegraphed to the Department and that the latter's reaction would be conveyed to him when received.

The Minister voluntarily brought up the matter of a visit by him to Washington during the latter part of the present calendar year, and stated that he intends to accept the Department's invitation at that time. I had previously been informed, by Señor Goytia, that it will be difficult for Señor Wachholtz to leave Santiago until the annual budget law shall have been enacted by the Chilean Congress, which is apt to occur by about the middle of November. Señor Wachholtz referred to the possibility of the conclusion of a trade agreement between the two countries, and I informed him that the Department had indicated to me its favorable interest in this matter prior to my departure from Washington.

Respectfully yours,

CLAUDE G. BOWERS

825.51/1141: Telegram

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

WASHINGTON, September 19, 1939—8 p. m.

121. Your 144, September 9, 1 p. m. The Export-Import Bank has allocated \$5,000,000 for the discounting of notes received by American exporters from the Chilean Fomento Corporation in connection with the purchase of American equipment urgently required during the next 6 months by the Chilean development program. Such notes are to bear 4 percent interest and to be amortized in semi-annual instalments during a period of 8 years. It is expected that provision would be made for amortizing the notes out of the proceeds of the new copper and other revenues.

The utilization of the \$5,000,000 credit is contingent upon the favorable consideration by the Export-Import Bank of individual specific requests, and it will of course be necessary for this Government to have full information as to what materials and equipment would be included, and the relation of these to the whole Chilean development program.

As was indicated in the Department's 108, August 26, 5 p. m., the Export-Import Bank will reserve the right to work out each individual transaction with the American exporters involved, with or without partial or full recourse to such exporters.

HULL

825.51/1148: Telegram

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

SANTIAGO, September 21, 1939—11 a. m.

[Received September 21—11 a. m.]

156. Notified Wachholtz last night of allocation of 5 million credit by Export-Import Bank. He accepted with appreciation and will make public announcement here today. He plans to send purchasing agent to the United States in the immediate future.

BOWERS

825.51/1154: Telegram

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

[Extract]

SANTIAGO, October 11, 1939—8 p. m.

[Received (October 12)—11:42 a. m.]

178. For the Under Secretary. Wachholtz Minister of Finance and thought to be strong man of the Government asked to see me at my house this afternoon for certain advice. He is prepared to accept the invitation to Washington and to sail on *Santa Lucia* arriving at New York on November 15. He sets forth certain purposes of the visit as follows: first, to do what he can to facilitate the commercial treaty; second, to discuss the possibility of getting additional credits from the Export-Import Bank; third, to go over the development plans here in detail and to get in touch with material people concerning purchases required under these plans; fourth, to improve the exchange situation by arranging if possible a longer term loan from Central Bank; fifth, he refers to conversations between Chilean and our delegates at Panama City about the needs of a better defense and patrol of the Pacific Coast and he proposes to discuss this matter with us.

He wishes some intimation of what we may want to discuss so he can take with him the necessary documentation.

If he goes he will be accompanied by Pedugal [*Pedregal*], Vice President of Fomento Corporation, Alfonso Fernandez, head of the Amortization Board, and possibly De la Cuarda, head of Exchange Control Commission.

It will be noted while most of the matters he mentions are under his jurisdiction, one at least is a matter for Minister for Foreign Affairs though in that case, the first, there are features his department would determine. In the meanwhile he wishes no publicity.

My impression is his visit would greatly clarify things in which we are interested. Since he must have a definite reaction to his visit in time to make reservations, please reply at earliest possible moment.

BOWERS

825.51/1154 : Telegram

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

WASHINGTON, October 14, 1939—1 p. m.

140. Your 178, October 11, 8 p. m. Please inform the President, Ortega and Wachholtz that this Government has been gratified to learn of their interest in an official visit to Washington in accordance with the invitation already extended. The invitation was extended specifically to the Minister of Finance in view of the primarily financial character of the problems which it was expected would be discussed at the time of the invitation. As you point out, however, the scope of discussions would now be broadened to cover additional subjects not directly of a financial nature. Therefore please indicate to the Chilean Government that this Government would be very glad to receive whichever Minister the Chilean Government deems it desirable to send.

In addition to the matters for discussion which you mention, the visit as planned would very appropriately coincide with the inception in Washington of the Inter American Economic and Financial Advisory Committee created at the Panama consultation.⁵⁹ If, however, the duration of the official Chilean visit is to be closely restricted by the visiting official's other activities, the following considerations may cause the Chilean Government to favor some further postponement of the visit:

(1) The Chilean Minister might consider it desirable to be here for the later stages of the formal trade agreement negotiations. Following the hearings which begin on November 27 and the analysis of briefs submitted, these negotiations will probably not get under way until December 15, and for some time thereafter will probably consist of detailed commodity discussions of a technical nature.

(2) With regard to your points 2 and 4, reference is made to the Department's No. 108 of August 26, 5 p. m. As therein indicated, the Export-Import Bank exhausted every resource in order to set aside the \$5,000,000 for the discounting of notes to be delivered to United States exporters in payment for purchases by the Fomento Corporation. It will thus be impossible to extend further credits of any sort unless and until the Congress increases the loaning powers of the Bank. It cannot be stated definitely now when such Congressional consideration will take place.

In the event it is decided to have the visiting Minister arrive on November 15 as tentatively indicated, it is very important that any

⁵⁹ Resolution XIII, Organization of the Economic Advisory Committee, *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá, September 23-October 3, 1939* (Washington, Government Printing Office, 1940), p. 62. See also *ante*, pp. 15 ff.

publicity in connection with the visit should not state as one of its purposes the discussion of further credits, until after Congressional consideration of the program of financial cooperation. Such publicity might be unfavorably received by the Congress if it occurred prior to its consideration of granting the additional powers necessary to permit the extension of such credits, and might prejudice the whole program of financial cooperation with the other American Republics. Also, in the event of the arrival of the visiting Minister prior to trade agreement public hearings, any publicity giving the impression that an important Chilean official was discussing the matter of carrying on negotiations might have unfortunate repercussions in this country, both with the public and the Congress.

Under the circumstances outlined, the stated purposes of the visit if made in November should necessarily be definitely limited to the inception of the Advisory Committee, defense conversations and discussions of the implementation of the \$5,000,000 credit already extended. If the visit were to be postponed a fortnight or more, there would be no objection to publicity regarding the trade agreement negotiations aspect of the visit.

HULL

825.51/1159 : Telegram

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

SANTIAGO, October 17, 1939—5 p. m.

[Received 7:44 p. m.]

187. Wachholtz sent for me last night to say that in the light of the Department's telegram No. 140, October 14, he thought his visit would be inopportune since he would have to return with nothing to show for the journey. Pedregal of the Fomento Corporation could settle the use of the 5 million. He said his policy of reasonable conservatism which is real has centered upon him the fire of others with less sense of financial responsibility and he could not afford to strengthen the hands of his enemies by going and returning empty handed.

2. He referred to the unused part of the Brazilian credits and asked if it were possible to increase the credits to Chile pending Congressional action.

3. He asked if it were possible to get Congressional action during the present session.

4. Referring to conversations with Welles in Panama by Chilean delegates and Welles' promise to get assistance for Chile in the way of naval defense, he indicated his understanding that his Government is interested, but that he would not be a natural negotiator and that no publicity would be desirable.

5. The fact is that the war has placed Chile in a very embarrassing financial position which is expected to extend a few months and she needs support now. In this connection he mentioned the authorization (by law 6334) to suspend payments on the American debt which would benefit Chile greatly but added he did not want to do it.

Frost interpreted this as a hint of pressure but it did not impress me that way. He had literally put his cards on the table regarding his personal position and I think he mentioned the possibility as something unfortunate that might be forced upon Chile in her serious embarrassment precipitated by the war.

Clearly he will not visit Washington unless reasonably assured some practical results for Chile and his position certainly is politically sound from local considerations.

Would appreciate the Department's comment on points 2 and 3.

BOWERS

825.51/1159: Telegram

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

WASHINGTON, October 21, 1939—2 p. m.

147. Your 187, October 17, 5 p. m. With respect to your paragraph 2, the Brazilian arrangements contemplated a short term acceptance credit to the Banco do Brasil, all of which has been utilized, and a general commitment subject to individual consideration of specific proposals. Unlike the general commitment of \$5,000,000 recently undertaken for Chile, the Brazilian general commitment specified no amount and as a consequence the Export-Import Bank has not set aside any specific funds at all for the purpose, whereas in the case of Chile the \$5,000,000 has been allocated specifically. As stated in the Department's 140, October 14, 1 p. m., there will be no further funds to undertake operations either with Brazil or Chile pending congressional action.

With regard to your paragraph 3, authorization for an increase in the lending powers of the Export-Import Bank will be requested of the Congress at the earliest convenient moment. At the present juncture, the Department is unable to forecast whether this request will be made of the Congress at the special or regular session.

HULL

825.51/1165

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

No. 104

SANTIAGO, October 28, 1939.

[Received November 4.]

SIR: I have the honor to submit herewith a memorandum of my conversation with Señor Pedregal made by Mr. Frost who was present

during the conversation. Absolutely convinced as I am that the President, Wachholtz and Ortega look on a possible suspension of debt payments as a calamity to Chile, I told Señor Pedregal that I was positive that a frank discussion of the whole situation in general could be had without creating the impression in our minds that a threat was implied or intended. I am sure that the Department would like to hear just what is in the minds of the responsible leaders of the Government here and that a frank and full exposition such as he gave me here will furnish the Department with useful background for all the negotiations regarding credits and the commercial treaty.

Respectfully yours,

CLAUDE G. BOWERS

[Enclosure]

*Memorandum of Conversation, by the Counselor of Embassy
in Chile (Frost)*

SANTIAGO, October 27, 1939.

Señor Pedregal visited the Ambassador on the morning of October 27th, and discussed the substance of the Department's telegram No. 147 of October 21, 2 p. m., which had been conveyed to him by Señor Wachholtz. He expressed appreciation for the information thus furnished, and indicated that in conversation between himself and Señor Wachholtz the conclusion had been reached that there is ground for hoping and expecting results from a visit to Washington at a later time. Meanwhile he requested the Ambassador's advice as to the desirability of a journey to the United States by himself (Señor Pedregal) in the immediate future.

The Ambassador stated that in his personal opinion such a journey by Señor Pedregal could be very useful, particularly in affording to the Department direct and detailed information as to the Chilean point of view. The Ambassador felt that, while the Department is already aware of the effects of the war and of last January's earthquake upon the Chilean national economy, a personal presentation of these factors would be helpful. The extent to which Chile's foreign trade has been affected, and to which her productive capacity is handicapped by reconstruction necessities, merits full consideration.

In the second place the Ambassador suggested that if or when the question of the suspension of debt payments arises in conversations with regard to additional credits, Señor Pedregal might frankly indicate that anything he could say on this point would be on the understanding that the Department would not ascribe to his remarks any hint of menace. The Ambassador felt that by candidly explaining, as Señor Pedregal had done in the Embassy last week, the earnest desire of the Chilean Government to avoid suspension it would be

possible to secure the approval of the Department for a realistic discussion of the political and other elements with which the Chilean Administration will have to deal.

Señor Pedregal expressed very genuine appreciation of the Ambassador's kindness in furnishing these two suggestions, in response to the request which he had made upon the Ambassador. He stated that, in accordance with conversations with Señor Wachholtz he might proceed to Washington on the Chilean S.S. *Aconcagua*, sailing November 15th, to reach Washington about the 5th of December. This would permit him to furnish details as to the \$5,000,000 credit, and information as to the desirability of further credits, prior to the termination of the public hearings on the trade agreement. During the latter part of December, after the conclusion of the hearings just mentioned, it might be possible for Señor Pedregal to discuss the adaptation of the plans of the Fomento Corporation to the tariff concessions which the trade agreement could include. He realized that the trade agreement would not be ready for signature by the end of December, when he would probably be leaving Washington to return to Santiago; but had in mind that he might advantageously study in collaboration with the Department the mutually complementary features of the aims of his corporation on the one hand and of the trade agreement on the other. He might be accompanied by the head of the Amortization Institute, Señor Alfonso Fernández, and possibly by a member of the Exchange Control Commission or of the staff of the Sub-Ministry of Commerce.

Ambassador Bowers promised to furnish Señor Pedregal with personal letters of introduction, and to consult with him at least once again prior to the beginning of the journey.

825.51/1173

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

No. 195

SANTIAGO, December 9, 1939.

[Received December 15.]

SIR: I have the honor to submit herewith a memorandum of a conversation with Señor Wachholtz, Minister of Finance, and Señor Pedregal, active head of the Fomento Corporation, who was leaving for Washington for discussions there with the nature of which you are familiar. The conversation was in the nature of a final talk before leaving and was on the initiative of the Minister of Finance, who laid stress on the fact that Pedregal goes with his complete confidence and as his personal representative. Aside from the fact that Señor Pedregal deserves every consideration and attention on his own personality and record, this emphasis on the part of the Minister would seem to call for it.

I have found Señor Pedregal frank, business-like in his directness, and of good will, and have assured him that he can talk in Washington with our officials with equal frankness without fear of having his motives misinterpreted. I have urged him, in other words, to paint a complete picture of the Chilean situation as he and the Minister of Finance see it, and have assured him that he will be heard sympathetically.

Respectfully yours,

CLAUDE G. BOWERS

[Enclosure]

*Memorandum of Conversation, by the Counselor of Embassy
in Chile (Frost), December 5, 1939, 6 p. m.*

SANTIAGO [undated].

[Participants]: Ambassador Bowers
Minister of Hacienda
Executive Vice President of the Fomento Corporation
Counselor Frost

The Minister opened by stating that Señor Pedregal was being sent to Washington with the full and complete confidence of the Chilean Government, for whom he was authorized to speak. In the United States at the present time are Señor Manuel Bianchi, Chilean Ambassador to Spain, and Señor Alfonso Fernández, head of the Amortization Institute, with whom Señor Pedregal will consult. While the Chilean Government has believed it better not to constitute these three gentlemen into a formal commission, it apparently wishes the American Government to treat them informally as commissioners.

The Minister then adverted to Chile's outstanding need for dollar exchange, referring to the large volume of demands for dollars with which the Exchange Control Commission now has to cope, covering desired imports or commodities formerly procured from Europe. In this connection he stated that the Chilean Government did not assume the proposed trade agreement to constitute anything more than a very limited corrective in furnishing dollar exchange, and requested general comments from the Ambassador in regard to the trade agreement.

The Ambassador in reply indicated that the opposition to the agreement in the United States had been political and based on local economic interests, and should not be taken in Chile as indicating any unfriendliness on the part of the American Senatorial and other critics toward Chile. He further intimated the desirability that any further studies or decisions to be made in Chile in connection with the agreement be concluded at the earliest possible time, in order that the instrument be signed by the end of the present month. Minister Wachholtz stated that he would endeavor to facilitate the studies still

outstanding, as he could appreciate the circumstances which call for an early termination of the negotiations if they are to be successful.

Referring to Chile's need for dollar exchange, the Minister mentioned the ocean freight situation, and stressed Chile's need for ships. He hoped that the American Government might be able to assist Chile in acquiring additional tonnage (a matter which Mr. Pedregal had previously mentioned as one of his errands to Washington); and suggested that the only alternative would be for Chile to secure a greater share of the traffic now handled by the American steamship line here. While the C.S.A.V.⁶⁰ has been admitted to the steamship conference,^{60a} this has only been under conditions which he feels will impede it in taking over a fair share of the traffic. In other words, he would like either more ships or a greater share in the trade, and wishes the American Government to interest itself. (This point was based on the earnest Chilean contention, apparently well-founded, that Chile's need for dollars to pay ocean freights each year constitutes a very heavy drain upon her dollar resources.)

The Minister then mentioned the need of his Government for experts in the applied sciences. He stated that the Fomento Corporation contemplates the establishment of experimental and research laboratories to deal in a practical way with the various raw material resources which Chile possesses. The securing of experts and scientists to get this project under way would be difficult, because of the high salaries commanded or demanded by American consulting engineers, chemists, etc.

The Ambassador referred to the standing offer of the American Government to furnish experts from the technical bureaus of the Departments of the Interior and Agriculture; and after some discussion and elaboration the Minister failed to indicate any definite reaction.

With regard to the Chañaral (or Paipote) smelter, the Ambassador, speaking purely from a psychological and political standpoint, ventured the suggestion that it might be advisable not to include among the first projects undertaken under the five million dollar grant one which would manifestly injure important American interests and perhaps give rise to criticism and opposition in the United States of a potentially embarrassing character. Both Señores Wachholtz and Pedregal at once expressed comprehension of this view, and Señor Pedregal stated that he has arranged to visit New York before going to Washington and to confer with the President of the American Smelting and Refining Company. He hopes and expects to reach an understanding with the latter before approaching the Washington authorities; and, in accordance with the Ambassador's hint, will have

⁶⁰ Compañía Sudamericana de Vapores.

^{60a} See footnote 24, p. 416.

other projects to submit in case it appears that the smelter project, in which he has special faith, would entail difficulties.

Señor Pedregal indicated that he would furnish the Embassy with biographic data which might be given appropriate use at Washington and New York through the Embassy's good offices. Both gentlemen expressed appreciation of the attitude of the American Government, and the Ambassador bade Godspeed to Señor Pedregal.

**DISAVOWAL BY THE UNITED STATES GOVERNMENT OF DESIRE TO
LEASE EASTER ISLAND**

825.014/59

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

No. 519

SANTIAGO, February 22, 1939.

[Received February 28.]

SIR: I have the honor to report as of possible interest to the Department that from several sources members of the staff of the mission have heard suggestions that the present (in view of Chile's great need for money) would be a particularly advantageous time for Chile and the United States to reach an agreement transferring ownership of Easter Island from the former to the latter. While none of the people who have mentioned the idea is especially influential (two, however, have close friendships among Leftist leaders), it is not without some significance that the idea is being propagated, and it is not inconceivable that in time Chilean official circles may decide to explore the possibilities.

The Embassy is keeping under reference in this connection the Department's strictly confidential instruction No. 315 of February 4, 1938.⁶¹

Respectfully yours,

NORMAN ARMOUR

825.014/60½

President Roosevelt to the Under Secretary of State (Welles)

MEMORANDUM

WASHINGTON, March 25, 1939.

In regard to Easter Island:

1. It is a definite possibility as a stopping place for trans-South Pacific planes, commercial or military.

⁶¹ Not printed. It stated that "while the United States Government has entertained at no time the desire to acquire or to lease Easter Island, it does in fact have a definite interest in any proposed sale or lease of this island to a non-American power." The Chargé was authorized to express to the appropriate Chilean authorities this interest of his Government. (825.014/54)

2. It should, therefore, under no circumstances, be transferred to any non-American nation.

3. I doubt at this time the political wisdom of its purchase by the United States, and also the possibility of getting any large appropriation through the Congress.

4. Have you considered a different angle? Easter Island is unique in possessing remains of prehistoric men—the great recumbent stone figures which have never yet been adequately explained. No serious scientific excavation work has been done on the Island. It is, therefore, of the greatest importance that it be preserved to science for all time. In this respect it is a little like the Galápagos Islands.⁶²

5. Would it be possible to tie up Easter Island and the Galápagos in a Pan-American trusteeship; the Islands to be preserved for all time against colonization and for natural science? Ecuador and Chile (if a reasonable sum could be arrived at) would be paid for the Islands over a period of years, the sovereignty to vest in the trustees; the trustees to protect them and prevent their use for military purposes. I do not like the idea of a lease. The payments would be made by all the American Republics over a period of years and in proportion to the total wealth of the Republics. This would put, of course, the greatest burden on the United States.

6. Cocos Island⁶³ could be included, for it has no military value to us but might have military value to a non-American power as a temporary base in war operations.

As I remember Easter Island, it has no harbor. Will you let me have some information regarding it? It may not even be available for sea planes or land planes.

F[RANKLIN] D. R[OSEVELT]

810.24/44 : Telegram

The Chargé in Chile (Trueblood) to the Secretary of State

SANTIAGO, June 28, 1939—6 p. m.

[Received 10:10 p. m.]

115. Referring to the Department's circular, June 27, 7 p. m.,^{63a} taking advantage of the regular weekly audience I saw the Foreign Minister at noon and brought the matter discussed in this telegram to his attention. He expressed great interest in it stating emphatically that he considered it of great importance and utility especially at this time when the international situation was so critical.

He pointed out however that due to its limited financial resources it would be difficult for Chile to take advantage of the facilities which

⁶² See *Foreign Relations*, 1935, vol. iv, pp. 517 ff.

⁶³ See *ibid.*, 1938, vol. v, pp. 467 ff., and *post*, pp. 520–521.

^{63a} *Ante*, p. 1.

the joint resolution would make available. After stressing how exposed the Chilean coast was and how important Chilean raw materials would be in time of war he left the implication that it would definitely be to our advantage to assist Chile to obtain adequate instruments of defense (please see second paragraph of despatch No. 603 of April 5th ⁶⁴). The Minister also referred as a potential source of danger to the large number of Japanese in Peru and to the German problem here in Chile.

He then referred in this connection to the importance of Easter Island especially in the event of a war involving Japan and mentioned the possibility of its being utilized by the United States as a link in the naval and aerial defense of this hemisphere. He thought that while there could be no transfer of sovereignty, public opinion here would agree to its being used in that way in view of the present troubled situation. He said that he had last night expressed similar ideas to the Ecuadoran Minister here (who I gather is contrary-minded) regarding the Galápagos Islands, adding that he thought the present situation called for courageous action which might, as in this instance, run somewhat counter to sentimental ideas of ownership, et cetera.

TRUEBLOOD

810.24/62

The Chargé in Chile (Trueblood) to the Secretary of State

No. 753

SANTIAGO, July 1, 1939.

[Received July 7.]

SIR: I have the honor to report that Foreign Minister Ortega seemed genuinely preoccupied over the international situation when I saw him on June 28th as I reported in the Embassy's telegram No. 115. His spontaneous reference to the possibility of Easter Island's being taken over by the United States and used as a naval and aerial defense post shows that high officials here are apparently giving careful thought to future eventualities. This attitude undoubtedly reflects to some extent a feeling on the part of this Administration that Easter Island is not of any particular value to Chile and that if it were possible to turn it over to our Government for a consideration it might be a good business transaction at a time when Chile urgently needs funds.

This aspect of the matter, however, was not mentioned by the Foreign Minister, nor did I feel it desirable to press him for further details of this nature. He made it clear, however, that he did not feel

⁶⁴ Not printed.

it would be possible for Chile to surrender her sovereignty over the Island. I suppose that what Señor Ortega had reference to was some sort of a lease agreement under which Chile would retain sovereignty.

He stated frankly that he had discussed the question of the Galápagos and Easter Islands with the Ecuadoran Minister here, showing that Chile may be endeavoring to persuade the Ecuadoran Government to take a similar view regarding the Galápagos, in the belief that Chile would not be able to turn over Easter Island to the United States (in the event our Government should be interested in the Island) unless Ecuador should be willing to do the same with the Galápagos. In this way a united front on the question could be created which would be useful in presenting the matter to Latin American public opinion.

The Military Attaché informs me that he has had several persons tell him that it would be a great mistake for our Government to make any arrangements with the present Chilean Government affecting Easter Island. This is undoubtedly a common viewpoint of the Opposition here at present, which would of course resent any operation affecting Easter Island which would result to the financial advantage of the Popular Front regime. The same observation is made regarding the plan of proposed financial cooperation between Chile and the United States.

In concluding my interview with the Foreign Minister I limited my remarks to telling him that I would be very glad to forward his observations to the Department.

Respectfully yours,

EDWARD G. TRUEBLOOD

825.014/64

The Chargé in Chile (Frost) to the Secretary of State

No. 780

SANTIAGO, July 19, 1939.

[Received July 25.]

SIR: I have the honor to report that on the 14th instant I called upon the Chilean Minister for Foreign Affairs, Señor Abraham Ortega, to pay my respects upon return from my absence from Chile, and that the most significant phase of the conversation was with regard to the possibility that Easter Island be fortified by the United States. (See strictly confidential despatch No. 753 of July 1, 1939.)

The suggestion came up in connection with the question of cruiser purchases by Chile; and as it was in the same connection that the Foreign Minister mentioned the matter to Mr. Trueblood at a previous interview there is ground for assuming that the acquisition of some form of rights by the United States in the Island is connected

in the Foreign Minister's mind with the furnishing of a cruiser or cruisers on especially favorable terms by the United States. The Minister did not contemplate the alienation of Chile's sovereignty over the Island but rather some plan which might permit the latter's use by the American Navy for undefined purposes over an undefined period of years.

Señor Ortega inquired whether our Government recognizes that the defense of Latin America, and particularly of the West Coast, would be of vital consequence to the United States if a world conflagration should arise, and I alluded to the recent address made by the Assistant Secretary of War ⁶⁵ (see news bulletin of July 5, 1939 ⁶⁶).

The Embassy would much appreciate receiving an instruction as to whether a leasing arrangement would be of interest, and as to whether cruiser construction for Chile in American Navy yards might figure as a setoff, either directly or indirectly. It would seem that the Minister is more than willing to receive proposals from us; and he definitely indicated a desire to secure further views from the American Government at once if possible.

Respectfully yours,

WESLEY FROST

825.34/366

The Acting Secretary of State to the Chargé in Chile (Frost)

No. 241

WASHINGTON, August 4, 1939.

SIR: The Department has received your despatches Nos. 780 and 781 of July 19, 1939 ⁶⁷ referring to the desire of the Chilean Government to obtain bids abroad for the construction of certain vessels for the Chilean Navy. The Department also received a note of July 28 from the Chilean Embassy ⁶⁸ requesting that the Navy Department furnish that Embassy with the names and addresses of shipbuilders of whom it would be proper and convenient for the Chilean Government to ask for tenders on these vessels.

While this Government is disposed to be as helpful as possible to the Chilean Government in furnishing this information, and might be prepared in fact, should certain legislation now pending in the Congress be enacted at the present session and should the Chilean Government officially request it to do so, to submit estimates for the construction of some if not all of these vessels in the United States Navy Yards,

⁶⁵ Louis Johnson.

⁶⁶ Department of State Radio Bulletin.

⁶⁷ Despatch No. 781 not printed.

⁶⁸ Not printed.

it would not in any case be prepared to undertake such construction in exchange either directly or indirectly for a lease of Easter Island.

Should the subject again be raised by the Minister for Foreign Affairs or by any other responsible Chilean official, you are requested to inform them that the United States Government is not interested at the present time in leasing land or rights on Easter Island.

The Department feels that it need hardly remind you, however, that although this Government is not itself interested in acquiring rights or land on Easter Island, the acquisition of such rights or lands by a non-American power would, of course, be a cause for immediate concern to this Government.

Very truly yours,

SUMNER WELLES

825.34/366

The Acting Secretary of State to the Chargé in Chile (Frost)

No. 242

WASHINGTON, August 12, 1939.

SIR: Reference is made to despatches numbers 780 and 781 of July 19, 1939,⁶⁹ reporting a suggestion from the Minister for Foreign Affairs of Chile that a possible "leasing arrangement" concerning Easter Island might be made between the Governments of Chile and the United States in connection with possible construction of cruisers for Chile on favorable terms in the United States. The construction of cruisers is understood to refer to House Joint Resolution 367⁷⁰ which was being considered in the Congress of the United States at the time of conversation.

In view of the fact that H. J. Res. 367 failed of passage in the Senate prior to adjournment of this session of the Congress, statutory authorization has not been given for this Government to extend assistance to the Governments of the other American republics to increase their naval establishments by arrangements for construction of vessels of war in shipyards under governmental jurisdiction in the United States.

With respect to the leasing of the island under reference, it will be recalled that the President in his message to the joint session of the two houses of Congress on January 3, 1934, in referring to the work of the United States Delegation to the Seventh International Conference of American States at Montevideo, made the following statement:

"We have, I hope, made it clear to our neighbors that we seek with them future avoidance of territorial expansion and of interference by one nation in the internal affairs of another."⁷¹

⁶⁹ Despatch No. 781 not printed.

⁷⁰ Approved as Public Resolution No. 83, June 15, 1940; 54 Stat. 396.

⁷¹ *Congressional Record*, vol. 78, pt. 1, p. 6.

Furthermore, for your information, the Secretary of State in commenting on House Resolution 5378 "To authorize the President to enter into negotiations with the Republic of Ecuador for the acquisition of the Galápagos Islands" stated on April 7, 1939, the present policy of this Government in the following terms:

"It is understood that the Chief Executive does not believe that it would be in the public interest for the Government of the United States to acquire the Galápagos Islands. I may add for the information of the Committee, however, that although this Government is not itself interested in acquiring the islands, any endeavor on the part of any non-American power to purchase or lease the islands or to use any part of them for a naval, military, air, or even a commercial base, under whatever terms, would be a matter of immediate and grave concern to this Government."⁷²

It is believed that the above remarks apply with equal force to Easter Island.

You are therefore authorized, in your discretion, to state orally to the Minister for Foreign Affairs of Chile the above-mentioned facts concerning the present status of House Joint Resolution 367 and also the general position of this Government that it is not deemed to be in the public interest for the Government of the United States to undertake at this time any arrangement such as has been proposed for the leasing of Easter Island. You are further requested in such a conversation to make known to the Minister for Foreign Affairs the deep appreciation of this Government for the interest shown by him in this matter.

Very truly yours,

SUMNER WELLES

825.014/67

The Chargé in Chile (Frost) to the Secretary of State

No. 880

SANTIAGO, August 30, 1939.

[Received September 5.]

SIR: I have the honor to acknowledge the receipt of the Department's Instructions Nos. 241 and 242 of August 4 and August 12, 1939, respectively, with regard to the general problem of naval strategy in the southern Pacific and to the possibility of the utilization of Easter Island for naval communications or other purposes.

In the temporary absence of the Foreign Minister I had an informal interview with the Under Secretary for Foreign Affairs, Señor Jocelín de la Maza, on the 28th instant. This was in a sense preferable to an interview with Señor Ortega, as subsequently to the preparation

⁷² Letter from the Secretary of State to Sam D. McReynolds, Chairman, House Committee on Foreign Affairs, April 7, 1939 (822.014G/415).

of despatches Nos. 780 and 781 it had been learned that Señor de la Maza has been the official most interested in the problems above indicated. In compliance with the Department's instructions I alluded to the discussions respecting the Galápagos Islands, with which the Under Secretary was familiar, and to the position assumed by the United States at that time, particularly as to the territorial integrity of the Latin American Republics. Señor de la Maza evidently appreciated this latter point, and also indicated that the sentiment in his own country would not regard favorably any openly-announced understanding by which Easter Island could be made available for any type of use by any non-Chilean power.

The Under Secretary was frank in stating that his own interest in Chile's position in the naval and political strategy of the Pacific has been greater than that of his colleagues in the Foreign Office; but went on to say that he still feels that his country should be an element of strength for the democratic powers in this part of the world. He had previously informed Secretary Trueblood that he would be glad to see political cooperation, as contradistinguished from economic cooperation, between the United States, Chile and other "liberal" American republics.

With reference to his possible designation as Chilean Ambassador to Germany he stated that he does not anticipate this designation, although he would be willing to serve if called upon. It appears that he was brought up in a German-Chilean community in the south, and that his primary education was in a German school; so that he at one time was conversant with the German language, a conversancy which he says he has not at all maintained.

Respectfully yours,

WESLEY FROST

COLOMBIA

GOOD OFFICES OF THE DEPARTMENT OF STATE IN NEGOTIATIONS REGARDING THE RESUMPTION OF PAYMENTS ON THE COLOMBIAN FOREIGN DEBT; PROPOSALS FOR FINANCIAL ASSISTANCE

821.51/2320

The Ambassador in Colombia (Braden) to the Secretary of State

No. 117

BOGOTA, May 15, 1939.

[Received May 19.]

SIR: I have the honor to refer to Page 8 of my despatch No. 76 of April 25, 1939,¹ and to report that on the evening of May 10 I dined with the Colombian Minister of Finance, Dr. Carlos Lleras Restrepo. The Minister and I, in the presence of the President's Private Secretary, Dr. Humberto Salamanca, discussed the Colombian foreign debt and related matters from 10:00 p. m. until 2:30 a. m. The more important phases of our conversation may be summarized as follows:

INTRODUCTION

I again explained to the Minister that, while neither the State Department nor I could or would intervene directly in the debt problem, we were very much interested to see it solved as soon as possible to the satisfaction of all concerned; moreover, when appropriate, we would always be happy to lend good offices and, recalling his and President Santos' kind offer to keep me informed, I was interested to learn of recent developments.

HISTORY OF NEGOTIATIONS

The Minister replied that he greatly appreciated our interest. He then recited a history of the debt negotiations, with which he, as Comptroller General under the López administration, had been familiar. He said to begin with the Colombian Government had been confused by the multiplicity of entities claiming to represent bond owners. Even after Mr. Hoover² had been dismissed from the Independent Committee, the Finance Ministry continued to receive communications from that group. Repeatedly, the Colombian Government, in its desire to adjust the matter, had endeavored to reduce negotiations to concrete bases as, for instance, when President López in December 1935

¹ Not printed.

² Laurence E. de S. Hoover, Secretary, Independent Bondholders Committee for Republic of Colombia, New York.

had addressed a long communication to Mr. Reuben Clark of the Foreign Bondholders Protective Council, Inc., to which no reply had ever been received. The Government had hoped for an adjustment when Professor Dana G. Munro³ visited Colombia in July 1937⁴ but were again disappointed, because he refused to express any opinion as to terms and methods of arriving at a debt settlement, declaring that he could only listen to Colombia's proposals. Nevertheless, he summarily rejected the definite proposal made to him by President López.⁵ Dr. Munro was uninterested in such important influences as factors affecting Colombia's ability to pay—the internal political situation, etc. In short, his and the Council's function seemed to be not of collaboration but simply to refuse all offers until such time as a satisfactory one happened along. Despite the sterility of Professor Munro's visit, the Colombian Government continued its endeavors to negotiate and did carry forward conversations with Mr. Francis White of the Protective Council until, in late November 1937, Brazil withdrew its support of coffee prices, whereupon Mr. White discontinued discussions. The Minister of Finance in this connection categorically confirmed the assertion made to me in Washington by Ambassador Miguel López that he and the Colombian Government then expressed their desire to pursue negotiations but the Protective Council refused to do so. On this subject the Department will note that there is a flat contradiction between the statements of the Colombians and of Mr. White. Also, ex-President López, quite independently, has corroborated to me all the aforementioned narration by the Minister.

Undiscouraged by these repeated delays, the Minister said, Colombia still had hoped to reach a settlement before the change in administration here, but no progress was made and therefore shortly before President López left office it was suggested negotiations be postponed until after the inauguration of Dr. Santos. Dr. Lleras referred with some bitterness to the cable sent by Mr. Francis White to the incoming President on inauguration day, August 7, 1938.

The Minister went on to say he had hoped rapidly to get congressional approval of a debt program, but his ideas were attacked by many Senators and Deputies who, having become accustomed during

³ Professor of Latin American history and affairs, Princeton University; representative of the Foreign Bondholders Protective Council, Inc.

⁴ See Foreign Bondholders Protective Council, Inc., *Annual Report 1937* (New York, 1938), p. 229.

⁵ President Lopez informed Professor Munro before his departure from Bogotá in September 1937 that a proposal was being considered which provided for "No reduction of principal; resumption of service with an interest rate of 2 percent to be increased annually by $\frac{1}{4}$ percent up to a total of 3 percent; amortization at the rate of 1 percent to be used for the purchase of bonds in the open market. The President said that a suggested alternative proposal contemplated a 25 percent reduction in principal, and interest at the rate of 2 percent with annual increases of $\frac{1}{2}$ percent up to a total of 4 percent." (821.51/2141)

five years to a pleasant forgetfulness of obligations, insisted that Colombia emulate Chile,⁶ claiming that any other procedure would lead to the Government's negotiators being out-traded. It was only with difficulty that legislation along these lines had been avoided and it had even proved impossible to pass a law appointing a debt commission. This failure was later remedied when on December 1, 1938 the Debt Commission was appointed under the provisions of an obscure rider to a disrelated law concerning the Ministry of Finance. The Commission had been carefully selected to include members influential in all political factions; in truth, the Conservative members had recently been chosen as two of the five directors of that party. The Commission had met and reviewed the information submitted to it by the Minister; it would not be very active but would be most valuable in getting legislative approval for the debt agreement finally consummated. The Minister said that it was essential first to get an agreement and then to submit it to Congress for approval. Were he to endeavor to obtain a blanket authorization in advance it would be rigid, perhaps unworkable and practically equivalent in its provisions to the unilateral offer made by Chile. It was preferable to present a concrete proposal for acceptance or rejection rather than to throw the general subject into an extended and disordered debate. The Government was willing to exercise pressure to obtain congressional ratification of a satisfactory debt agreement but it could not and would not go beyond reasonable limits nor risk the loss of its prestige and influence with the legislature for the balance of President Santos' term in office. The disposition of the majority of the Senators and Deputies respecting the debt was well known and it would be absolutely impossible for the Government to suggest terms more severe than those proposed by President López to Dr. Munro in July 1937. The administration was anxious to reach an adjustment as soon as possible; in fact it was imperative that the debt agreement be submitted to Congress, when it convenes on July 20, for approval and for inclusion in next year's budget. The arrangement when made must be a permanent—not a temporary—one. Dr. Lleras feared if matters were not handled in this way but were put over to a future Congress it would be impossible to get the body's acceptance of another settlement and Colombia would therefore indefinitely continue in default. Speed was also essential because within the next few months there would be held meetings to establish the participation of the several Departments in the taxes received by the National Government. This reallocation of income could not longer be deferred and would mean reduction in net revenues received by the National Government; thus making still less available for loan service.

⁶ See Foreign Bondholders Protective Council, Inc., *Annual Report 1937* (New York, 1938), pp. 189 ff.

The aforementioned López offer, when renewed with minor changes, would be as follows:

Debt service to be resumed with interest at 2 percent for the first year, stepping up one-quarter of one percent each year thereafter until a maximum of 3 percent is reached in the fourth year, at which rate it would continue until extinction of the debt; amortization payments to be calculated on the basis of 50 years from the date of original issuance of the loans, i.e. approximately 40 years from the present time. Also, Colombia would wish to have in the agreement a provision permitting it to purchase bonds in the open market.

RECENT DEVELOPMENTS

I inquired how far negotiations had progressed between Ambassador Miguel López and Mr. Francis White of the Foreign Bondholders Protective Council, Inc. The Minister replied that in addition to the necessary data already forwarded to Washington, the Ambassador and his advisers had requested further information which had recently been sent. As soon as it was put in final shape the Minister expected it would be submitted forthwith to Mr. White. It was now so complete there could be no legitimate reason for further delay and he believed an agreement would be reached in a surprisingly short time—within a week or two. He again emphasized the need for speed and promised as soon as he received the final figures from Washington he would give them to me. The data to be submitted to Mr. White by the Government conclusively proves that the aforementioned “López” terms are the best Colombia can offer and represent the country’s maximum ability to pay. Mr. White and others had failed to take into account not only political influences in Colombia but also certain cold facts not apparent in the published statistics, such as, for instance, that Colombian cotton imports last year had been arbitrarily reduced by exchange restrictions, therefore the superficial figures frequently gave an erroneous picture of conditions here.

MY OPINION OF TERMS

Towards the end of our interview, Dr. Lleras asked for my opinion of the aforedescribed terms. I answered that my purely personal but nonetheless frank conclusion was they were too low and would create a bad impression, hurtful to Colombia’s reputation. I said primarily it was a moral issue and then one of Colombia reestablishing its credit standing. I mentioned the debt agreements with Santo Domingo, Cuba, Uruguay, Province of Buenos Aires, etc., as indicating that a rate of at least 4 percent for a permanent settlement was necessary to reestablish Colombia’s credit. I recalled that Argentina had not defaulted, yet last year had to pay about 4½ percent for financing. I also referred to the fact that full service on Colombia’s foreign national debt would only amount to 3.3 percent of the country’s reve-

nues and the total national debt service to 12.6 percent, whereas other countries such as Argentina, Brazil, Canada, etc., must devote from 18 to 28 percent of their revenues to debt service. The Minister countered by asking how I explained that Chile's credit had not been injured by her unilateral imposition of terms, less favorable than those contemplated by Colombia; since according to recent press announcements Chile's credit must be good because her Finance Minister was leaving for Washington there to negotiate a loan with the United States Government. I replied that, as he well knew, Chile was unable to obtain loans from banking or other private sources and was in a serious economic predicament, which might lead to social repercussions, the gravity of which could not be foreseen; while I had no direct information on the subject, assuming the newspapers were accurate, it was my impression that the United States Government might enter into discussions with the Chilean Finance Minister solely in the spirit of the good neighbor to try and help that country out of a difficult situation; and in the final analysis he surely would not place Colombia on as low an economic plane as Chile now had to endure. I added that I did not pretend even if Colombia were to resume debt service in full it would overnight make available long-term financing, which might have to be deferred for some years, but banking credits would be given, I believed, almost immediately and in the end Colombia would benefit substantially. In this connection I recalled how during the Balmaceda Revolution in Chile⁷ both the Government and the Revolutionary Party on the due date of a loan in London had made the payment, each fearing that the other would forget to do so. I had observed 30 years later how this one act had redounded substantially to Chile's benefit in the negotiation of other loans in the United States. The Minister said my explanation had entirely satisfied him.

I went on to say that even granting the memorandum the Minister had promised to send me proved the "López" terms were the limit of Colombia's ability to pay, nevertheless that fact could only with much difficulty be gotten over to the American public who, rightly or wrongly, would compare Colombia's action with that of other countries, such as those I had mentioned. Therefore, if Colombia were to insist upon the 2 to 3 percent basis, I feared its credit and moral reputation would suffer. Despite his previous remarks as to Colombia's inability to improve on the "López" terms, the Minister requested me to give him copies of my memoranda comparing Colombia's fiscal situation with those of Cuba, Uruguay, etc. Enclosed are copies of the memoranda⁸ I delivered to the Minister.

I then told the Minister that I appreciated the political obstacles in Colombia which made it difficult to improve on the "López" terms,

⁷ See *Foreign Relations*, 1891, pp. 313 ff.

⁸ Not printed.

therefore I submitted a purely personal idea of my own which probably would not appeal to Mr. White, viz: 3 percent interest on the outstanding national debt would amount to \$1,350,000 or approximately 2,400,000 pesos per year, or say X percentage of Colombia's present annual revenue. The "Lopez" proposal could be made more attractive were 3 percent to be a guaranteed minimum, and an additional fillip given by a proviso that if Government revenues increased the bonds should receive the aforesaid X percentage of those revenues up to a limit of say 5 to 5½ percent on the face value of the bonds. This might in part compensate the bondholder for the low interest rate (3%) stipulated and I felt it should meet with no objections from Congress since that body ought to be willing to pay somewhat more in interest if national income were increased commensurately. The Minister said he had never thought of such a scheme but perhaps it could be put through and it certainly merited study.

DEPARTMENT AND MUNICIPALITIES

I said I assumed the national debt would be adjusted first and then perhaps the Government guaranteed debt. The Minister replied affirmatively and said immediately the national debt were out of the way then a proposal would be made to each of the Departments and Municipalities that the Federal Government represent them in their respective debt negotiations. The Government would not take over the departmental and municipal debts since were it to do so it would never be paid but it was in a better position to negotiate than were those entities.

BANKING GROUP LOAN

I asked what would be the Government's attitude regarding the so-called \$17,000,000 short-term loan of the National City-First National of Boston banking syndicate. The Minister stated that he wished to have the national debt adjusted first and then was anxious to reach an agreement with that group since it was impossible to continue renewing the loan every three months and he implied that because of the special circumstances—Leticia war⁹ and pressing financial needs—surrounding the placing of this loan, it deserved preferred treatment. In other words, I gathered that a somewhat higher interest and a much shorter amortization period may be arranged for this transaction than for the bond issues.

SCHROEDER

The Minister explained that the J. Henry Schroeder Banking Corporation wanted to be appointed sole agents for the Government in the debt negotiations but had been employed merely as advisers

⁹ See *Foreign Relations*, 1935, vol. iv, pp. 199 ff.

(*sic*) and Ambassador López had been definitely instructed that neither Schroeder nor the attorneys, Covington, Burling, Rublee, Acheson and Shorb, should be given any authority or used other than as counsellors, although it was expected they would be helpful in discussions with Mr. White whose attitude frequently was embarrassing to the Ambassador whereas Schroeder could serve usefully as a buffer.

BONDS HELD BY GOVERNMENT

The Minister confirmed that in liquidation of amounts owed to the Government the National Treasury had acquired under Decree No. 711 of 1932 ¹⁰ \$5,997,500 of its foreign debt. In this connection I said I had received a letter dated May 6 from Mr. Warren Pierson, President of the Export-Import Bank of Washington, informing me of an impression prevailing in the United States that Colombia was daily trading in its own bonds. I had understood the only bonds ever acquired by the Colombian Government were the aforementioned \$5,997,500 but I would like to be reassured on this point. The Minister emphatically stated that my understanding was correct and Colombia had not and was not now purchasing any of its own securities. I inquired whom he thought was responsible for the activity in the New York Stock Market. He replied that, in the first place, he had recently received a communication from the banking firm of White, Weld and Company of New York stating that there was no great activity in Colombian bonds; but his guess was that while some buyers might be individual Colombian citizens the largest traders were probably a Chicago group comprising among others the firm of Welsh and Green. I thanked the Minister and said I would transmit his remarks to Mr. Pierson.

NEGOTIATIONS IN BOGOTÁ

During the conversation the Minister commented on the large amount of time lost in transmitting information to and from the United States. I inquired whether he thought it would facilitate and speed negotiations were they to be transferred to Bogotá, in which case I observed it would be imperative for Ambassador López, because of his familiarity with what had gone before, to come here with the representative of the Foreign Bondholders Protective Council. The Minister thought that if negotiations were not rapidly concluded in Washington and New York, as he now hoped they would be, then it might be well to bring the negotiators here.

FOREIGN BONDHOLDERS PROTECTIVE COUNCIL, INC.

So critical of the Foreign Bondholders Protective Council, Inc., and its officers was the Minister that I drew his attention to the following

¹⁰ Approved April 22, 1932, *Diario Oficial*, April 23, 1932, p. 211.

points: (a) The bond owners mostly had small holdings and were unable to protect their own interests; (b) the houses of issue either could not or would not intervene; (c) his knowledge of the methods of some so-called independent committees surely would satisfy him that their participation was not always beneficial; (d) the only responsible medium left to deal with was the Protective Council but it had to negotiate on bond defaults all over the world, it was paid by voluntary contributions of only $\frac{1}{8}$ of 1 percent after a settlement, it therefore lacked funds, perhaps was short of personnel and was continuously subject to criticism from all sides; (e) these considerations placed the Colombian Government under a greater moral obligation than perhaps it would be otherwise. In short, while he might have been annoyed by the Council he should in all fairness make allowance for the impediments it had to overcome and above everything he should remember that it was absolutely honest and its officers stood to make no personal gain irrespective of the settlements put through. Dr. Lleras said he was glad to learn these details and he had always been satisfied as to the integrity of both the Council and its directors.

STABILIZATION PROFIT

The Minister stated that the special exchange account previously shown at approximately 17,500,000 pesos had been reduced in November 1938 to approximately 1,500,000 pesos. The difference was the profit made from the stabilization of the currency and had been used to cancel an 8,000,000 peso indebtedness to the Banco de la República, for public works, stabilization fund and other measures.

EXCHANGE CONTROL

I said I assumed all exchange restrictions would be removed immediately the national debt were adjusted, excepting where the retention of those restrictions was vitally important in connection with countries, such as Germany, having compensation agreements. The Minister agreed with me on this. I then told him I did not understand how and why Germany was now getting certain free exchange, amounting to approximately \$125,000 per month, beyond the amounts contemplated in the renewal (December 1, 1938) of the German-Colombian agreement of May 21, 1937. I understood this special free exchange for Germans was covered by an informal interchange of notes, supplementing the aforesaid renewal of agreement. I was not making any formal protest but it did seem a bit severe on Americans, operating in Colombia, to have the Germans receive this preference. (It should be noted that Mr. Wright of this Embassy repeatedly has tried to get copies of the aforesaid notes from Señor Bayón of the Exchange Control Office who in each instance refused his request.) Dr. Lleras was unaware of this situation, although he said that Mr.

Smith of the National City Bank had told him some time ago that the Germans were receiving certain preferences over the United States but he had given no concrete supporting facts. Dr. Lleras asked me for a copy of the memorandum on this subject, which he noticed I had with me, and said he would communicate the results of his investigations to me. Copy of the memorandum sent to the Minister is enclosed.¹¹

While on this subject the Minister observed that the United States-Colombian Trade Agreement¹² must be highly pleasing to us because, since its enactment the latter's favorable balance had been reduced from \$30,000,000 to \$4,000,000. I replied that we were not so much interested in whether balances were favorable or otherwise as we were in extending and freeing commerce in all directions and in eliminating harmful restrictions such as were involved in compensation arrangements. In this connection I pointed out that in 1938 the United States had absorbed 53.6 percent of Colombia's exports but had only participated in 48.8 percent of her imports, thus creating free exchange for this country; whereas the corresponding figures for Germany were 13.7 percent and 17.5 percent. I said I was not complaining but simply calling the facts to his attention.

Dr. Lleras said that aside from preventing the Germans from swamping this market there were three factors to be considered when removing exchange control:

(a) The effect on the fiscal situations of the Departments and Municipalities. The best solution for their troubles would be, as described above, for the National Government to negotiate foreign debt adjustments on their behalf.

(b) In recent years an important textile manufacturing business, protected by the import quota restrictions of exchange control, had grown up here largely in Antioquia. This industry had a peculiar attraction for the Colombians who would not wish to see it injured. If exchange control were lifted, cotton piece goods (yarns?) might flow into this country from the United States in such volume as to damage or perhaps destroy this business. Therefore, could the Colombian trade agreement with the United States be modified to meet this contingency? I told him it was a matter requiring careful study. I would report to the State Department and inform him in due course of my Government's reaction to this suggestion.

(c) Colombia's economic strength probably would enable its currency to withstand the removal of exchange control, nevertheless some additional backing for the currency would be reassuring. Dr. Lleras recalled that I had spoken to President Santos concerning a possible loan of gold bullion for stabilization purposes, once the debt was settled. He believed such a loan to the Bank of the Republic would be valuable second line of defense for Colombian currency. He did

¹¹ Not printed.

¹² Signed September 13, 1935, Executive Agreement Series No. 89; or 49 Stat. 3875. See also *Foreign Relations*, 1935, vol. iv, pp. 430 ff.

not feel our agreement with Brazil was particularly applicable to Colombia. Would I please consider and advise him what could be done along these lines. This I promised to do, also telling him it must necessarily be consulted with both the State and Treasury Departments. I said any gold bullion loan would have to be from Treasury to Treasury and I understood while the Brazilian program had met with very wide approval nevertheless congressional authorization was required to put it in effect.

I would appreciate receiving the Department's instructions in respect to (b) and (c) above.

EXPORT-IMPORT BANK FINANCING

Mention of the Brazilian agreement led to discussion of what assistance might be given to Colombia by the Export-Import Bank. I told the Minister that as in the case of a bullion loan nothing could be done until a debt adjustment was pretty well assured. Dr. Lleras said Colombia urgently needed financial assistance from the Export-Import Bank or from some other source in order to purchase material for the construction of railroads, including rolling stock, road-making machinery and dredges to keep the channels of the Magdalena River clear. Unless financing were obtained, Colombia would have to go without many essential improvements or overburden the budget by paying for the equipment in one or two years. Hence, Export-Import Bank financing would give Colombia greater leeway and thus permit her safely to do away with exchange control.

The Minister impressed upon me that even more vital than the foregoing was the adequate and sound financing of the Agricultural Credit Bank. That institution had already discounted with the Bank of the Republic thirteen and a half million pesos of the permissible legal maximum of sixteen million pesos. Of course the discount limitations could be raised by law, but he considered it unsound to do so. The proper solution was to increase the Agricultural Credit Bank's capital by approximately \$3,000,000. The development of this enterprise was a paramount issue and there was no place where our assistance would be more appreciated by both the Colombian Government and people. To raise three million dollars from the budget would be too great a sacrifice, particularly if a debt agreement were reached. He earnestly hoped this additional capital for the bank could be financed by the Export-Import Bank and the Colombian Government would itself willingly assume the indebtedness as a direct obligation.

In reply to the Minister, I said that once the debt was adjusted I hoped the Export-Import Bank could help with the financing of purchases of railway equipment, road machinery, dredges, etc., but that a direct investment in the Agricultural Credit Bank I feared might be impossible. However, I would be very glad to give the matter consideration and submit it to my Government for study to determine

whether through financial assistance given to the Colombian Government it in turn could make the investment in the Agricultural Credit Bank. The Department's views on this would be appreciated.

COASTGUARD REORGANIZATION

Dr. Lleras said still another most important manner in which we could materially assist Colombia was in the reorganization of their coastguard service. Some years ago they bought in the United States a couple of secondhand coastguard cutters, which were antiquated, inefficient, and now required expensive repairs. The amount of smuggling along both the Atlantic and Pacific coasts in Colombia was scandalous. Contraband of all kinds was being run into the country, particularly silk and other goods from Japan. To stop this illicit traffic required four or five good cutters which would cost, he believed, about seven to eight hundred thousand dollars. The prevention of smuggling and the resultant collection of customs duties probably in time would finance the purchase of these vessels. Of equal importance, however, was the matter of national security. He said I, of course, was familiar with the rumors concerning alien activities along the Colombian coast (see my despatch No. 75 of April 21, 1939)¹³ and particularly if war were to occur in Europe the operation of these new cutters would be of value not only to Colombia but to the United States. He had discussed the matter with the Minister of War who agreed that a complete study and reorganization of the coastguard must be made, attention being given to personnel, purchase of vessels and other equipment and establishment of a base at Cartagena, including drydock facilities for the cutters. Quotations on cutters had been received from Holland and Germany but since the Colombians were so inexperienced in the matter it would be best for the job to be handled by American experts. The Minister had written to Ambassador López in a preliminary way requesting him to investigate what might be done but as yet had received no reply. He would write again and hoped this matter would be considered favorably by the United States Government.

CONCLUSION

Our conversation ended by both of us agreeing to think over the various points and to get together frequently for discussions thereof. In these talks I shall continue to argue in favor of a settlement which will reestablish Colombia's good name and credit.

Dr. Lleras gives the impression of being bright, able, honest and possessing good judgment, especially for so young a man. In offering such a sorry prospect for a settlement satisfactory to the bondholders, the Minister, partially as trading strategy, is painting the

¹³ Not printed.

gloomiest picture. But the fact remains that the long standing default, the inexpert handling of the matter in the past, favorable economic and credit developments here (see my despatch No. 66 of April 17, 1939)¹⁴ and internal political influences, all indicate that any substantial improvement over the "López" terms can only be accomplished through the most skillful and intensive efforts. Public and, what is far more important, political sentiment has, as was only to be expected, during the years of default crystallized in favor of a settlement no better than that offered by President López. Even if the Colombian Ambassador and other negotiators become convinced that a higher interest rate should be accepted, it is presently doubtful that the administration would dare support or Congress ratify a settlement on a substantially better basis. We may rail at their incomprehension and even at their Punic faith, but at least an equal share of responsibility for this unhappy situation rests in the United States and their attitude is in line with common experience in governmental debt settlements.

To conclude, it is well to face the hard facts that: (a) If debt service is not renewed this year on some basis, Colombia may continue to default more or less indefinitely; (b) an agreement certainly can now be made on the "López", or perhaps somewhat better, terms. A bad adjustment is better than none at all. For the bondholders to have 3 percent in hand is preferable to speculating on receiving a higher rate in some indeterminate future. (c) Hence it is the part of wisdom to make the best deal possible for the bondholders—it will in any case be superior to the Chilean offer—and then get on to the new business of reinforcing both our economic and political standing and prestige in Colombia. The financial assistance we may give to this country will in some measure redound to the benefit of the bondholders. To pursue any other course, as indicated in my despatch No. 66, would be somewhat in the nature of biting off our nose to spite our face.

Of course, in my conversations here I have not even hinted at the foregoing; on the contrary I have, if anything, played up the consequences to Colombia's good name and economy of a failure to agree on better terms.

This country so ardently desires our assistance on stabilization, financing, the Agricultural Credit Bank, coastguard service, etc., that it would be good strategy for conversations on these matters to proceed simultaneously with the debt negotiations. These elements may be utilized as effective trading arguments by which, with no sacrifice to the United States Treasury or the Export-Import Bank, the Colombians may be induced to agree to a better bargain for the bondholders. The advantages obtained might also perhaps lead the Colombian Congress to swallow the bitter pill of higher interest rates.

¹⁴ Not printed.

The only alternative to this method of attempting to improve the terms of the debt agreement is for negotiations to be transferred to Bogotá where facts may be investigated more thoroughly and local political opinion more effectively influenced in favor of terms superior for the bondholder.

Respectfully,

SPRUILLE BRADEN

821.51/2338 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTA, June 29, 1939—1 p. m.

[Received 5:15 p. m.]

42. Finance Minister last night told me that while Francis White appeared less *intransigent* than previously debt negotiations now appear to be in doldrums and he wanted my assistance to stimulate action so that service may be agreed upon and included in budget to be presented to Congress July 20. (Indications are that Government also desires to present project to Congress looking to removal of exchange control.) Minister is dining with me July 8 and I may have discussion earlier. Therefore would appreciate being informed status of negotiations, specific points on which I may perhaps be helpful, and answers to questions raised in my despatch No. 117, of May 15.

BRADEN

821.51/2338 : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, July 1, 1939—3 p. m.

56. Your 42, June 29, 1 p. m. The Colombian Ambassador presented a comprehensive memorandum¹⁵ to the Foreign Bondholders Protective Council incorporating the so-called Lopez offer and Mr. White in a conversation with the Ambassador on June 16¹⁶ indicated that the offer was very low in view of Colombia's financial position and the higher service on internal issues. The Ambassador said he would refer Mr. White's views to his Government, and the Council is apparently awaiting a reply which it hopes will contain a better offer. A copy of the Colombian memorandum and of a memorandum of Mr. White's conversation were sent to you in the air mail pouch which should have reached you yesterday.

Although the Department has not made a careful analysis of Colombian finances, it recognizes the weight of some of the considera-

¹⁵ Not printed.

¹⁶ Memorandum of conversation not printed.

tions raised by the Council and therefore very earnestly hopes that the Colombian Government will give them a most thorough consideration. If suitable occasion arises at your dinner on July 8, you may, in your discretion, express to the Minister your hope that in view of his detailed knowledge of the whole situation he will be able to find opportunity personally to study the Council's observations in order that he may arrive at his own conclusions uninfluenced by the opinions of others who do not recognize as he does the desirability of settling the debt default as soon as possible.

The Department has no indication of what interest rate the Council might be willing to accept, and believes that it would be preferable at this stage for no suggestion to be made by you even on your own responsibility as to what would be reasonable and fair.

For your information the Department has been informed that in order to overcome one of the Council's objections the Colombian Ambassador has advised his Government to consider the possibility of a reduction in the rate of interest on internal bonds proportionate to that proposed on the external bonds.

With regard to the Minister's reference to the Chilean debt settlement, as set forth in your despatch no. 117, you may find it desirable to emphasize that as a result of subsequent negotiations of the Chilean Government with the Council and the formal assurances given the latter as to the scope of the law, and in recognition of the appreciable payments being made by Chile under difficult economic conditions, the Council withdrew its recommendation against acceptance of the Chilean proposal. The amount paid by Chile for service on its foreign debt alone in 1938 was 22 percent of the national budget, half of which was allocated for interest payments.

With further reference to your despatch no. 117, there has recently been under reconsideration the policy which the Export-Import Bank should pursue in relation to the extension of credit to governments in default on their external indebtedness. You will be informed as soon as decision has been reached.

In the meantime, if you feel you must make reply to the questions posed by the Minister of Finance as conveyed to the Department in despatch no. 117, you may say that a gold bullion loan would require specific congressional authorization as indicated in the Brazilian arrangements. There has been no occasion as yet to submit that question to Congress for action since as yet no request has been received from Brazil. Since the Colombian Minister of Finance indicates that he regards the proposal made to Brazil as not particularly applicable to Colombia, this Government might be prepared to consider any counter suggestion from him as to exchange facilities such as advancing dollars against gold collateral.

The credits granted by the Export-Import Bank must be for the purposes of facilitating United States export or import trade, and it would appear difficult to justify an extension of credit by the Bank to the Agricultural Credit Bank of Colombia which would be regarded as a capital increase (the Bank is specifically forbidden to purchase stock).

The Department will instruct you further with respect to the remarks of President Santos and the Minister of Finance regarding cotton goods in connection with the trade agreement.

HULL

821.51/2342: Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTA, July 11, 1939—5 p. m.
[Received July 12—1:30 a. m.]

47. Department's No. 56, July 1, 3 p. m. In conversations Saturday and 3 hours yesterday with Minister of Finance I strictly adhered to instructions and net of discussion was: Minister of Finance still anxious for speedy settlement believing Congress within a month from its opening will become so involved in political bickering as to make approval extremely difficult. He inquired to which of consideration[s] raised by the Council the Department gave [apparent omission]. I told him I do not know and I only pointed to those which appealed to me personally. The most encouraging feature of the conversation was that he several times expressed desire to know what rate would reestablish Colombia's credit so that he might come as closely as possible to it. However, in contradiction to this, when White's reference to Uruguayan settlement¹⁷ was discussed he said Colombia could not come anywhere near 4½ per cent. Also Colombia having made best possible offer under present fiscal conditions could not with dignity alter same; to do so would be politically embarrassing.

On July 5 he sent air mail letter to Colombian Ambassador at Washington answering various points raised by White and instructing that offer be renewed.

He asked me what would be effect of this. I told him probably they would get nowhere; in fact I was disappointed to see both sides involved in a protracted discussion of factors which had been thoroughly reviewed, the essence of the problem was for them rapidly to get together across the table on a rate which would reestablish Colombia's credit and make possible Council's approval. I suggested in view of his desire for rapid settlement perhaps best procedure might be for

¹⁷ See Foreign Bondholders Protective Council, Inc., *Annual Report 1939*, p. 62.

him to abandon trading tactics and forthwith to make maximum offer Colombia could contemplate. He replied this was inexpedient course politically and said only procedure was for White to dress up present offer leaving essentials the same as now. The only concrete proposal he could think of in this connection was for payments reached in fifth year to be continued thereafter until extinguishment of debt. He would not consider making present apply for temporary settlement. When I pressed for other suggestions of [to?] make "dressing up" worthwhile he replied it was up to White to use imagination. I said that imagination would have to come from this end.

He was evidently concerned by my insistence offer would have to be improved and that action was up to him and not to expect counter offer from White. He promised matter would have his preferential attention, it was most important subject before him and Government was extremely anxious to have it settled.

To meet charge of discrimination Colombian Ambassador had suggested giving option foreign bondholders to convert into internal issues. The Minister agreed with me that this did not merit much consideration.

In reply to my question he said Ambassador at Washington was authorized to declare that English and American bondholders would receive identical treatment.

Minister again brought up gold bullion loan and when I explained situation to him he inquired whether it would be possible once debt was adjusted and Colombia returned to free exchange (always controlling compensation countries through import restrictions) for Bank of Republic to obtain loan from Federal Reserve Bank which possibly would be little used but mere existence thereof would insure stability of exchange. He also again emphasized urgent necessity of acting on cotton goods in connection with trade agreement. I told him I would reply on these points when instructed by the Department. He promised to keep me posted of any communication from Ambassador at Washington and I said I would also keep in touch with him.

To conclude, Minister of Finance is torn between desire for settlement with Council, fear of political repercussions here. He is still trading but can be induced to improve offer somewhat but I fear not enough to satisfy White.

BRADEN

821.51/2345

The Ambassador in Colombia (Braden) to the Secretary of State

No. 206

BOGOTA, July 13, 1939.

[Received July 17.]

SIR: I have the honor to refer to my telegram No. 47 of July 11, 5 p. m., and to submit the following additional information on my

conversations with the Colombian Minister of Finance on July 8 and 10:

1. The Minister asked what I thought of the Colombian memorandum as submitted to the Foreign Bondholders Protective Council, Inc. I told him my personal reaction thereto was that the Colombian argument frequently overshot the mark by attempting to prove too much; for instance, the statement that depreciation of the peso makes full renewal of the debt service "impossible" is an exaggeration, the word "difficult" would have been more accurate. Mr. White, I believed, had made some pertinent observations to Ambassador López with respect to the memorandum throughout over-emphasizing comparison of the country's fiscal position between 1929 and 1938.

I said that, while admittedly it is extremely difficult, with statistics available, to make an accurate estimate for Colombia of the balance of payments and perhaps no two people would arrive at the same conclusion, nevertheless the memorandum's arguments respecting balance of payments lose force in face of the fact, generally accepted in Bogotá banking circles, that Colombia has had difficulty during the last month or so in keeping the value of the peso down. In this connection, I said I could not agree with the Colombian thesis of excluding all exports of petroleum, 40 percent of bananas, and platinum. While Mr. White is inaccurate when he says the exploitation of oil has been proceeding at a tremendous rate and that the first oil has been brought through the pipe line from the Barco concession during the last two or three months, the Colombians are equally in error when they exclude the substantial benefits to this country received from the Tropical Oil Company in wages, local purchases, taxes, etc., plus the few millions being spent annually on exploration. The Minister admitted that I was right but remarked that Tropical purchases in the country about balanced their local sales.

2. Dr. Lleras said, for a while, the peso had tended to rise against the dollar but now the reverse was true, as was proven by the recent drop in gold reserves to a ratio of 60 percent (60.52 percent as of June 27). The legal minimum was 50 percent, the banks had done little rediscounting but might do so at any time, in which event if exchange control had been removed the peso would be under severe pressure, at least for some months. He then made his suggestion regarding a stabilization loan from the Federal Reserve Bank, as described in my cable under reference. It may be observed that the recent drop in gold reserves is perennial and due to the off-season in coffee shipments; gold reserves as of July 8 are back to 62.7.

3. The Minister said he already had a project drafted looking to the removal of exchange control. In this connection he observed that Mr. White seemed to forget that the National Government could not agree to such a high rate of service as would absorb all available exchange and leave none for the service on loans by departmental and other debtors.

4. The Minister told me of a letter he had received from Ambassador López describing the conversation with Mr. White on June 16. This account approximately paralleled the memorandum enclosed with the Department's instruction No. 51 of June 14, 1939.¹⁸

¹⁸ Not printed.

5. I told the Minister that the points raised by Mr. White which appealed to me were:

- (a) Discrimination as between external and internal bonds;
- (b) Percentage of budgets devoted by other countries to foreign debt service. I emphasized to him that even in Chile 22 percent of the 1938 budget had been paid to foreign bondholders;
- (c) The purchase of the Belgian Railroad.

6. On (a), Dr. Lleras held there had been no discrimination, since the internal loans had been contracted under duress, some of them even without any interest, and the largest one had been liquidated largely by means of a special tax on gasoline, which was oppressive and could not be continued for too long a period. Despite the Minister's explanation, this tax still is effective and a fair guess is that it will be continued. He made no mention of Ambassador López' suggestion that rate of interest on internal bonds be reduced to a figure proportionate to the external. Therefore, I inquired whether this had been considered. He replied affirmatively and said it had been done in the past by means of an arbitrary tax but he thought there were only one or two issues on which it could now be done and that it would do little good.

With respect to (b), the Minister offered no counter argument except that other essential items on the budget simply could not be cut nor eliminated to a degree which would permit of such high percentages as some other countries devoted to debt service. He had already cut next year's budget by 30,000,000 pesos. In my opinion, it is perfectly true that this country could, at this particular juncture of its economic development, soundly and beneficially spend a budget augmented in this amount.

He said (c) the purchase of the Belgian Railroad was forced on the Government as otherwise operations thereof would have ceased and an impossible situation would have been created for the Government.

7. I inquired whether the Minister had further considered my purely personal suggestion (described in last paragraph of Page 9 of my despatch No. 117 of May 15, 1939)¹⁹ regarding an X percentage of the budget being allocated to foreign debt service. He replied that it would be impossible to apply an X percentage to the entire budget but it might be done with certain specific items of revenue and thus give the bondholders a chance for an increase in payments.

8. The Minister was pleased with the advance being made on the question of revenue cutters, appreciated the assistance already given in Washington, and hoped a satisfactory combined service for both coast guard and auxiliary naval defense would be consummated.

9. He regretted that the Export-Import Bank could not assist in the financing of the Agricultural Credit Bank but understood our position thereon.

10. My observations on the Colombian memorandum Dr. Lleras took in good stead as he did my remarks supporting certain of Mr. White's arguments. In short, I think he genuinely desires a settlement but simply does not know how to overcome the practical and political obstacles which make it extremely difficult for the Santos administration appreciably to better the so-called "López terms."

¹⁹ See third paragraph under the heading: "My Opinion of Terms", p. 472.

Pursuant to the Department's instruction No. 44 of June 21, 1939²⁰ suggesting that I comment on Mr. White's memorandum of June 9, 1939,²⁰ there is little to add to the above other than to say that it contains several mistakes as for instance when he speaks of Colombian bonds selling on the New York market at 15 cents on the dollar, whereas the price on June 9 was actually 27½ with a low for the year of 19¾. Also, Mr. White apparently confuses the balance of trade with the balance of payments. In this connection I enclose an analysis of the latter²⁰ prepared by the National City Bank for 1937, which taken together with the estimate of the Colombian memorandum may give the Department a somewhat closer approximation to the real situation.

Of course an adequate discussion of the arguments by both sides on many phases of the situation is necessary. However, the whole situation has been pretty thoroughly examined during the last few years so that each party is already well acquainted with the other's views. Hence it should now be possible to shorten the conversations which otherwise may be time-consuming and will not greatly clarify the issues since both will more or less rigidly adhere to their particular theses.

The one point, above all others, to which a solution must be found is how much can and will the Colombians increase their proposal above the so-called "López terms" stipulated in their memorandum and at what rate will the Foreign Bondholders Protective Council, Inc. give its approval to those terms. This is a question which it should be possible to settle within a few days at the most. It is generally admitted here that the Colombian offer of the "López terms" was made on a trading basis in order to bring forth a counter offer from the Council. The negotiation on this one point can be done back and forth across the table rapidly if the issue is not confused by such issues as Mr. White (bottom of Page 6 of his June 9 memorandum) insisting that the municipal and departmental debts be adjusted simultaneously with the national debt. In this connection I beg to refer to the last eight lines on page 5 of my despatch No. 117 of May 15, 1939²¹ and to suggest that it would be advisable for Mr. White to urge that in all allotments of national income to subsidiary governmental units at least a portion be earmarked for foreign debt service.

I feel that the interests of the bondholders have already suffered because of the many avoidable delays permitted during the past couple of years. To allow further procrastination now would be inexcusable and will still more injure the bondholders.

Respectfully yours,

SPRUILLE BRADEN

²⁰ Not printed.

²¹ Reference is to the last 7 lines, *ante*, p. 471.

821.51/2347a : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, July 15, 1939—5 p. m.

66. White of the Foreign Bondholders Protective Council has informed Department that on July 13 Ambassador Miguel López informed him under instructions that the debt proposal submitted about June 15 was the best that Colombia could offer at this time. White informed López that he could not recommend to the Executive Committee of the Council that it recommend the proposed settlement to the bondholders.

The Ambassador again brought up the possibility of refunding the internal issues. White said that he was prepared to recommend to his Executive Committee a proposal for a 1-year temporary settlement with a 3 percent interest rate, the year to be used by the Colombians to refund its internal bonds at lower interest rates. At the end of the year further negotiations would be carried on for a definitive debt settlement for the external debt at higher interest rates that would take into account the savings to the Colombian Government because of the lower interest on the internal issues. White does not think the Colombian Government will be interested in this idea.

White also suggested for consideration the possibility of making increases in debt service contingent on increase in the Colombian budget.

Miguel López stated that he would cable his Government a résumé of their conversation and request new instructions.

White believes that Miguel López was seeing him for purpose of feeling out how low an interest rate would be acceptable.

For your strictly confidential information and not to be in any way communicated to the Colombian Government, White states that he is preparing a proposal that he will place before the Executive Committee next Tuesday. If the Executive Committee approves he will present it to the Colombian Ambassador the next time López gets in touch with him.

HULL

821.51/2349

The Ambassador in Colombia (Braden) to the Secretary of State

No. 222

BOGOTA, July 18, 1939.

[Received July 21.]

SIR: I have the honor to refer to the Department's telegram No. 66 of July 15, 5 p. m. and to report that pursuant to my request the Minister of Finance, Dr. Lleras Restrepo, received me yesterday afternoon and read to me a cable he had just had from the Colombian Ambassador in Washington.

This message, although somewhat longer, approximated the information contained in the Department's telegram under reference, except that the Ambassador interpreted Mr. White's refusal to recommend the Colombian proposal to the Council's Executive Committee as a definite rejection thereof. He added that Mr. Laylin,²⁴ who also was present at the meeting, inquired whether Mr. White would recommend a settlement on a 3½ percent basis. Mr. White said he would not and that moreover he objected to further questioning along this line since it would commit him—something he could not accept since he was acting without authority from the bondholders. The Ambassador quoted Mr. White as declaring that the Colombian offer was incommensurate with present capacity to pay and still more with future prospects. In this latter connection, he had particularly stressed the development by American capital of the petroleum industry in Colombia. Mr. Laylin's inquiry regarding 3½ percent is, of course, significant.

Dr. Lleras said that he had been so discouraged by the Ambassador's telegram as almost to reply that nothing else remained to be done with the Council and that the Colombian Government would seek other methods, than through that organization, of dealing with the bondholders. However, just then he received my request for an interview and he hoped I would have some more encouraging information.

The Minister said Mr. White's rejection of the Colombian offer made it impossible for the Government to make another, i. e., presumably through the Foreign Bondholders Protective Council. Also it prevented his including any item for debt service in the budget since it would become generally known that the Colombian offer had been rejected. When I doubted this, he insisted that everything was known in Bogotá within twenty-four hours, which, I must say, is largely true. He frankly expressed his discouragement because it was evidently impossible by the present method of negotiation to reach a conclusion since Mr. White "assumed the dual role of negotiator and non-negotiator, that is, he took all of the advantages of a negotiator but none of the obligations, which placed the Government at a serious disadvantage—it was futile to continue discussions with White". I indicated that Mr. White had not "rejected" but merely "refused to approve". But the Minister insisted another offer could not be made.

In reply to my question, Dr. Lleras stated that Mr. White's suggestion to make the offer a temporary one for one year was utterly unacceptable. Also he had requested Ambassador López and his financial advisers to submit a plan looking to the refunding of Colom-

²⁴ John G. Laylin, Washington attorney, acting as counsel to the Colombian Ambassador.

bia's internal issues. This they had done but the Minister was now satisfied that the thought of refunding internal issues should be abandoned.

The Minister asked what information I had. I replied that unfortunately it was similar but even more brief than his, although I was encouraged by one factor: I understood Mr. White was disposed perhaps to consider the possibility of making increases in debt service contingent on increases in the Colombian budget. I added that since the Minister thought it unwise to follow my suggestion (see Section 7, Page 5, of my despatch No. 206 of July 13, 1939) of an X percentage of the budget being assigned to debt service, he might do so with an X percentage of revenues (both royalties and taxes) received from the petroleum industry. I pointed out that, while large sums were being spent on exploration, there was as yet no guarantee that these operations would be successful nor that Colombia would receive any substantial additional income from this source. Nevertheless it was a possibility with which Mr. White was impressed, according to the Ambassador's cable, and by such an arrangement the bondholders would receive a speculative fillip which might compensate them for a somewhat lower return than otherwise they would be willing to accept, also it would answer Mr. White's arguments respecting Colombia's ability to augment future payments. The Minister estimated that approximately 12 to 14 percent of the revenues presently received from the oil industry are equivalent to 1 percent on the debt service. He calculated that the earmarking of 15 percent of oil revenues to debt service might in a few years give the bondholders a substantial increase in interest but felt in any case they should be limited to the 4½ percent rate received by the holders of Uruguayan securities. I replied that I could not discuss the details of such a plan and had merely stated my personal opinion as favoring it in principle. But he should bear in mind that the Uruguayan bondholders were assured of a minimum of 4½ percent and moreover had received interest at that rate for some time past; therefore, I felt if the Colombian bondholders were to be asked to take any less, they should be compensated by the possibility of receiving a higher rate if the oil industry developed as we all hoped it would. Also I could not believe he would encounter much opposition in Congress on such a plan because in the final analysis Colombia would benefit even more than the bondholders from the development of the petroleum industry since, aside from local wages and purchases, if his figure were taken, 85 percent of the additional government income would be retained here. Dr. Lleras was receptive to this idea, which may therefore be pursued to advantage by Mr. White.

Dr. Lleras went on to say that by law he was obliged to submit the budget to Congress within ten days from its opening. He was now

estopped, as described above, from including an item for foreign debt service and if it were not in the budget it would be extremely difficult later to reopen the budget in order to insert a special appropriation.

I observed that, according to his statements and excepting for the possibility of an X percentage of petroleum revenues being assigned to the debt service, apparently an impasse had been reached. This gravely concerned me as being highly unfortunate both for Colombian good name and credit and for the bondholders. Therefore, pursuant to his suggestion of last week that imagination be used, I begged him to put on his thinking cap and exercise the maximum of imagination to resolve the impasse.

The Minister replied that in the final analysis Mr. White would be in none too good a position when it became known to the bondholders that he had rejected a Colombian offer without making any constructive counter suggestions. I warned the Minister he should not count on Mr. White's being embarrassed thereby as it would only appear to the bondholders and in the financial press in the United States that Colombia had made an offer which had been refused approval by the Council because it was not commensurate with this country's ability to pay and compared unfavorably with debt settlements reached with others. Dr. Lleras said a similar situation had existed respecting Chile's unilateral offer but subsequently based on insignificant changes in the Chilean undertaking Mr. White had been forced to give his approval in order not to appear, alone, as disapproving the Chilean offer which the bondholders themselves were by then ready to accept. I again mentioned the fact that Chile in 1938 at least devoted 22 percent of its budget to foreign debt service, to which Dr. Lleras rejoined that as soon as the departments and other Colombian debtors began servicing their loans the percentage of total budgets would be comparable to Chile's. I observed that this was perhaps a subject we could discuss more intelligently when we knew exactly what the total service was to be.

When I again insisted that the Minister make some suggestion as to how the present impasse might be solved, he replied that it would be helpful if he could obtain, in some way, an indication as to what interest rate would be approved by the Council. I said I did not see how this would greatly assist him since, judging by his remarks, he still seemed to be pretty far away in his ideas from a figure which the Council would approve.

At one point I inquired whether there would be any advantage in Ambassador López and Mr. White coming to Colombia since the members of the debt commission, and of the Senate and House Committees, and other influential people might thereby obtain a better understanding of the situation as it existed in the United States and in turn Mr. White would sense the atmosphere here. The Minister

agreed my reasoning was sound but said there were other considerations why it would be unwise for the negotiations to be transferred to Bogotá. While of course I did not mention it to the Minister, one disadvantage of negotiating in the States is illustrated by the fact that while Messrs. López and White continued to discuss the refunding of internal bonds that subject never was very seriously considered by the Government here.

While I am satisfied it would be extremely difficult for the Colombian Government to include the departmental, municipal and bank debts in a settlement along with the national debt, I nevertheless asked the Minister whether by doing so it would not be possible to make a proposal on better terms than the one already submitted. This suggestion he rejected.

It will be noted from the foregoing that so far about the only point which appears encouraging is the X percentage of petroleum revenues being assigned to debt service. Several times throughout the interview I emphasized that Colombia's credit would be seriously damaged with consequent embarrassment to all concerned if the Government left matters in the present impasse. I believe the Minister was impressed by my argument, but unfortunately not enough so to induce him to make another offer on terms anywhere near acceptable to the Council. I would feel more sanguine about my possibly bringing the matter to the attention of President Santos had he not already admitted to me that he knew little about finance and relied entirely therefore on his Minister.

Our interview ended by my urging that Dr. Lleras give serious thought to the finding of a solution to the impasse and by his promising to call a special meeting of the Debt Commission this week to consider the situation, after which he would advise me of what conclusions had been reached by the Commission and himself.

I shall, of course, appreciate being informed promptly of Mr. White's proposal, mentioned in the last paragraph of the Department's telegram under reference. It may at least, I hope, be of such a nature as to silence Dr. Lleras' criticism respecting Mr. White's dual role. Of course the ideal would be for it to be along the same general lines as the Colombian offer and with an interest rate within trading range of the Colombian.

Respectfully yours,

SPRUILLE BRADEN

821.51/2347b : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, July 20, 1939—2 p. m.

68. Personal. From the Under Secretary.²⁵ The Colombian Ambassador today came to see me to state that he had been informed by his

²⁵ Sumner Welles.

Government that at an official interview requested by you yesterday you had informed the Minister of Finance that this Government did not consider that the proposal submitted by the Colombian Government for the settlement of the debt default was satisfactory. It was said that you went on to mention various ways, including the levying of certain new taxes, by which the Colombian proposal might be improved.

In view of the opening of the Colombian Congress tomorrow and of the knowledge in informed quarters of your visit to the Minister of Finance in his office, the Ambassador stated his Government was extremely perturbed that the supposition might arise that the United States Government was injecting itself into the debt discussion and exercising pressure for better terms. This would introduce great complications into the negotiations, making it much more difficult for the Government to negotiate an equitable settlement.

In commenting upon the Ambassador's statements, I informed him as follows: First of all, as I had explained to him many times and to Dr. Santos when he passed through Washington prior to his participation in the presidential elections, it has consistently been the policy of this Government not to interject or involve itself in the negotiations between governmental entities and the bondholders, its activities being strictly limited to using its informal good offices to help bring about the inauguration of discussions and facilitate their continuance.

Secondly, as I had frequently expressed to the Ambassador and also to Dr. Santos, this Government, because many thousands of American citizens have invested their savings in the obligations of foreign governmental entities, does have an interest in the settlement of the defaults of such obligations which have occurred in the last few years. For this reason, this Government has urged and has done what it could to facilitate discussions between foreign governmental entities and the bondholders to reach an agreement for the resumption of debt service on the bonds held by American citizens.

Thirdly, I stated that no instructions had been sent to you to make any official representations in the matter on behalf of your Government nor to seek an official interview with any member of the Colombian Government. I said that of course we had kept you fully informed of the situation with regard to the debt negotiations so far as the Department was advised thereof, and that you had been authorized in your discretion to express at your dinner to the Minister on July 8 your hope that he personally would study the Council's observations. I expressed the belief that if you had requested an official interview with the Minister in his office, such an appointment had been sought by you in accordance with your general instructions to do what you considered possible to solve any difficulties that might arise between the two countries and to remove any obstacles to the close and friendly relations

which both Governments desire, and that you undoubtedly had not intended to indicate that any official intervention in this question was being undertaken by the Government of the United States. I said that I felt sure that the Ambassador appreciated that any settlement which might be reached in the debt negotiations and which proved satisfactory to both sides would bring about an atmosphere favorable to the economic and financial cooperation in which both our Governments were interested.

The Ambassador expressed his appreciation for the statement that I had made as to the position of this Government, and gave me to understand that my explanation would clear up any misunderstanding which his Government may entertain. However, the fact that the Colombian Government thought it important enough to request the Ambassador to see me indicates the sensitiveness of the Government to any suggestion on our part as to proper terms of settlement, and makes essential the exercise of the greatest discretion in conversations with Colombian officials. For the time being, I feel it would be preferable for you not to initiate any discussions of the debt question unless requested by the Department, and, if the matter is raised by responsible officials to confine your remarks to an expression of the Department's interest in a settlement to the extent set forth above.

HULL

821.51/2348: Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTÁ, July 20, 1939—9 p. m.

[Received July 21—2 a. m.]

52. Department's 68, July 20, 2 p. m. Personal for the Under Secretary. I am astonished by the Colombian Ambassador's statement to you which is totally at variance with the interview I had with the Minister of Finance on July 17 and which is fully described in my despatch 222 of July 18 which should reach you by direct air mail July 21. In fact, I believe it impossible for the Minister to have gathered any such impression as given you by the Ambassador who can only assume must have entirely misunderstood the message from his Government and has elaborated to you on his misunderstanding.

I requested the interview believing it expedient before Government policy here became too set to bring before the Minister the comments of Department's No. 59 of July 11, 6 p. m.,²⁶ and coincidentally to get latest information he had on the debt. While the visit was official in the sense that I went to the Ministry it had been agreed that we would informally and frequently meet in this matter to discuss latest news of negotiations from the United States.

²⁶ Not printed.

On this occasion as repeatedly on all previous ones I stated that neither my Government nor I could or would intervene other than by good offices in the debt negotiation.

I never have expressed any opinion personal or otherwise on Colombian offer except as I did so respecting so-called Lopez terms as reported page 7 of my despatch No. 117, May 15²⁷ and at Minister's request as per section 5 of my despatch 206, July 13. The subject of levying new taxes has never even been discussed in this or in previous conversations.

The Minister began the interview by reading to me cable from Colombian Ambassador describing his June 13 conversation with White. He declared himself so discouraged by White's "rejection" of Colombian offer as to have been on the point (when requested interview) of cabling Colombian Ambassador to terminate all negotiations with the Protective Council. Because of this attitude I made strongest statement I have made so far which was "that according to him an impasse had been reached which gravely concerned [me] as being highly unfortunate both for Colombia's good name and credit and for the bondholders, therefore 'employing his own expression' I begged him to exercise imagination to resolve the impasse".

The interview ended by Minister promising to summon me and inform me after he had consulted during this week with the Debt Commission.

Otherwise the only basis I can imagine for Ambassador's misunderstanding is that as reported in my No. 47, July 11, 5 p. m., I made to the Minister the identical statement of second paragraph of Department's No. 56 of July 1, 3 p. m.

BRADEN

821.51/2358

Memorandum by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] July 20, 1939.

When I called Mr. White today to speak with him about the Brazilian debt situation,²⁸ I inquired whether he had yet presented to his Executive Committee the proposal for a settlement of the Colombian debt default which he had mentioned to me several days ago. Mr. White stated that he had not had this opportunity since most of the members of his Executive Committee were out of town. He informed me, however, that this would not be an obstacle to his discussing his proposal with the Colombian Ambassador the next time the Ambassador called upon him.

²⁷ Section entitled "My Opinion of Terms", p. 472.

²⁸ See pp. 357 ff.

I informed Mr. John Laylin later in the day that I thought that if the Ambassador were to call on Mr. White the latter might have something to say to him on the debt question. Mr. Laylin indicated that the Ambassador would be in New York tomorrow and would probably take the occasion to call on Mr. White.

Mr. White told me that his proposal would provide for an expenditure of about \$650,000 more than the amount of \$2,064,000 provided for the payment in the fifth year under the Colombian offer.

Mr. Laylin told me in the strictest confidence that the Ambassador has agreed to submit to Bogotá a proposal which would be a considerable improvement over the original Colombian offer. The original offer contemplated the following payments:

1940	2% of \$45,000,000	\$ 900,000
1941	2¼%	1,012,500
1942	2½%	1,125,000
1943	¾%	1,237,500
1944	3%	1,350,000

plus enough to purchase \$600,000 face amount of bonds every year after the Colombians had retired at this rate \$5,972,000 of bonds now held by them. Thus there would be no cash payments for sinking fund purposes for ten years. The offer to be suggested would provide for the cancellation of the \$5,972,000 in bonds now held by the Colombian Government and on the \$45,000,000 balance would make the following payments:

	Current interest		Arrears	Amortization	Total
1940 at 3%.	\$1,350,000	1935 at 1%.	\$450,000	**\$200,000	\$2,000,000
1941 " 3%.	1,350,000	1936 " 1%.	450,000	**300,000	2,100,000
1942 " 3%.	1,350,000	1937 " 1%.	450,000	**400,000	2,200,000
1943 " 3%.	1,350,000	1938 " 1%.	450,000	**500,000	2,300,000
1944 " 3%.	1,350,000	1939 " 1%.	450,000	**500,000	2,300,000
1945 " 4%.	1,800,000				

*This would retire about \$400,000 principal amount.

**Add to this interest saving on bonds previously retired.

821.51/2359

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] July 21, 1939.

Mr. White, of the Foreign Bondholders Protective Council, Inc., telephoned me from New York to say that the Colombian Ambassador had dropped in to see him yesterday afternoon. Mr. White has prepared a memorandum of the conversation ²⁹ and is sending a copy of this to the Department.

²⁹ Not printed.

In brief, the Ambassador informed Mr. Welles [*White?*] that his Government had turned down the suggestion of a temporary offer, preferring to arrive at a permanent offer at this time.

In response to the Ambassador's inquiry as to whether Mr. White had anything to suggest, Mr. White told him that as a result of his study of the extensive documentary material left with him at the first meeting with the Ambassador, he had framed a proposal. Under the proposal of the Colombian Government the total service in the fifth year would be \$2,064,000 or 49% of the contractual service. Although the Council could not recommend acceptance of this suggestion to the bondholders, Mr. White thought that the Executive Committee would be prepared to recommend a proposal for service of \$2,715,000 or \$651,000 more than Colombia would pay in the fifth year under its plan. Mr. White pointed out that the contractual service comes to \$4,200,000 a year, whereas under his proposal Colombia would only have to pay \$2,715,000 a year, or a saving to the Colombian Government of approximately \$1,500,000.

Mr. White reminded the Ambassador that his Government had maintained that owing to the drop in the value of the peso it now took more pesos to acquire the dollar exchange necessary to make service. Mr. White stated that the depreciation in the peso had been 42% and that under his proposal the contractual service would come to 36%, so that the bondholders would be bearing six-sevenths of the hardship to Colombia as a result of the depreciation in the peso.

The Ambassador further argued that the proposal was not practicable from a political point of view. Later in the conversation he agreed to submit it for the consideration of his Government. Mr. White expressed the hope that it would be possible to instruct Mr. Braden to support this proposal before the Colombian Government. I told him that to do so would not be in keeping with our policy, and that there were special reasons why it would not in any case be possible to do it at this time. Mr. White argued that it would be preferable for this Government to make known its position, since that might dispose the Colombian Government to give his suggestion greater consideration. He was so insistent in his point of view that I finally told him I would place his views before Mr. Welles, but that I was absolutely confident that this Government would not wish to instruct the Ambassador as he had suggested at this time.

821.51/2361

Memorandum by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] July 26, 1939.

Mr. John Laylin telephoned to inform me that the debt negotiations had reached a very critical stage. The Ambassador transmitted to

his Government the suggested settlement proposed by Mr. Francis White. The Ambassador has now received a telegram from his Government stating that Mr. White's proposition had been laid before the President. The telegram continued that the President first of all regretted greatly that the Colombian proposal had been turned down by the Council because he would have to inform the Congress, and secondly, that he considered unreasonable Mr. White's proposition, and therefore had instructed the Ambassador to inform the Council that the Colombian Government would carry on no further negotiations with it.

The Ambassador today wired his Government, advising against his taking this action, and, in order to open the way for further negotiations, inquiring whether further negotiations with the Council could be held providing they were not on the basis of Mr. White's proposal.

If the reply of his Government is favorable, the Ambassador will then request permission to present to the Minister of Finance a new project of settlement of the debt problem. Mr. Laylin explained that the Ambassador had transmitted to his Government as the formula of Mr. Laylin and Mr. Simpson, of Schroeders,³⁰ the proposal contained in my memorandum of conversation with Mr. Laylin dated July 21 [20?]. The Ambassador may recommend the Laylin-Simpson formula or he may concoct something new.

The Ambassador told Mr. Laylin that he would support the Laylin-Simpson project provided that the Department could ascertain in advance from the Council that this project would have the Council's acceptance. I again informed Mr. Laylin that the Department did not feel that it could undertake to present to the Council the Laylin-Simpson formula, much less to negotiate with the Council to secure its acceptance of that proposal.

Mr. Laylin said that he would post me should there be any further developments.

LAURENCE DUGGAN

821.51/2365

*Memorandum of Conversation, by the Chief of the Division
of the American Republics (Duggan)*

[WASHINGTON,] July 28, 1939.

Mr. White stated that he had just completed a two and one-half hour conversation with the Colombian Ambassador and Mr. Laylin. The Ambassador informed Mr. White that he had now received a cablegram from his Government to the effect that the Government would not consider the proposal advanced by the Council; that it

³⁰ J. Henry Schroeder Banking Corporation of New York was acting as adviser to the Colombian Government in negotiations connected with a debt settlement.

did not wish to bargain; that it had hoped the Council would take a helpful attitude; and that it was still very desirous of reaching a settlement.

Mr. White inquired whether this meant that the Colombian Government stood firm on its original offer. The Ambassador stated that it did not; that the Colombian Government was ready to go further toward meeting the desires of the Council.

The Ambassador stated that the Minister of Finance proposed to put in the budget which will go forward on Monday a request for \$1,624,000 for external debt service. This is the amount of service proposed for the first year by the Colombian Government in its project. The Ambassador said, however, that there would be no breakdown of this amount in the budget as between interest and amortization.

Upon being informed by the Ambassador that he had no further suggestions to make at this time, Mr. White stated that since the Colombian Government had stated that it did not propose to bargain that he would place all of his cards on the table. He said that the Executive Committee when it met at its last session had agreed to recommend to the bondholders a permanent settlement based upon a 4½% interest rate. He therefore suggested the following formula: for the first year, an interest rate of 3½%, no amortization, which would work out at the sum of \$1,624,000 which the Minister of Finance proposed to place in the budget. This interest rate would be increased until it finally arrived at 4½% which would require \$2,036,000 which was \$28,000 less than the \$2,064,000 which the Colombian Government proposed for the five years under its project. 1% amortization would add to what Colombia had proposed to pay in the fifth year by \$424,000.

I asked Mr. White what the reaction of the Ambassador was to this proposal which did not provide for any amortization in the first year and possibly none for several years. Mr. White said that the Ambassador had made no comment.

As the Ambassador and Mr. Laylin left together, Mr. Laylin stated that they would wait to hear from Mr. White on Tuesday after he had presented his proposal to the Executive Committee. Mr. White stated that he informed Mr. Laylin rather sharply that there was no need for the Ambassador to withhold presenting the idea to his Government since the Executive Committee had already decided to recommend to the bondholders a proposal for permanent settlement based upon the 4½% interest rate. This would be 75% of the contractual service and in line with settlements made with Poland, the City of Warsaw, the Province of Cilicia, Uruguay and China. Of course the Council will present to the bondholders whatever proposal Colombia may make but would not recommend the proposition first advanced by

the Government nor any proposition that did not provide for an ultimate interest rate of $4\frac{1}{2}\%$.

Mr. White concluded by stating that he felt the Council was going a long ways to meet the Colombian Government and that if the Department could do anything to secure a favorable attitude by the Colombian Government to the Council's last proposal, the time had come.

821.51/2342 : Telegram

*The Acting Secretary of State to the Ambassador in Colombia
(Braden)*

WASHINGTON, August 14, 1939—3 p. m.

77. Your no. 47, July 11, 5 p. m. The Department has taken up with the Secretary of the Treasury ³² the inquiry of the Minister of Finance ³³ regarding the possibility of a gold bullion loan and of obtaining dollar availabilities against gold collateral, and has received the following reply :

"I take it from your letter, although I am not quite clear about the matter, that the Colombian inquiry relates to two distinct problems: (1) the possibility of a gold bullion loan, and (2) the possibility of obtaining dollar availabilities against gold collateral. In the absence of specific congressional authorization such as envisaged in the case of Brazil in the Aranha agreement of March 9, 1939,³⁴ the Treasury probably would not be in a position to make a gold bullion loan. Whether or not the Federal Reserve Bank of New York or other agencies would be in a position to make such a loan would require further investigation, which I have not initiated pending clarification of the Colombian request and of the general nature of the cooperative program. As regards the possibility of dollar availabilities against gold, the Treasury would be in a position to render effective assistance along these lines through Stabilization Fund operations and would be prepared to render such assistance provided other aspects of the general settlement between the United States and Colombia appeared satisfactory."

WELLES

821.51/2375 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTA, September 2, 1939—2 p. m.

[Received 8 : 33 p. m.]

71. Minister for Foreign Affairs ³⁵ this morning gave me copy of President Santos' message ³⁶ to President Roosevelt and other American Chief Executives.

³² Henry Morgenthau, Jr.

³³ Carlos Lleras Restrepo.

³⁴ See letters of March 8 and 9, exchanged between the Brazilian Minister for Foreign Affairs (Aranha) and the Secretary of State, pp. 352-356.

³⁵ Luis Lopez de Mesa.

³⁶ This message, dated September 1, reiterated Colombia's resolution to proceed in close agreement with the Governments of America in the matter of solidarity; Department of State *Bulletin*, September 9, 1939, p. 235.

He then stated that while Colombia's economic and fiscal position was excellent, outbreak of hostilities in Europe necessarily would have some adverse effect, therefore Government would economize and reduce public works and all other expenditures which were not absolutely essential. Both Bank of the Republic and private banks are in strong position to carry through unless public became hysterical and for example presented government mortgage bank cedulas for payment. The Minister was satisfied even such contingencies will be avoided if a credit of say \$50,000,000 were available from us since its mere existence would so fortify public confidence as to make it unnecessary to draw thereon. He suggested possible restriction limiting withdrawals to \$5,000,000 in first 6 months and \$10,000,000 in first year. By such an arrangement the Minister considered government fiscal position would be protected and it would not be forced at any time to default on payments such as salaries to army or public employees; the country's financial and banking structure would be supported and in case certain products such as drugs or chemicals were unobtainable from abroad small national industries insuring supply thereof could be initiated. As the Department is aware I consider this latter idea largely uneconomic and hope they may later be dissuaded therefrom.

I described to the Minister my conversation (as reported to the Department³⁷) on this subject with the President and Minister of Finance and which I initiated last February on instructions from President Roosevelt who I said had in mind possibility of just such a crisis as the present. I said I had left with President Santos August 17 and Minister of Finance August 21 memorandum quoting letter from Secretary of the Treasury (in accordance with Department's telegram #77). It therefore now devolved upon Colombian Government to define its request in order for the question to be further investigated. This I suggested could be done through the Ambassador in Washington although of course I would always be happy to lend them every assistance. The Minister considered the matter so pressing that he would prefer to proceed through both Embassies. I observed there was one factor, which, perhaps, would not arise; but in all fairness I felt obliged to mention, viz, because of the default on Colombian securities widely distributed among 40,000 to 50,000 bondholders in the United States, my Government faced a measure of political embarrassment in giving financial assistance of the kind contemplated, nevertheless I sincerely hoped the two problems would not be linked. The Minister said he understood my viewpoint, deeply appreciated the steps we had already taken and indicated that the matter will be promptly pursued with us.

³⁷ Despatch No. 22, March 3, not printed.

I deemed it expedient thus to mention foreign debt since with support of Federal Reserve credit and/or through Stabilization Fund operations Colombian Government might be enabled to overcome political opposition here to settlement and be willing to begin payments on higher interest rate than June offer³⁸ and White, by reason of world conditions, might now accept such terms. In any event it can do no harm for Colombian Government again to be informed of political considerations which confront us in this particular.

BRADEN

821.51/23824

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] September 19, 1939.

I informed the Ambassador³⁹ that Mr. Welles had requested me to take up a matter with him which Mr. Welles had intended doing himself, but his departure for the Panama conference⁴⁰ made it impossible for him to do so, since the matter was one which could not be discussed hurriedly.

I then told the Ambassador of the very great importance attached by this Government to a settlement of the debt default with Colombia. The long delay in arriving at a settlement was retarding closer relationships, both governmental and private. In view of the very cordial relationships that existed between the two Governments, it seemed a pity that any obstacle to the fullest possible cooperation should be permitted to continue. For this reason the Department had high hopes that the discussions between the Ambassador and the Foreign Bondholders Protective Council would result in a settlement. The impasse which apparently had been reached in the negotiations was most disheartening, particularly because at the present juncture of world affairs cooperation between Colombia and the United States seemed all the more important.

I informed the Ambassador that the Department in its desire to be helpful was prepared to play a more active role than usual in negotiations between foreign governments and American bondholders. I then recalled that several weeks ago Mr. Laylin had come in for an informal conversation in which he had intimated that if it were possible to ascertain in advance the Council's favorable view towards a settlement with a 3% starting interest rate and a final rate of 4%, the Ambassador would probably be prepared to submit it to his Government with a strong recommendation that it be accepted. At the time

³⁸ See telegram No. 56, July 1, 3 p. m., to the Ambassador in Colombia, p. 481.

³⁹ i. e., the Colombian Ambassador.

⁴⁰ See pp. 15 ff.

that Mr. Laylin had made this approach, the Department had hoped that through discussion the two parties would themselves find a common meeting ground. In view of the unlikelihood of this now occurring, the Department had given renewed thought to the situation and now wished to lay the following suggestion before the Ambassador for his consideration.

In order to conciliate the two points of view a solution might be arrived at on the terms of a starting interest rate of 3% and a final rate of $4\frac{1}{4}$ %. In addition, there would be certain amounts for disposing of the arrears and for amortization. A settlement on this basis seemed fair and equitable to both parties. In order to secure its acceptance the Department was prepared to support it before the Council with all the influence at its command upon the knowledge that it was accepted by the Colombian Government. I said that the Department naturally could not give any assurances that the Council would accept the proposal, but that I could say that the United States Government would lose no opportunity to persuade each and every member of the Executive Committee of the Council of its belief that the offer was fair and reasonable and equitable, all things considered. I added that if this suggested procedure met favorably with the Ambassador, I would be interested in having his ideas with regard to the best manner of submitting it to the Colombian Government for its consideration.

The Ambassador then made a rather lengthy statement covering the history of the negotiations. By implication he admitted that the offer made by the Colombian Government might have been more generous, but discoursed upon the political realities in Colombia. The Conservatives are against any settlement that would be considered equitable in this country and the Liberals in Congress are desirous of a settlement at as low rates as possible because of the bearing of the settlement of the default of the national debt upon future settlements of the departmental and municipal debts. He said that it was his firm belief that every year that went past without a settlement, made a settlement favorable to the bondholders just that much more difficult. For that reason a modest arrangement with a low interest rate in the early years was better than no arrangement.

With regard to the particular proposal advanced, he said that, while he was prepared to recommend strongly a 3-4% settlement several weeks ago, provided there were adequate indications that the offer would be acceptable to the Council, the outbreak of war introduced so many unpredictable factors that he was not at all sure that his Government would not consider such an offer today an "impertinence". In any case, he stated emphatically that in his opinion 4% was as high as Colombia should go in view of present money rates, and that under

no circumstances would he submit to his Government the proposal of an ultimate interest rate of $4\frac{1}{4}\%$.

In the ensuing discussion the Ambassador said he thought that it should be made very clear that his Government to date had not budged one iota from its estimate as to the total amount of service on the external debt that Colombia should make available. Within the total amount, he knew that the Government was prepared to negotiate regarding distribution as to interest, amortization, and the arrears.

I told the Ambassador that it would be too bad to see the present opportunity for a settlement pass without further efforts to come to a solution. While the war might result in a falling off of Colombian exports for a few months, a protracted war might mean the opening up of markets to an even greater extent for other products. It was possible that Colombia might find difficulty in disposing of all of its coffee, but it might find new markets for its petroleum, the supply of which would be greatly augmented in the very near future when oil started flowing through the pipeline from the Barco concession to the coast. I inquired whether the Ambassador would have any objection to my drawing up possible schedules of debt payment, which we might then talk over. The Ambassador replied he would be glad to have me do so, provided that the final interest rate was 4%.

It was agreed that schedules should be drawn up and that another conversation would be held in the very near future.

As he left, the Ambassador suggested that it might be useful for Mr. Welles to have a full talk with Señor Jaramillo, a member of the Colombian Delegation to the Panama meeting, regarding Colombia's economic and financial problems. He reminded me that Señor Jaramillo not only was a member of the Debt Commission, but was a person whose views on finance are very highly regarded by members of both political parties in Colombia. He thought that a general discussion inevitably would get around to the debt problem during which Mr. Welles could find an opportunity of emphasizing the importance to Colombia of an early settlement of the debt default.

821.51/2383 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 26, 1939—3 p. m.

[Received 10:05 p. m.]

16. The Colombian Foreign Minister and Esteban Jaramillo⁴¹ have put before us with evident seriousness their anxieties lest the present European war disturb their whole exchange situation and peril their present reserves and force them to restrict imports needed

⁴¹ Former Minister of Finance, member of the Colombian delegation at Panama.

for various national developments. The fear centered particularly around the prospect of reduced coffee sales and depressed coffee prices. They have asked us whether in connection with our general declaration⁴² we will be prepared to grant them financial assistance. An explanation has been given to them of the various types of operations which might be considered by our Government and they have now presented a memorandum requesting financial assistance in the form of a credit from the Banco de la Republica for reserve purposes and to enable it to continue necessary imports and to maintain the stability of Colombian money for economic purposes and for the acquisition of naval vessels. (Regarding this matter of financing it will immediately be explained to the Colombian Government that it cannot be considered). The Government suggests that the amounts to be determined after careful study of the most urgent needs and the conditions which should be established for the service of the existing debt and of the form and terms of the money to be loaned.

It stated that it would be disposed to organize a new banking institution to receive loaned monies and control its expenditure with such technical help as the United States may believe necessary. It suggests that as a first step the Government of Colombia would be willing to invite us to send a representative to Bogotá to study the whole question. Copies of the memorandum submitted will be sent you at once by air mail. The scope of the proposals are obvious and it is to be foreseen we believe that any actual arrangement would have to be based on an exchange of letters and commitments similar to that negotiated with Aranha. It would help us greatly if we could say either that we would accept the invitation of the Colombian Government to send a representative to Bogotá or to say that we had been authorized by you to extend an invitation to the Government of Colombia to send a special representative to Washington. Would you please consult Jones,⁴³ Pierson⁴⁴ and the Treasury and cable us as promptly as possible. It has already been explained to the Colombian Government that any undertakings taken by any branch of the American Government must be at the present time conditional upon the possession of necessary funds.

The Peruvian Foreign Minister has presented a memorandum⁴⁵ in the same sense though less extensive. This memorandum emphasizes the loss of markets for cotton, sugar, and other products

⁴² See address of the Under Secretary of State on September 25, 1939, at Panama, *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá September 23-October 3, 1939* (Washington, 1940), pp. 33-39.

⁴³ Jesse H. Jones, Chairman of the Board of Directors, Reconstruction Finance Corporation.

⁴⁴ Warren L. Pierson, president of the Export-Import Bank of Washington.

⁴⁵ *Post*, p. 779.

and the necessity of financial assistance to avoid further depreciation of the sol and further curtailment of imports from the United States. It asks Export-Import Bank credit to the Reserve Bank of Peru for the payment of American exports to Peru. It offers to deposit equivalent sums in sols to be liquidated on bases to be determined.

In our judgment the problems facing Peru will be genuinely serious perhaps as serious as those faced by any of the American Republics. We would like authorization also to inform the Peruvian Foreign Minister that he is invited to send a representative to Washington to discuss the situation with the Export-Import Bank.

WELLES

821.51/2389

The Under Secretary of State (Welles) to the Secretary of State

ANCON, CANAL ZONE, September 26, 1939.

MY DEAR MR. SECRETARY: Reference is made to the cable I just sent the Department (No. [16]) regarding the requests made by the Governments of Colombia and Peru for financial assistance.

These were presented to me before my general address⁴⁶ to the Conference, which included a statement of what type of financial assistance the American Government was prepared to consider, in which address I included the statement agreed upon in the conversation that took place before I left Washington with the Secretary of the Treasury and Mr. Jesse Jones. I feel that we would be distinctly well advised to respond as promptly and as effectively as we can to both requests by showing a willingness to enter into immediate discussion as to the possible financial assistance. Since in both instances careful study will no doubt be required and rather extensive discussions and negotiations will have to be undertaken to determine what assistance may be practicable and available, I requested in my cable authorization to extend invitations to both Governments to send representatives to Washington—or in the case of the Colombian request, alternatively the acceptance by us of their suggestions that we send a special representative to Bogotá. I hope to receive a reply in sufficient time to enable me to discuss the matter further with the Colombian and Peruvian Delegations while still in Panama.

I am enclosing for the information of the Department the copy of a memorandum of conversation between Dr. Feis and Mr. Jaramillo which was arranged by the Colombian Foreign Minister and myself. Subsequent to this conversation, Mr. Jaramillo submitted the prepared memorandum which is the basis for my cable. I am enclosing the original of this memorandum.⁴⁷

⁴⁶ September 25, 1939, *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics*, pp. 33-39.

⁴⁷ Not printed.

I enclose also the original of the memorandum received from the Peruvian Government ⁴⁸ which was the basis of my cabled request with regard to that country.

Sincerely yours,

WELLES

[Enclosure]

Memorandum of Conversation, by the Adviser on International Economic Affairs (Feis)

ANCON, CANAL ZONE, September 24, 1939.

MR. WELLES: I had a systematic and straightforward conversation with Mr. Jaramillo.

He stated, in substance, that the Colombia Reserve and Exchange situation had been satisfactory up to the recent present, but that now his Government entertained fears lest the loss of markets and possibly fall in prices, especially coffee prices would bring them embarrassment by diminishing their gold and exchange reserve, by compelling them to restrict imports in a way which would force the Government to curtail its work of economic development and public improvement.

He, therefore, wanted to know whether it might be possible with the American Government to make them a loan, as he put it, for the protection of their reserves.

I explained that there were three possible ways in which the matter might be presented:—

a) If the Colombian Government were willing to put up gold as collateral, the Treasury or the Federal Reserve could make the loan.

b) If they wanted a direct gold loan, it might be considered in the same form as was worked out in the exchange of letters with Brazil ⁴⁹—but this would require the authorization of Congress.

c) If it was desired to make payments of imports from the United States, some arrangement might be worked out with the Import-Export Bank.

We discussed each of the three methods of procedure in some detail. He said that after having had the chance to think it over and to discuss it with his colleagues, he would give me a memorandum more clearly indicative of their desires.

I explained that if a loan through the Export-Import Bank was desired, it would probably prove advisable for the Colombian Government to send a representative to Washington to discuss the matter with the Bank and Mr. Jones—after we had cleared the way for the discussions. I explained further the present financial position of the

⁴⁸ *Post*, p. 779.

⁴⁹ March 8 and 9, 1939, pp. 352-356.

Bank, stating that all transactions now being entered into by the Bank were being entered into subject to an understanding that they would only become valid when and as the Bank might have the necessary funds.

We then had a general conversation about the nature and effects of foreign borrowing and lending, especially when Governments directly entered into the transaction. He said he was aware that while the moment the money was obtained everything was cheerful but when the payment date came along the mood changed; he compared it with the mien of a person entering and leaving a gambling casino. I said that it was the reflection on this subject even more than the matter of a financial risk that preoccupied official authorities in the United States and made us cautious in the undertaking of loan transactions.

I made direct reference to the still existing default of the Colombian Government Dollar Debt. He said that the Colombian Government was on the point of doing something effective, when the war crisis arose, but now it felt that it had to postpone a decision. He seemed to think, however, that there was a chance that in connection with any loan arrangement worked out something might be done on the present debt. This was left vague.

We agreed that after he had presented his memorandum, discussion would be resumed.

HERBERT FEIS

821.51/2383 : Telegram

The Secretary of State to the Under Secretary of State (Welles)

WASHINGTON, September 29, 1939—7 p. m.

31. Your 16, September 26, 3 p. m. The Department has again discussed with the Treasury and Messrs. Jones and Pierson the broad problem of economic and financial cooperation with the other American republics, with special reference to your suggestion that you be authorized to extend invitations to the Governments of Colombia and Peru to send special representatives to Washington to discuss their situations with this Government. Our conversations indicate general agreement on a number of phases of the problem:

1. That it will be possible to proceed with Export-Import Bank and Stabilization Fund operations within the limitations discussed by you with the Treasury and Mr. Jones. Prior to your departure Mr. Jones indicated that additional Export-Import Bank operations might be undertaken to the extent of 15 to 20 or even possibly 30 million dollars, while the Secretary of the Treasury indicated that he was prepared to use the Stabilization Fund in operations secured by gold deposited

in this country. Since that time the Export-Import Bank has agreed to commitments with Brazil, Chile, and Panama amounting to 11 million dollars. Within these limitations, however, it will be possible to go ahead with certain of the most urgent requests for assistance.

With specific regard to Colombia, it is the Department's impression that the amounts of assistance in the form of a line of credit for the Banco de la Republica would probably be considerably greater than present availabilities would make possible. The Treasury has already indicated to the Colombian Government that it is prepared to make available dollars against gold collateral (Colombia has \$20,000,000 of gold). Beyond this it might be possible to consider favorably modest Export-Import Bank transactions. It is not immediately obvious how much the assistance requested by Peru might involve, but it would seem possible that assistance to tide over the emergency might be effected within the limits of Export-Import Bank powers mentioned above.

2. That as soon as you return it will be essential and desirable for this Department, the Treasury and the Federal Loan Agency to collaborate in the preparation of a broad program for economic and financial cooperation with the other American republics to be presented to the Congress for its approval. Such a program would probably involve increased lending powers for the Export-Import Bank, specific congressional authorization for the type of Stabilization Fund Transactions, other than against gold which we have discussed, and possibly authorization to make long term loans of gold in connection with reorganizations of their monetary systems. It is generally hoped and believed that with the full presentation of all aspects of the situation widespread approval of such a program would be forthcoming.

The Treasury also suggests that the Under Secretary of the Treasury should fully discuss the situation and such a program with you as well as other officials of the three agencies prior to his going to the Guatemalan conference in November.

3. That it would be unwise from the immediate internal political point of view, as well as in relation to the broad program mentioned in (2) above, to have during the near future visits here of special representatives with inevitable attendant publicity. For this reason it is not believed desirable at the present time to invite the Governments of Colombia and Peru to send special representatives or missions to Washington to carry on economic discussions with us.

4. That due consideration be given to debt default situations and other problems outstanding between this country and individual other American republics. The emergency situation arising out of the war

naturally calls for reexamination of the previous attitude assumed by this Department and other Government agencies. The Department believes that where a country is in a position to conclude a reasonable and equitable debt settlement, or at least to enter into a reasonable transitional arrangement, this Government would not be justified in extending credits unless this operation was preceded by or accompanied by a satisfactory debt arrangement. (The Treasury feels strongly that the negotiations for such an arrangement should not be linked closely to the credit discussions, nor the credits possibly considered as an inducement for the debt arrangement.) In those cases where a country is utterly unable to make any payment that would be considered by the bondholders as reasonable even transitionally, the Department would be prepared to recommend to other agencies the extension of credit facilities to tide over the emergency and possibly pave the way for a future settlement of the debt situation.

It is noted that the Colombian Delegation has indicated that the Colombian Government would be prepared to make some sort of service of the existing debt. For your information the Colombian Ambassador on September 26 inquired under instructions whether it was correct that the Export-Import Bank had opened a credit of five million dollars to Chile and had participated in the financing of the sale of ships to Brazil. The Colombian Government desired to know whether it was still on the "blacklist" because of inability to come to an agreement with the Council. The correctness of his Government's information with regard to the Chilean and Brazilian transactions was confirmed. The Ambassador then asked whether this Government would be prepared to receive proposals regarding Export-Import Bank assistance. The Ambassador was informed that the Department was now in the process of reexamining its policy, and that while no definite statements could be made the possibility of Export-Import Bank credits for Colombia was no longer out of the question.

With regard to Peru, you will recall that last June the Peruvian Government was informed that this Government would be happy to welcome a mission to discuss further economic cooperation between the two countries.⁵⁰ At the time it was suggested that full preliminary exploration of the possibilities for cooperation be carried out and that Peru submit as soon as possible the projects which it believed desirable and feasible. Since that time the Peruvian Government has given no evidence of any desire to go forward with this matter.

Among the matters taken up at that time with the Peruvian Government was the debt situation, and the Embassy repeated the statement made by the Under Secretary to the Peruvian Ambassador that "in view of our knowledge of the very favorable economic and financial

⁵⁰ See telegram No. 39, June 13, 1 p. m., to the Chargé in Peru, p. 776.

situation of the Peruvian Government, in which we all rejoice, it was very difficult to understand why no real effort had been made by the Government to reach an agreement for the adjustment of the legitimate obligations to the bondholders”.

It is suggested that you discuss the situation quite frankly with the Colombian and Peruvian Delegations, pointing out why it would be undesirable at this time to arouse any widespread publicity such as would follow upon an invitation for special representatives to come to Washington. You may indicate that within the limitations of present powers, this Government would be pleased to consider immediate assistance to tide over emergency situations, and that such assistance might be followed by broader cooperative arrangements early next year if wider powers are authorized by the Congress. It is suggested that you indicate that this Government will be pleased to take up the immediate matters with regular diplomatic representatives in Washington, and that we should welcome all possible information regarding the existing situation in each country and plans for requests for the future. Mr. Jones has indicated that if it will assist you in your discussions at Panama, he is prepared to send representatives of this Government to Colombia and to Peru, and you are authorized to state that this Government will do so if you feel that such a course is desirable. Although it is not felt that such visits by American representatives are really necessary, and there is some danger that such visits might lead to expectations which might later not be realizable, such a course might enable this Government to postpone final decisions until broader powers to act in the situation have been obtained.

HULL

821.51/2384 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, October 1, 1939—10 p. m.

[Received October 2—2:30 a. m.]

34. Department's 31. Thank you for the careful consideration given to the Colombian and Peruvian requests for financial assistance. I am completely in accord with your general analysis. We have explained the situation fully to the Colombian Foreign Minister and to Dr. Esteban Jaramillo in main substance telling them that except for possible advance against gold the only immediate assistance that could be given pending additional authorization by Congress would be modest Export-Import Bank financing. We have told them we were authorized to convey the willingness of the Government immediately to enter into discussion of the purpose, terms, form et cetera of such an advance and would be willing to undertake these discussions either with their representative in Washington or through a special rep-

representative that we might send to Bogotá. The delegation said that they would consult their Government as to whether to proceed in Washington or in Bogotá and inform us.

We raised the question of the present default in Colombian dollar bonds following in our exposition the general policy summarized in our 31. Feis explained that we could not give definitive [*definite?*] expression to position that would be taken in the matter but he said that his best personal guess was that the government would be willing to work out a modest emergency financing through the Export-Import Bank without asking as a condition the execution of a debt settlement but that it would probably ask for a definite reaffirmation by the Colombian Government of its intention of seeking and executing a reasonable settlement. He said further, again making clear that it was merely his best personal judgment, that when and as subsequent to grant of new authorization by Congress the discussions enlarge themselves, this Government would feel that a settlement of the private debt question was most important. He based these opinions on the feeling of the bondholders and the sentiment in Congress.

WELLES

821.51/2385a : Telegram

The Secretary of State to the Under Secretary of State (Welles), on Board the S. S. "Santa Elena"

WASHINGTON, October 4, 1939—8 p. m.

46. From Duggan. It is my impression from a further conversation with the Colombian Ambassador today that he can be persuaded to submit for the consideration of his Government the Laylin formula for a debt settlement provided he can inform his Government that the Department will support it vigorously before the Council. In view of the probable initiation of discussions with the Colombian Government for short term financial assistance, it would seem desirable to advance the debt discussions as rapidly as possible. Is it agreeable to you to inform the Ambassador that if his Government submits the Laylin formula to the Council the Department will do everything it appropriately can to secure its acceptance. [Duggan.]

CORDELL HULL

821.51/2386 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

S. S. "SANTA ELENA" (PANAMA), October 5, 1939—9 p. m.
[Received October 6—3:46 a. m.]

45. I would recommend that you inform the Colombian Ambassador that if his Government submits to the Council a debt settlement pro-

posal in the general range which I understand Laylin has been proposing the Department will do everything it appropriately can to secure its acceptance.

Our understanding is that this formula would contemplate the resumption of payment on a 3% scale which would gradually rise to 4%. It might be well to reserve flexibility as to the secondary details.

WELLES

821.51/2391

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] October 6, 1939.

The Colombian Ambassador called at my request. I told him that after full consideration in the Department and consultation with Mr. Welles, I was in a position to inform him that if his Government presents to the Council the Laylin formula for a debt settlement the Department will do everything that it appropriately can to secure its acceptance by the Council. I took pains to make it clear to the Ambassador that this was a most unusual step for the Department to take but that it was willing to do so in order to contribute to a solution of the debt problem.

The Ambassador expressed his appreciation for the extent to which the Department was prepared to go to assist in this matter. He reminded me that it was last midsummer that he had expressed his willingness to support before his Government the Laylin formula and that since that time there had been momentous changes in the world. He inquired whether the Department would prefer that he convey to the Colombian Government at once the Department's disposition to be helpful in the form proposed without his endorsement of the Laylin formula, or await the outcome of his studies to appraise the effect of the war upon Colombian economy for the purpose of determining whether Colombia should now proceed on the basis of the Laylin formula. In explanation, the Ambassador stated that he had requested certain data from Colombia which were expected shortly. He hoped, therefore, to have come to a decision before long as to the desirability of making the Laylin offer at this time.

I informed the Minister that the Department's willingness to support the Laylin formula before the Council had grown out of the suggestion that the Ambassador present the formula to his Government and support it before his Government, informing it meanwhile that the Department was willing to use its good offices with the Council. I said that that still seemed to me to be the way to proceed, and that I very much hoped that his studies would convince him that Colombia

can go ahead and propose the Laylin formula. I pointed out that it would not involve an outlay of funds any greater than that proposed by the Minister of Finance in his proposition.

It was left that the Ambassador would let me know, and he hoped within a few days, of the outcome of his reappraisal of the situation.

LAURENCE DUGGAN

821.51/2389 : Telegram

The Secretary of State to the Ambassador in Colombia (Braden)

WASHINGTON, October 19, 1939—5 p. m.

102. Please inform Colombian Government that pursuant to the conversations which the American Delegation had with the Colombian Delegation at Panama, we have discussed with the other interested branches of this Government the Colombian proposals for possible financial assistance. On the basis of these discussions we are prepared to examine this whole matter with sympathetic disposition and care with a view to determining what assistance may be feasible and advisable, and what form and by what methods. It is our view that this process of examination would be more satisfactory if the Colombian Government would send a representative to Washington to enter into discussions with us here. This representative should have as complete a knowledge as possible of the Colombian Government's desires and ideas and be authorized to discuss them fully. Please see that it is understood completely that these discussions would be entered into with absolutely no commitment; and for this reason it is our opinion that the least possible publicity is desirable.

From Welles to the Ambassador: In view of Jaramillo's familiarity with the discussions up to the present, and his general experience and qualities, his selection by the Colombian Government would help to bring about satisfactory arrangement. Furthermore if he were selected, it might well be that the Colombian Government would also appoint him as its member at the November 15 meeting of the new Financial and Economic Advisory Committee⁵¹ at which occasion I am sure his presence would be very valuable.

If the Colombian Government is willing to send a representative here, it is suggested that the first week in November would be the most convenient time for him to arrive giving us time to do the necessary preparatory work to clarify our own judgments.

HULL

⁵¹ For correspondence concerning the establishment of the Committee, see pp. 45 ff.

821.51/2395 : Telegram

The Ambassador in Colombia (Braden) to the Secretary of State

BOGOTÁ, October 24, 1939—1 p. m.

[Received 2:25 p. m.]

105. For the Under Secretary. Department's No. 102, October 19, 5 p. m. On October 9 and 12 I recommended Jaramillo's appointment to the Minister of Foreign Affairs who was unable to induce his acceptance. Therefore, I transmitted your timely message to President Santos on October 21 and as a result Jaramillo now agrees to go to Washington. I will telegraph as soon as his departure date is decided.

BRADEN

821.51/2400

The Ambassador in Colombia (Braden) to the Secretary of State

No. 381

BOGOTÁ, November 2, 1939.

[Received November 9.]

SIR: I have the honor to report that Dr. Esteban Jaramillo has been appointed Colombian representative on the Financial and Economic Advisory Committee scheduled to convene in Washington on the fifteenth instant. Also, he has been appointed Economic adviser to the Colombian Embassy in Washington. A biographical sketch of Dr. Jaramillo was given in my Despatch No. 309.⁵² Dr. Jaramillo should reach New York by the Grace liner *Santa Lucia* on or about November 13, and I request that appropriate facilities and courtesies be given him on his arrival.

Enclosed is a résumé of conversation I had with Dr. Jaramillo yesterday. It will be observed therefrom that, with the approval of President Santos, promptly after his arrival in Washington, he will endeavor to reach a settlement of Colombia's foreign debt in the United States on the basis that interest payments shall be resumed at 3 per cent and thereafter increased by stages to 4 per cent. He will then wish to obtain financing from the Export-Import Bank or other sources in the amount of \$10,500,000. Subsequently additional financial assistance will be required up to \$25,000,000.

I emphasized to Dr. Jaramillo the benefits Colombia might possibly gain by reason of a rapid debt settlement. Likewise I expressed my optimism that, if a debt settlement is promptly concluded, he will find not only United States Government authorities but, perhaps, private bankers anxious, if possible, to assist Colombia financially.

⁵² September 18, not printed.

It is generally felt here that so great is Dr. Jaramillo's prestige in economic and financial matters any agreement he makes will be approved in Colombia.

Dr. Jaramillo also is apparently ready, as soon as the public debt has been accommodated, to arrange a refunding of the National City-First of Boston group loan. In this connection, it occurs to me that Mr. Frank Smith, National City Bank's General Supervisor for Colombia, by reason of his knowledge of Colombian conditions, might be useful as a consultant, from time to time, during these conversations. If the Department desired his presence, I am sure his principals would arrange for him to go to Washington.

Since the announcement of Dr. Jaramillo's appointment, there have been several commendatory editorials and other comment in the local press, most of which accept as a *fait accompli* a forthcoming debt settlement and the extension of further loans to Colombia.

An interview in Washington with former Ambassador López and his brother, the ex-president, was prominently displayed in all the Bogotá newspapers. These articles feature the Ambassador's censure of the Foreign Bondholders Protective Council and express the hope that organization will be eliminated from future negotiations, which instead will be advanced by United States Government authorities (*sic*). A typical article from *La Razón* of October 21 [31], 1939, is enclosed.⁵³

Mr. Smith of the National City Bank confidentially informed Mr. Wright of this Embassy that Dr. Jaramillo was annoyed by the stories of the Schroeder Banking Corporation speculating in Colombian bonds. Dr. Jaramillo is reported to have added that neither Schroeder nor anyone else could intervene, for their own profit, in the forthcoming negotiations. Mr. Smith believed, therefore, that the aforementioned firm would be dropped as financial advisers to the Colombian Embassy.

Respectfully yours,

SPRUILLE BRADEN

[Enclosure]

*Memorandum of Conversation, by the Ambassador in Colombia
(Braden)*

[Bogotá,] November 2, 1939.

Yesterday, Dr. Jaramillo informed me he expected to reach Washington on November 14. He will immediately inform Ambassador Turbay on recent discussions within the Colombian Government, relating to the settlement of its foreign debt and other financial or economic matters. He is confident his attendance at the Financial and

⁵³ Not reprinted.

Economic Advisory Committee meetings will not hinder his initiating active discussions, looking to the settlement of the Colombian debt in the United States and in obtaining financial assistance from such units of our Government as the Export-Import Bank.

Dr. Jaramillo said he had talked at length with President Santos and other members of the administration and was glad to inform me Colombia would not stand on the offer made last May to the Council for Foreign Bondholders, Inc. but, pursuant to informal discussions between Ambassador López Pumarejo and the State Department, will make a proposal to holders of Colombian bonds to resume service on a 3% basis, thereafter, increasing the interest rate by stages up to 4%. Although there will be suggested some minor changes from the plan discussed in the State Department, Dr. Jaramillo had not yet been informed by the Minister of Finance what these changes would be but, in any case, they will not amount to more than \$3,000,000 over the whole period of the liquidation of the loan. I remarked that I understood the Washington conversations had contemplated a maximum of 4½%, but he felt the limit should be 4%.

In his opinion there will be a long war in Europe, coffee prices may decline and Colombia, therefore, will have to face many economic problems. Its immediate necessity is to reestablish confidence amongst its own and foreign capitalists, in fact there had already been some tendency by Colombian moneyed interests to withdraw from all activities but they would again come into the market as soon as the financial stability of the Government and the banks is assured.

Dr. Jaramillo will seek an immediate loan, or at least a commitment, of \$10,500,000, of which approximately \$4,500,000 will be used to re-equip the State railways with rolling stock and other materials from the United States. One of the principal requirements is the financing of the Agricultural Mortgage Bank (see my Despatch No. 117 of May 15, 1939). Other items are the purchase of two dredges for the Magdalena river at a cost of about \$500,000. each and approximately \$1,500,000. for revenue cutters, in accordance with paragraph *e.* of my October 23 Confidential Memorandum to the Under Secretary.⁵⁴

Subsequent needs of his Government will amount to an additional \$25,000,000., a large portion of which will be dedicated to essential road construction and public works.

I told Dr. Jaramillo I was hopeful the Export-Import Bank, if Congress increased its loaning power, would assist in financing purchases in the United States but the funds required for the Agricultural Mortgage Bank presented a more difficult problem. He replied that in Panama Dr. Feis had indicated that, since an adequate financ-

⁵⁴ Not found in Department files.

ing of this Institution would enhance Colombian purchasing power, thus indirectly aiding the buying of agricultural machinery and implements from the United States, something might be done in connection therewith. Dr. Jaramillo asked for my advice. I said, speaking without full knowledge of present conditions in Washington, I, nevertheless, hoped something could be done, as for instance, it occurred to me if a gold stabilization loan were made to the Bank of the Republic that Institution's resources would be so reinforced as, perhaps, to enable it to make the loan to the Agricultural Mortgage Bank. Another possibility, I said, was that Colombian credit would so improve with a settlement of the foreign debt that financing might be obtained from private sources.

I indicated to Dr. Jaramillo that, as soon as a debt settlement had been reached, it might be well also to refund the National City-First of Boston Group loan. Representatives of the National City Bank had implied to me that an interest rate, such as was contemplated on the public debt would be satisfactory to them, although they would require a rapid amortization in say eight to ten years but they added, if a refunding agreement were consummated, the Group would be disposed to re-lend to Colombia considerably greater amounts than were involved in this transaction. Moreover, the National City Bank, according to its General Supervisor for Colombia, Mr. Frank Smith, would then be ready to extend commercial credits in volume within Colombia.

Dr. Jaramillo, without reservation, accepted my recommendation that the most important thing of all was speedily to reach a debt settlement, thereby, laying the credit foundation which would greatly facilitate the obtaining of financial aid from both United States Government and private sources.

I told Dr. Jaramillo I would send letters introducing to him a few leading New York bankers whom I thought, after conversations with him, might become interested in financing and investments in this country. Copies of these letters addressed to Mr. George W. Davison, Chairman of the Board of the Central Hanover Bank and Trust Company; Mr. Henry C. Von Elm, Vice Chairman of the Board of the Manufacturers Trust Company; Mr. E. Roland Harriman of Brown Brothers Harriman & Company; and Mr. Herman G. Brock, Vice President of the Guaranty Trust Company, are attached hereto.⁵⁵

In conclusion, I assured Dr. Jaramillo he could count on sympathetic understanding and a wholehearted will to cooperate from the Under Secretary and others in the Department.

[A memorandum by the Chief of the Division of the American Republics, dated December 14, 1939, reports a conversation in which Mr.

⁵⁵ None printed.

John Laylin told of further discussions between representatives of the Colombian Government and of the Foreign Bondholders Protective Council, Inc. No agreement was reached in these discussions. (821.51/2414 $\frac{1}{2}$]

COSTA RICA

ATTITUDE OF THE UNITED STATES TOWARD THE ACQUISITION OF COCOS ISLAND FROM COSTA RICA¹

818.014C/108

*Memorandum of Conversation, by the Chief of the Division of the
American Republics (Duggan)*

[WASHINGTON,] April 5, 1939.

The Costa Rican Minister,² after a rather lengthy introduction, finally got around to reference to the bill introduced by Congressman Izac authorizing the President to purchase the Cocos Islands. After some sparring around, during which I stated that I was sure the Costa Rican Government understood that the bill was not an administration measure, the Minister launched into a discourse about the change in world conditions. He made particular reference to the aggressive designs of Germany, Italy and Japan and to the good neighbor policy of the United States which had, he thought, eliminated from every thinking person in the other American republics, the belief that the United States any longer entertains imperialistic designs against the other American republics. The Minister thought that changed times required a reappraisal of former policies and attitudes. He ventured the question whether the status of the Cocos Islands, which certainly today have a new strategic importance because of aviation, should not be reviewed.

Without indicating any interest, I asked the Minister what he had in mind.

The Minister replied that sentiment in Costa Rica with regard to the Islands undoubtedly had undergone a very considerable change. At present the Government maintained no jurisdiction of any kind over the Islands and the public long ago had come to the realization that the Islands had little value because of their economic resources; while he was not sure, he thought that the Costa Rican people today would approve of the disposal of the Islands to the United States. He intimated that he had discussed this possibility with the President upon his last visit to Costa Rica and that the President had not discouraged this thought. In later conversation the Minister threw out the idea that possibly for the sale or long-term lease of the Islands the proceeds might be dedicated to the construction of the Inter-

¹ Continued from *Foreign Relations*, 1938, vol. v, pp. 467-471.

² Ricardo Castro Beeche.

American Highway.³ At the conclusion of the conversation, the Minister stated that he had recently written to the President sending him a copy of the bill. He indicated that he expected a reply from the President. I said that if there was anything of mutual interest in the reply, I would be very glad to hear from the Minister.

During the course of the conversation in which the Minister did practically all of the talking, I took occasion to state that the traditional policy of this Government had been that it was not interested in acquiring the Islands but that it did feel constrained to interest itself should the possibility ever arise of the Islands passing to a third country. The Minister maintained stoutly that Costa Rica never would alienate the Islands to any country except the United States.

818.014C/115 : Telegram

The Secretary of State to the Minister in Costa Rica (Hornibrook)

WASHINGTON, November 13, 1939—7 p. m.

63. Your despatch no. 938, October 30, 1939.⁴ There has been no change in the position of this Government regarding the possible purchase of Cocos Island, as stated in the Department's instruction no. 34 of January 4, 1938.⁵ If the question of purchase of the Island is again raised with you or any member of the Legation, you should be guided accordingly.

HULL

818.014C/116

The Minister in Costa Rica (Hornibrook) to the Secretary of State

No. 970

SAN JOSÉ, November 18, 1939.

[Received November 27.]

SIR: I have the honor to refer to my despatch No. 938 of October 30, 1939,⁴ and to the Department's telegram of November 13, 7 p. m., No. 63, concerning the position of the United States Government with respect to the possible purchase of Cocos Island.

The views expressed in the Department's instruction No. 34 of January 4, 1938,⁵ and confirmed by the telegram under reference, have been conveyed informally to the author of the inquiry described in my despatch of October 30, by the same channels through which the inquiry reached the Legation.

Respectfully yours,

WM. H. HORNIBROOK

³ See *Foreign Relations*, 1937, vol. v, pp. 175 ff.

⁴ Not printed.

⁵ *Foreign Relations*, 1938, vol. v, p. 467.

CUBA

ASSISTANCE OF THE DEPARTMENT OF STATE IN EFFORTS TO SECURE A SETTLEMENT OF THE CUBAN PUBLIC WORKS DEBT¹

837.51 Public Works Debt/196

The Ambassador in Cuba (Wright) to the Secretary of State

No. 1704

HABANA, February 27, 1939.

[Received March 2.]

SIR: I have the honor to transmit, as of interest to the Department, a self-explanatory memorandum of my conversation with the Cuban Secretary of the Treasury² on February 21st with regard to the Public Works Debt and certain correlated matters.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure]

*Memorandum of Conversation, by the Ambassador in Cuba
(Wright)*

HABANA, February 25, 1939.

On Tuesday evening, February 21st, at 7 o'clock, I called upon the Secretary of the Treasury in order to discuss with him informally several subjects—among them the present status of the legislation for the settlement of the balance of the Public Works Debt.

The conversation having begun with the discussion of the proposed revaluation measure and its effect upon Cuba's credit, I deemed it not only opportune to discuss this further matter, which so directly concerned Cuba's credit, but also to inquire directly as to the present status of the measure. Dr. Garcia Montes said that he had gained the distinct impression from Mr. Warren Pierson, President of the Export-Import Bank, during his visit to Habana, that he (Mr. Pierson) was not only concerned about the revaluation proposal and very dubious, to say the least, as to the effect which it might have upon Cuba's credit, but also of the opinion that unless or until the balance of the Public Works Debt had been settled, no credits would be extended for additional public works in Cuba. I replied to the Secretary that, although I had not expected our conversation necessarily to take that trend, I was glad to improve the opportunity thus af-

¹ Continued from *Foreign Relations*, 1938, vol. v, pp. 475-490.

² Oscar Garcia Montes.

forded to observe that he had correctly appraised Mr. Pierson's opinion—adding that, as the Secretary knew well, I had been constrained to observe to the appropriate authorities of his Government, including the President³ and Colonel Batista,⁴ that the Export-Import Bank, being a governmental institution, could not extend credits of this nature until the aforementioned recognized obligations of the Cuban Government had been liquidated.

The Secretary of the Treasury is a very cautious man who, while very well informed and of sound opinions, finds it difficult, if not impossible, successfully to combat the political exigencies and considerations which his superiors bring to bear upon him: he is especially cautious when replying to direct inquiries. He said that, as I was doubtless aware, the financial situation of Cuba was growing worse: I replied that I was unfortunately aware of it. He said, for that reason, the opposition consistently contended that the Government should not incur further obligations at this time when they faced a budgetary deficit and when the price of sugar showed no sign of improvement: I replied that I had been informed of this unfortunate situation and this resultant attitude by both the President and Colonel Batista. He said that as the remainder of the \$85,000,000 issue⁵ was not sufficient to meet these obligations, a supplemental issue was necessary: I replied that I was, of course, fully aware of this fact. He then said that the Government was compelled not only to seek further revenue in order to offset the inevitable debt settlement, but was also obliged to consider the levying of further taxes in order to afford proper security for this supplemental issue: I inquired whether he had in mind a renewal of the proposal for the taxation of petroleum derivatives. He replied that he had.

As the conversation then became devoted to that phase of the question, I said that I felt obliged to bring several considerations to his attention: that Warren Brothers⁶ had specifically waived their insistence upon this form of security; that the oil companies and interests, not only foreign, but Cuban, had several months ago informed me of their intention to resist the imposition of further taxation upon their products and that if such was undertaken there might be expected a renewal of this resistance; further, that any imposition of taxes of this nature at this time would run counter to the provisions of the Reciprocal Trade Agreement⁷ which provided that no such

³ Federico Laredo Bru.

⁴ Fulgencia Batista, Chief of Staff of the Cuban Army.

⁵ See Foreign Bondholders Protective Council, Inc., *Annual Report 1938* (New York, 1939), pp. 344 ff. and 387 ff.

⁶ To Warren Brothers Company of Boston was due a large part of the Cuban public works debt for the construction of 481 miles of the Central Highway running from Pinar del Rio to Santiago de Cuba between 1927 and 1931.

⁷ Signed August 24, 1934, Department of State Executive Agreement Series No. 67, or 49 Stat. 3559; see also *Foreign Relations*, 1934, vol. v, pp. 108 ff.

changes might be made without previous negotiations between the respective Governments—a matter which I had several times brought to the attention of the Cuban Department of State during the last year. I stated further that I did not wish to occupy a position in favor of legislation which would benefit one group of American interests to the detriment of another, but that I should be remiss if I did not again call his attention to these facts.

The Secretary said that he was aware of this situation and that he was at present devoting all efforts to devising some means whereby revenue might be obtained from these sources without the renewed opposition of the oil interests. I inquired whether he had in mind the taxation of certain derivatives and not others: he replied that such was in his mind: I inquired whether he had kerosene, for example, in mind: he replied that he had and that he was further examining the possibilities of taxation (or other charges) upon products from the selling of which the companies were making large profits: reverting to the general question, I inquired whether he expected early passage of the bill: he replied that he believed that such would be possible, but again emphasized the phase of the matter to which he had previously referred. The conversation terminated at that point.

On the same day I was informed upon fairly good authority that Senator Albanés, who belongs to the Opposition, had stated that he was so convinced that liquidation of the Public Works obligations was essential to the restoration of Cuba's credit and the extension of credits from the Export-Import Bank that he had informed the leaders of the Government party that he was prepared to vote for the passage of the bill.

Senator Verdeja, President of the Senate, also informed me recently that he believed that it was essential to Cuba's credit that the bill be passed.

In view of the fact that I had several weeks ago received what appeared to be credible assurances from responsible parties that the question of taxation upon petroleum derivatives would not again arise, and as I had informally mentioned to one of the American oil interests here that such assurances had been conveyed to me, I deemed it proper to inform the same American oil interests—equally informally and unofficially—that I had received information that the question might be renewed. I have reason to believe that the American interests will not only take renewed steps to meet the situation if it recur, but they are willing to discuss with other oil interests, and with the Cuban authorities, methods by which the desired ends may be obtained without resorting to open friction which characterized the last incident of this nature.

J. B. [UTLER] W. [RIGHT]

837.51 Public Works Debt/213

Memorandum by the Assistant Chief of the Division of the American Republics (Briggs) to the Under Secretary of State (Welles)

[WASHINGTON,] April 13, 1939.

The status of the Purdy and Henderson claim⁸ has once more become precarious. Ambassador Wright telephoned yesterday to say that he had that day received a call from Senators Saladrigas, Casanova and German Lopez, who had reported that "because of political opposition" it now seemed doubtful whether the enactment of the debt settlement bill by the Senate, with Purdy and Henderson included therein, could be obtained. Mr. Wright also reported that these Senators had sent Dr. Mañas⁹ to him on the preceding day with a report to the same effect and a request that Dr. Mañas arrange for Ambassador Wright to receive the Senators. The Senators said that they had approached the Ambassador at the suggestion of Colonel Batista.

Mr. Wright told me that he had once more covered all the ground recently discussed with the Secretary of the Treasury and with Senator Casanova, emphasizing again that the omission of Purdy and Henderson would not be regarded by this Government as a "settlement" of the Public Works Debt; that without liquidation of the Public Works Debt Cuba could not expect to get the desired cooperation of this Government in any future public works financing; and that it seemed doubtful whether this Government would even find it possible to conclude the contemplated revision of the trade agreement.¹⁰

Ambassador Wright referred to Mr. Welles' letter to him of March 27¹¹ authorizing the Ambassador to discuss the Purdy and Henderson claim with the President and with Colonel Batista; he said that, as we were aware, he had not acted on this authorization since the situation then existing had been met, but that he would now probably seek interviews both with the President and with the Chief of Staff of the Army. He is sending by air mail a memorandum of his conversation yesterday with the three Senators.

ELLIS O. BRIGGS

837.51 Public Works Debt/214

The Ambassador in Cuba (Wright) to the Secretary of State

No. 1880

HABANA, April 18, 1939.

[Received April 19.]

SIR: In continuation of previous correspondence concerning the settlement of the Public Works Debt, I have the honor to enclose here-

⁸ This portion of the debt was for construction of capitol building at Habana.

⁹ Presumably Arturo Mañas, member of the Cuban Institute.

¹⁰ Notation on margin: "Mr. Wright said he based this on a letter from Mr. Welles last January. B[riggs]."

¹¹ Not found in Department files.

with a memorandum of my conversation with the President of the Republic on the 17th instant in further relation thereto—from which it will appear that the President is now of the opinion that the legislation as originally drafted will soon be passed by the Cuban Congress.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure]

*Memorandum of Conversation, by the Ambassador in
Cuba (Wright)*

HABANA, April 18, 1939.

The recent memoranda, transmitted by despatches, have explained the kaleidoscopic changes which have taken place in the matter of the settlement of the Public Works Debt. The most recent development appears to be encouraging:

When I called upon the President of the Republic yesterday in order to deliver to him the expression of President Roosevelt's appreciation of his prompt and satisfactory reply with regard to the messages sent by President Roosevelt to Chancellor Hitler and Premier Mussolini,¹³ I had it in mind to inquire of the President when I might discuss with him the matter of the claims of Warren Brothers Incorporated and Purdy and Henderson Company—for it will be recalled from my despatch No. 1871 of April 14, 1939,¹⁴ that I had communicated the relevant portions of Mr. Welles' letter to me, of March 25th,¹⁵ to Colonel Batista, but not to the President.

The President, however, most unexpectedly, broached this subject himself by saying: "I think the matter of the 'obligaciones' is now satisfactorily adjusted and I am glad to tell you so. Of course, every one knows that there has been a slight cloud in connection with the claim of Purdy and Henderson Company but, in view of existing circumstances, it seems much wiser to pass that over."

As I felt that I could not allow this repeated aspersion upon Purdy and Henderson Company to pass entirely unnoticed, I replied that neither my Government nor I was prepared to admit that there had been any irregularity in connection with this claim and I emphasized the fact that it had been examined and passed upon by two Commissions and no less than three Secretaries of the Treasury: I added that I had received assurances from the present Secretary of the Treasury that the examination which he and Señor Montoulieu¹⁶ had conducted

¹³ April 14, vol. I, pp. 130-133. For reply of President Laredo Bru, on April 15, see Department of State, *Press Releases*, April 22, 1939, p. 326.

¹⁴ Not printed.

¹⁵ Not found in Department files.

¹⁶ Edouardo I. Montoulieu, official of the Cuban Treasury Department.

had satisfied the Secretary as to the justice of the claim and that he saw no reason for again bringing up the contentious question of the percentage of remuneration, which had already been accepted on behalf of the Government. The President made no reply to this observation which I wished to place on record with him as well as with Colonel Batista.

In order to make the record especially clear, I improved the opportunity to explain to him that while I had discussed the matter with Colonel Batista and with the Secretary of the Treasury pursuant to instructions, I had not assumed the initiative in discussing it with members of the legislative body—and had only done so when such legislators broached the subject to me: the President stated that he was aware of my attitude, and he was good enough to say that he appreciated it and commended it. I then said that I was in receipt of a letter from Mr. Welles which authorized me to speak in his name both to the President and to Colonel Batista with regard to this matter (I refer to Mr. Welles' letter dated March 25th) and that I had conveyed this message orally to Colonel Batista some days ago—at which time he had informed me that he would communicate it to the President: the President replied that Colonel Batista had done so. I then said that I trusted that he (the President) would immediately recognize the fact that I had deferred my representations to him pending the result of my conversation with Batista although, as I had said, I had intended to request of him that day the opportunity for the communication of that message: the President replied that he was so aware.

I then said to him that our position could be concisely stated as follows: we were still ready and willing to extend to Cuba the advantages which had been recited and discussed in the formulation of the so-called Ten Points agreed upon during Colonel Batista's visit to Washington;¹⁷ that the continued procrastination in the matter of this Public Works indebtedness had assumed such forms that I had been reluctantly constrained to inform all appropriate officials of the Cuban Government who had discussed the matter with me, that no credits could be expected unless or until these recognized obligations had been met; and that the present apparent reluctance of Congress to do so was jeopardizing the Supplemental Trade Agreement—to say nothing of the other matters enumerated in the aforementioned Ten Points. I added that when the legislators had spoken to me I had observed that if the delay and non-fulfillment were due to a recalcitrant opposition, it seemed to me that the responsibility should be placed squarely upon

¹⁷ Colonel Batista attended the Armistice Day ceremonies in November 1938 and at that time discussed U. S. relations with Cuba at the Department of State. No memoranda of these conversations have been found in Department files.

the shoulders of such opposition and that the public should be aware of the fact that those parties were the ones who were to blame: I added, however, that this was all predicated upon the assumption that the Government of Cuba desired to receive these advantages and that, while my Government was still desirous of according them upon a reciprocal basis, it was for the Government of Cuba to determine whether it desired to receive them or not.

I closed by saying that these observations might perhaps appear inopportune in view of what he had just told me, but that I wished to place on record with him, as I had done with Colonel Batista, the attitude of our Government in the simplest terms. The President expressed acquiescence and added to his previous assurances the fact that he had spoken to, and was continuing that day to speak with, various members of Congress.

J. B[UTLER] W[RIGHT]

837.51 Public Works Debt/227a

*The Assistant Chief of the Division of the American Republics
(Briggs) to the Ambassador in Cuba (Wright)*

WASHINGTON, June 8, 1939.

DEAR MR. AMBASSADOR: Your message concerning a proposed settlement of the public works debt situation which would leave out of consideration the Purdy and Henderson group was passed on to Mr. Welles before his conversation with Senator Casanova yesterday afternoon. Mr. Welles stated that he would tell Senator Casanova that any settlement of the public works debt which did not include Purdy and Henderson would be considered an incomplete one and would not enable this Government to consider additional public works financing for Cuba.

Senator Casanova went on to New York almost immediately after his talk with Mr. Welles, but we expect to see him again next week.

Yours very truly,

ELLIS O. BRIGGS

837.51 Public Works Debt/231

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

[WASHINGTON,] June 23, 1939.

The Cuban Ambassador came to see me this morning at his request. The Ambassador first told me that Senator Casanova had now returned to Habana and had told him on the telephone that there

was no question whatever that the Government could obtain a satisfactory majority in both Houses for the passage of the legislation which will provide for the resumption of payment on the Warren Brothers obligations. Senator Casanova had said, however, that in view of the registration period now going on under the electoral law, it would be impossible to obtain a quorum until July 5 since the great majority of the senators and deputies were in their own provinces rounding up political adherents for their respective parties. Senator Casanova had told the Ambassador that he had talked with President Laredo and that they had both agreed that an effort would be made on July 5 to introduce this legislation and obtain its immediate passage, and that probably they would attempt to obtain passage at the same time of legislation authorizing issuance of new silver certificates. In the meantime, the Ambassador said, the Cuban Secretary of the Treasury had requested Mr. Brownson who was apparently acting as local representative of Warren Brothers to exchange communications in which Mr. Brownson as the duly authorized representative of Warren Brothers would express complete satisfaction with the new form in which Warren Brothers' obligations would be recognized by the Cuban Government.

S[UMNER] W[ELLES]

837.51/2470 : Telegram

The Ambassador in Cuba (Wright) to the Secretary of State

HABANA, September 12, 1939—6 p. m.

[Received 8:15 p. m.]

113. Information contained in your telegram No. 109, September 11, 7 p. m.¹⁹ confirming that communicated by telephone yesterday conveyed yesterday informally to officials mentioned. The news has come as a great shock and Secretary of State asks me today what compensation the President is authorized to offer to relieve disastrous situation thus created: I replied that I was without authority to answer but would inquire. He will tomorrow send a note asking for clarification of certain points. At meeting this morning including President and Batista it was determined that *obligaciones* were debt of honor and would be settled probably this week. I said that this action would be welcomed.

WRIGHT

¹⁹ *Post*, p. 566.

DISCUSSIONS REGARDING A GENERAL PROGRAM OF ECONOMIC COOPERATION BETWEEN THE UNITED STATES AND CUBA²⁰

837.51/2411

*The Secretary of State to the Ambassador in Cuba
(Wright), Temporarily in Washington*

No. 1028

WASHINGTON, July 19, 1939.

SIR: You are instructed to proceed at once to Habana and seek an audience with the Secretary of State, and present to him the attached note.

You will indicate to the Cuban Government that this Government considers as prerequisite to any resumption of conversations leading to increased economic cooperation between the two countries the settlement of the admitted claims of Warren Brothers and Company and Purdy and Henderson Company, and of the so-called Morris claim.²¹

The Government of the United States considers, further, that the circumstances surrounding the discussions of November 1938, at which time this Government expressed its willingness to enter upon a program of economic cooperation with Cuba, have been materially altered by the credit moratorium situation and the recent enactment of monetary legislation²² referred to in the attached note. This Government believes that the enactment of a satisfactory measure to liquidate the Cuban credit moratorium and the amendment of the recently enacted monetary law to eliminate certain undesirable features and ambiguities are essential to the reestablishment of normal commercial and financial relations between the two countries, and it is prepared, at the request of the Cuban Government, to furnish competent technical experts to advise the appropriate authorities of the Cuban Government in the determination of the provisions of such legislation.

In view of the close relationship of the fiscal situation to an economic atmosphere in Cuba favorable to the carrying out of a program of economic cooperation, the Government of the United States considers that the enactment of suitable tax legislation embodying the recommendations of the Magill report, which was prepared at the request and expense of the Cuban Government, would be most helpful.

You will further indicate that this Government is prepared, if the Cuban Government takes action settling the claims of Warren Brothers and Company and Purdy and Henderson Company, and the so-called Morris claim, and disposing satisfactorily of the credit

²⁰ For correspondence regarding conclusion of a supplementary trade agreement, see pp. 558 ff.

²¹ The claim of Fred A. Morris was based on a decision of the Cuban Supreme Court providing compensation for land seized by the Cuban Government.

²² Law approved July 8, 1939, making dollar accounts, with certain exceptions, payable in pesos; *Gaceta Oficial*, July 10, 1939.

moratorium and monetary legislation matters referred to above, to extend immediately to the Cuban Government the benefits of a broad program of economic cooperation including:

1. The speedy conclusion of a supplementary trade agreement on mutually advantageous terms, and the simultaneous signature of a Treaty of Establishment and Navigation;²³

2. The immediate consideration by the Government of the United States of the extension of financial assistance for the carrying out of a reasonable program of public works in Cuba;

3. Assistance by experts of the United States Department of Agriculture in developing and diversifying agricultural production;

4. Technical aid by the United States Treasury, if requested, in putting into effect the recommendations of the Magill report; and

5. The active cooperation of experts of this Government in studying methods of improving the existing monetary, banking and exchange systems of Cuba.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

[Enclosure]

*The American Ambassador (Wright) to the Cuban Secretary
of State (Angel Campa)*²⁴

EXCELLENCY: As Your Excellency is aware, my Government is sincerely desirous of maintaining with Your Excellency's Government relations of the closest and most cordial cooperation. The friendship between the Cuban and American people has endured unbroken over the many years that have elapsed since our two countries fought side by side in the war that culminated in the emergence of an independent Cuba. The intimate relations between our two countries were further strengthened by the conclusion in the year 1934 of the treaty²⁵ which provided for the abrogation of the Platt Amendment.²⁶ In the same year, the economic relations of our two countries were rendered more mutually beneficial through the negotiation of a reciprocal trade agreement which has been of self-evident advantage to each of the signatories.

To mention but one of the topics of mutual interest in connection with which the warm and cordial relations existing between the two Governments have proved of the utmost value, I refer to the Inter-

²³ A draft of a proposed treaty of establishment and navigation was presented to the Cuban Government on March 30, 1939. On June 30, the Ambassador in Cuba reported that the Cuban Government appeared disinclined to undertake negotiations for the present. Discussion of the subject was discontinued. Correspondence on those inconclusive discussions is not printed.

²⁴ This note was presented in Habana as No. 213, July 20, 1939.

²⁵ Treaty of Relations signed at Washington May 29, 1934, *Foreign Relations*, 1934, vol. v, p. 183.

²⁶ Popular designation for provisions defining relations of the United States with Cuba, contained in treaty signed May 22, 1903, *ibid.*, 1904, p. 243.

national Sugar Agreement which was signed at London in May of 1937²⁷ and which is recognized to have introduced a much needed element of stability into the so-called world sugar market. As lately as last month, the delegations of our two Governments to the International Sugar Council,²⁸ working together, were able to bring about certain developments that greatly improve the likelihood of an adequate and reasonable price for world sugars.

In November 1938 discussion was inaugurated of a program of economic cooperation of the type which has subsequently been considered and thereupon rendered effective as between the United States and other American Republics. At the same time my Government indicated its interest in supplementing the existing Cuban-American trade agreement on mutually advantageous terms, as well as in taking other steps demonstrative of the importance which it attaches to close and harmonious relations with Your Excellency's Government.

My Government stated that as a prerequisite to the favorable consideration by the Export-Import Bank of the extension of credits for any construction of public works in Cuba, there must necessarily be involved the equitable adjustment of the obligations recognized by the Cuban Government as legitimately due to certain nationals of the United States: first, the final liquidation of the claims of Messrs. Warren Brothers and Company and Purdy and Henderson Company, which comprise the balance of the so-called Public Works Debt; and, second, the payment of the so-called Morris claim which is based upon a judgment in favor of the claimants rendered in 1929 and upheld by the Supreme Court of Cuba in 1931.

With regard to the supplementary trade agreement, negotiation of which has been pending since November 30, 1938, Your Excellency has indicated that Your Government now desires to discuss a certain item not included in the original announcement by my Government of its intention to negotiate. You will recall that a full explanation of the procedure which my Government observes in such negotiations was made to appropriate officials of Your Excellency's Government at the time of that announcement, it having then been made clear that it would not be possible for my Government to give consideration to a concession on an item of the United States Tariff, unless that item was included in the original announcement. The inclusion of any additional item at the present time would therefore require a special announcement followed by public hearings, which my Government does not consider now practicable. It may be observed that my Government has as yet received no reply to the specific proposals which were handed to the Cuban Ambassador in Washington on May 24.²⁹

²⁷ Signed May 6, 1937, Department of State Treaty Series No. 990, or 59 Stat. 922; see also *Foreign Relations*, 1937, vol. I, pp. 931 ff.

²⁸ See vol. I, pp. 948 ff.

²⁹ *Post*, p. 558.

In further pursuance of its desire to improve the relations between Cuba and the United States, my Government has proposed for the consideration of the Cuban Government a draft treaty of Establishment and Navigation designed to solve some of the mutually vexatious questions which arise from time to time regarding the residence of nationals of one country in the territory of the other as well as those relating to shipping and navigation. No specific reply of an official nature has been received from Your Excellency's Government in regard to this matter but Your Excellency has indicated informally that it might be held in abeyance pending the meeting of the Constituent Assembly.

This Government has viewed with the greatest sympathy the desire of the Cuban Government to enact legislation which will, in a manner fair both to creditor and to debtor, lessen the burden of the excessive and unduly onerous exactions which a certain category of debtors in practice cannot meet. My Government, however, has on frequent occasions called to the attention of the Cuban Government the fact that very considerable investments of American capital have been made in Cuba, and its hope that in justice to the American investors the credit moratorium situation in Cuba will be solved upon a basis, which while responsive to the just needs of the debtors, would nevertheless provide an orderly procedure for adequate and equitable repayment to the creditors. While my Government understands that a full hearing was recently granted to interested parties before the legislative commission appointed to consider this matter, nevertheless the bill passed last week by the Cuban Senate would not appear to have accomplished this objective, nor to have contributed to the creation of that feeling of economic and financial confidence in Cuba which could be regarded as conducive to the carrying out of those measures of cooperation which my Government has expressed its willingness to undertake.

The situation has further been aggravated by monetary legislation recently enacted, the terms of which have given rise to highly undesirable ambiguities of interpretation and resultant dislocation of commerce between the United States and Cuba. Your Excellency will recall in this regard that the bearing of this legislation on the trade agreement between our two countries was the subject of repeated representations and inquiries by me on July 6, 7, and 8 and, furthermore, that I had the honor to make similar inquiries of the President of the Republic on the eighth instant. At that time I was assured by the President, as well as by Your Excellency, that no violation of the existing trade agreement between Cuba and the United States was intended and, further, that the regulations to be prepared for the enforcement of this measure would carry ample assurances in that regard. These regulations, however, have not as yet appeared, and

while my Government is confident that they will embody the aforesaid assurances, it is the belief of my Government that the necessary clarification might advantageously be incorporated in the law itself in order that any difficulties of interpretation may subsequently be avoided.

In view of all these circumstances, my Government regretfully finds itself obliged to inform Your Excellency that all studies with respect to the aforesaid program of economic cooperation and looking toward the improvement of commercial relations between the two countries have been suspended on the part of the United States, pending a clarification of the situation and of the specific matters which are alluded to in this note. Furthermore, it is the intention of my Government, because of the highly undesirable state of uncertainty among those engaged in trade between Cuba and the United States as a result of the facts set forth above, to make public announcement on August 1, 1939 to the effect that the negotiations looking toward a supplementary trade agreement with Cuba have been indefinitely suspended.

I avail myself [etc.]

[File copy not signed]

837.51/2413

The Ambassador in Cuba (Wright) to the Secretary of State

No. 2211

HABANA, July 24, 1939.

[Received July 25.]

SIR: Confirmatory of my telegram No. 87 of July 24, 1 p. m., 1939,³⁰ I have the honor to enclose a copy and translation of a note dated July 23rd which was handed to me yesterday (Sunday) by the Secretary of State.

A report of my conversation with him on certain points dealt with in the note will follow.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure—Translation]

The Cuban Secretary of State (Angel Campa) to the American Ambassador (Wright)

HABANA, July 23, 1939.

MR. AMBASSADOR: The Government of the Republic of Cuba has taken cognizance of your note No. 213, of July 20, which was delivered to me personally by Your Excellency yesterday morning.

The diverse and important matters examined in that note give it an especial interest which the Government of Cuba quickly appre-

³⁰ Not printed.

ciated, and it is its desire, in giving Your Excellency an immediate reply, to help to clarify those parts of the note which might indicate confusion or disparity in the points of view of both Governments due, perhaps, to incomplete information at the time it was drafted.

I. The Government of Cuba hastens to declare that the close and cordial cooperation indicated by Your Excellency as the desire of your Government has found and continues to find sincere reciprocity on the part of the Government of Cuba, which has not forgotten the days when the Cuban and American peoples together fought fraternally for the same ideal of liberty and justice. My Government recognizes and is thankful for the friendly cooperation which, at different times in the history of the Cuban people, has been generously given to it by the United States. And it is reason for satisfaction and pride to be able to declare that Cuba, on its part, has reciprocated under the influence of identical high sentiments, collaborating within its powers and together with the American people toward the triumph of high ideals of peace and justice. It would be impossible to forget at this time the singular cooperation which Cuba offered to the Government and the people of the United States during the difficult days of the World War, when it sacrificed legitimate profits on the altar of a democratic victory, or the no less constructive and loyal help in the pacific battles of Congresses and International Conferences—some of them as recent as those at Buenos Aires³¹ and Lima³²—which the Republic has offered unconditionally to the noble continental aims of Your Excellency's Government.

My Government observes in the first paragraph of the note to which I am replying the reference which Your Excellency makes to the new Treaty of Relations of May 29, 1934, through which the right of intervention of the United States in Cuban matters contained in the so-called Platt Amendment was abrogated, and it is pleased to recognize that the free and voluntary agreement of the United States to this Convention constitutes the high and just reparation of what, from the first moment of its existence, was an undeserved limitation upon Cuban sovereignty, dictated in 1901 by the Military Government of Occupation.

My Government considers it convenient also to record that among the great historic proofs of Cuban-American friendship should be included the maintenance, by virtue of the free and sovereign will of the people of Cuba, of a very important provision of the now abrogated Platt Amendment. I refer to the rental to the Government of the United States of the Naval Station at Guantánamo, the status of which has not been altered notwithstanding the new Treaty of Relations of 1934, because Cuba considers that in this manner it serves the cause of the defense of the United States of America, offering to

³¹ See *Foreign Relations*, 1936, vol. v. pp. 3 ff.

³² See *ibid.*, 1938, vol. v, pp. 1 ff.

Your Excellency's people and Government the highest proof of friendship which it is given to an independent nation to offer.

II. As Your Excellency well points out, a logical projection of such cordial relations was the initiation in Washington, during the month of November, 1938, of the confidential conversations between high officials of our respective Governments which had as an object the study of a program of economic cooperation of the nature of those which subsequently were studied and placed in effect between the United States and other American Republics.

The program of economic cooperation examined in Washington had as a fundamental object the satisfactory solution of the portion of the suspended Public Works Debt still not liquidated—that debt having happily been settled in its greater portion in February 1938—and, immediately, the advancing of funds by the Export-Import Bank for the carrying out in Cuba of an extensive plan of public works.

It should be stated that the payment of the remaining public works obligations is considered, as was considered the payment of the bonds and other obligations of identical origin the service of which has been satisfactorily renewed, frankly unpopular, to the point that all the administrations which directed the affairs of the Republic between August, 1933 and December, 1936, on which date the Honorable Señor Dr. Federico Laredo Brú assumed the Presidency of the nation, refused to recognize them. Never, it may be roundly affirmed, did the Cuban Government in its relations with the United States assume and carry out an obligation of such onerous transcendancy and within such an adverse economic situation; and that singular effort, the material and moral value of which has undoubtedly been evaluated by the Government of the United States, should also be taken into account, to demonstrate at least the decision of Cuba to cooperate in the plan examined with Your Excellency's Government to promote the improvement of reciprocal relations.

My Government, notwithstanding reiterated and well-known efforts on the part of the Executive Power and of distinguished leaders of the Legislative Power, has encountered serious difficulties in its effort to arrive at a satisfactory adjustment of the still pending Public Works Debt through means of appropriate legislation. The Government of the Republic is confident, nevertheless, that those difficulties, inherent in the complete democratic regime existing in Cuba, will be easily understood by Your Excellency's Government, which, because it is governed by a constitution analogous to that of Cuba, may have found itself many times confronted with similar obstacles.

The liquidation of the so-called Morris claim, examined during the conversations in Washington, as Your Excellency points out, was conditioned in subsequent conversations held in Habana upon a fiscal

situation which would permit of its payment without bringing upon the Government charges of unjustified preference.

III. Your Excellency mentions in the course of his note the negotiations pending since November 30, 1938, partially to modify and add to Schedules I and II of the Trade Agreement of 1934, and, although I shall later specifically express the opinion of my Government in this matter, I hasten to clear up certain doubts which might be interpreted as a delay on the part of the Government of Cuba in replying to the ever welcome requests of Your Excellency's Government.

In effect, when our Embassy in Washington was informed of the willingness of the Government of the United States to negotiate an additional trade agreement, the Government of Cuba held public hearings similar to the procedure followed by Your Excellency's Government, hearing the parties interested in the negotiation, and on February 16, by means of a note from the Embassy in Washington,³³ it definitively submitted the proposals which contained the desiderata of the Cuban Government.

On May 24 the United States sent our Ambassador in Washington its partial counter-proposal,³⁴ announcing that (its views concerning) a very interesting part of the Cuban proposals, those with reference to the definition of dumping and other general provisions, would follow the counter-proposals—which has not yet occurred.

My Government, notwithstanding that situation, which naturally prevented it from forming an exact opinion, proceeded to reply to the part of the counter-proposals already received and, at the same time, made certain observations which were sent to Washington the 15th of this month and were formally presented to the Department of State on the 20th,³⁵ according to a cable from our Embassy.

IV. Having made this explanation, and notwithstanding having expressed on a previous occasion, orally to Your Excellency, the opinion of the Cuban Government concerning the Treaty of Residence and Navigation, I permit myself expressly to confirm that opinion now.

I told Your Excellency then that, although the Cuban Government, in principle, had the greatest interest in contributing to place the every-day-more-important relations between our citizens on a proper and firm basis of reciprocal facilities, it found, among the provisions of said project, aside from certain ones which appeared not to be reciprocal in character, certain others which conflicted fundamentally with existing legislation in Cuba, and which perhaps might constitute a serious obstacle to the free development of the constituent activities soon to begin.

Furthermore, I pointed out another and still graver difficulty, and that is that, however great might be the desire of the Government of

³³ Not printed.

³⁴ See note to the Cuban Ambassador, May 24, p. 558.

³⁵ See note from the Cuban Chargé, p. 563.

Cuba to establish reciprocal privileged treatment with the Government of the United States, the concessions which were to be given in social as well as civil, mercantile, maritime matters, etc., would have to be extended automatically, because of treaty obligations and by virtue of the most-favored-nation clause, to countries which do not have relations of such close friendship with Cuba as does the United States, rendering practically invalid, through the obligatory extension of such privileges, all the laws established by the Cuban nation for the protection of the worker.

My Government, having these circumstances in mind, wishes to state its intention of postponing the examination and discussion of the draft Treaty of Residence and Navigation proposed by Your Excellency's Government until after the work of the already convoked Constituent Assembly has been completed.

V. Your Excellency's note refers also to a matter which, although it does not appear opportune to discuss it in detail because it affects the concept of the sovereignty and relations of the public powers of the Cuban nation, I desire, nevertheless, frankly to clarify with the Government of the United States, whose sympathy for us, which we appreciate, in the laborious and difficult solution of this problem, is reiterated: it is that which refers to the measures adopted by the Cuban Congress to liquidate the mortgage moratorium. The Senate of the Republic, with the object of settling a problem of exceptional character which affects the very social and economic marrow of the country, has just approved a bill which is awaiting discussion in the House of Representatives.

Such circumstances prohibit the Executive Power from taking into consideration any recommendation which involves a specific injury to the constitutional faculties of the public powers and to the national sovereignty.

I do not know what the fate of the bill referred to will be, but it is possible to suppose that in the event the bill becomes a law of the Republic the investments of citizens of the Union—which your note mentions—and which may be affected by the bill referred to, although very small in proportion to the total amount which the bill aspires to regulate, will doubtless receive treatment identical with that accorded to national interests, without its being possible, as Your Excellency will easily understand, to agree in this matter to any differentiation or privilege.

VI. The grave situation which the Cuban Government confronts because of the depreciation of the national currency, referred to by Your Excellency, and which we discussed amply in our conversations of the 6th, 7th, and 8th, at the time of the crisis, has improved markedly as a result of the prudent measures adopted by the Government to overcome a panic which was due more to artificial causes than to a normal reaction of the currency.

I had occasion to express to Your Excellency at that time assurance that the Government of President Laredo Brú would not take steps which would tend to aggravate the dislocation of the Cuban currency, or the paralyzation of foreign trade, and I am confident of having convinced Your Excellency of the interest of the Government of the United States, parallel to that of Cuba, in contributing to the stabilization of the currency, the reduction in value of which would have eliminated or reduced its acquisitive power in relation to countries having currencies of full value. Consequent with the substance of those conversations, the Cuban Government has had the satisfaction of seeing confidence promptly restored by the prudent emergency legislation which it dictated opportunely, and among which legislation I should point out in particular Decree No. 1727,⁸⁶ which clarifies the proposal of the Government to restore business without having resorted to measures which might unnecessarily have interfered with banking operations connected with our foreign commercial activities.

VII. My Government notes with true regret the announcement contained in Your Excellency's note of the decision of your Government to suspend the studies pertaining to the aforementioned program of economic cooperation which has as its object the improvement of the commercial relations between our two countries, until such time as the situation and the specific matters mentioned in such note are clarified. My Government, although it vehemently believes that the present note clarifies the situation and the specific matters mentioned above, is obligated, much to its regret, to declare on its part that it has suspended the efforts of various kinds directed at converting into legislation the agreements related to that program of economic cooperation, and expresses its hope that the doubts or inexact interpretations which appear to underlie the decision of the Government of the United States which Your Excellency has communicated to me may disappear.

My Government desires also, foreseeing serious economic difficulties which were examined and discussed during the conversations in Washington in November 1938, when the program of economic cooperation was agreed to, wishes to record its fear, that in the face of economic and fiscal realities which are beyond its untiring efforts, it will be obliged, to its great regret, in order temporarily to overcome the possible difficulties, to suspend at a not far distant date the service of the readjusted obligations which form a part, as far as this Republic is concerned, of the program of economic cooperation so many times referred to.

VIII. The denunciatory warning that your Government is pleased to give the Government of Cuba of the announcement of its intention

⁸⁶ July 19, 1939, *Gaceta Oficial*, July 19, p. 1346.

publicly to declare on the 1st day of August next that the negotiations to modify in part the commercial treaty of 1934 will be indefinitely suspended, has caused the Government of the Republic natural surprise and regret and obliges it, as much as it deplors it, in the face of such an unexpected decision, to declare on its part and as of today's date, July 23, that said negotiations have been indefinitely suspended.

I renew [etc.]

MIGUEL ANGEL CAMPA

837.51/2446 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Wright)

WASHINGTON, August 7, 1939—4 p. m.

96. Personal for the Ambassador. I have received through the courtesy of the Cuban Embassy the following telegraphic message from Martínez Fraga :

"The Cuban Government, having been informed in detail of the matters agreed to in principle in our conversations at Washington, has decided to ratify its approval which was cabled on July 31. The Senate will take up and, we hope, will approve the Obligations Bill on next Tuesday the 8th and we are preparing to obtain the immediate approval of the House. The observations concerning bills pending on other matters are being studied. The Government considers it of the utmost urgency to obtain, following the adjournment of the American Congress, an announcement of the willingness of your Government to arrange with Cuba to advance 20 millions for a Stabilization Fund because the continuance of the Cuban monetary crisis, notwithstanding the drastic measures which have been adopted may force the adoption of other measures not yet contemplated if it does not possess an adequate instrument in order to dominate the crisis. In addition the said announcement will consolidate the position of this Government in order to carry out with all speed the plan agreed upon and will make very much easier our dealings with Congress.

I therefore reiterate my request to Ambassador Butler Wright that he should report to you concerning this matter. Furthermore I personally believe that the arrangement of the advance would give great strength to the Government in relation to the confidential steps relative to the Memorandum of which you are aware. As Ambassador Butler Wright doubtless will have informed you, we have powerful reasons to feel optimistic and we think that we are on the eve of solving all these difficulties.

I appeal once more to your valuable cooperation and friendship in order to obtain the success of all the negotiations. I have explained here the reasons behind the Sayre letter³⁷ and we hope shortly to receive an answer to our note of July 15th [20th]³⁸ concerning the Treaty. Warm regards.

(Signed) Martínez Fraga."

³⁷ See letter from the Secretary of State (signed by Francis B. Sayre) to the Cuban Ambassador, May 24, p. 558.

³⁸ See note of July 20 from the Cuban Chargé, p. 563.

Please seek immediate opportunity to inform Martínez Fraga that while, as I told him when he was here, this Government has every disposition and desire to be helpful in the present emergency, it cannot take any step such as the desired announcement relative to the eventual financial collaboration of this Government until Cuba has taken the necessary steps to settle satisfactorily and equitably the legitimate claims of American citizens against Cuba. Until the agreements which the Cuban Government has entered into with these creditors are implemented through the enactment of the necessary legislation, this Government would not have the necessary support of public opinion which it anticipates once Cuba has acted and which it must have if collaboration with Cuba is to be fully effective. In this respect, the situation has not changed from that described in the note of July 20 to the Cuban Government and the covering instructions, except that as a result of my subsequent conversations with Martínez Fraga, and of the assurances which Martínez Fraga gave me, I agreed to postpone our announcement suspending the negotiation of the supplemental trade agreement. Once these assurances have been translated into concrete action, this Government will be ready and prepared to undertake the fullest consideration of whatever projects Cuba may wish to advance for a stabilization fund or construction projects financed in whole or in part by the Export-Import Bank. With regard to the stabilization fund, preliminary studies made here indicate the necessity for a careful definition of the size and operation of such a fund. The amount of 20 million would seem to be much greater than required. Three to five million dollars would seem sufficient on the basis of present information. It might be well to remind Martínez Fraga that the Congress here in discussing the proposal for an increase in the lending power of the Export-Import Bank, which unfortunately was not adopted, made it unmistakably clear that it did not consider as the principal function of the Bank the use of its funds for exchange stabilization purposes. In view of the security which can be offered in this case, however, the Cuban Government may wish to endeavor to secure the financial accommodation it requires from private banks. As previously indicated, as and when the two Governments reach the stage of financial collaboration, this Government will be pleased, if the Cuban Government so desires, to place at the disposal of the Cuban Government the experience of American monetary experts.

The memorandum referred to in Martínez Fraga's cable contains informal comment and suggestions regarding the moratorium legislation. A copy of this memorandum was sent Mr. Beaulac³⁹ by Mr. Collado⁴⁰ on August 1.

³⁹ Willard L. Beaulac, First Secretary of Embassy in Cuba.

⁴⁰ Emilio G. Collado, of the Division of the American Republics.

You will of course state the foregoing in the most friendly terms and express my deep appreciation for the efforts which Martínez Fraga is now making to pave the way for the eventual financial collaboration of this Government.

WELLES

611.3731/2126

The Ambassador in Cuba (Wright) to the Secretary of State

No. 2302

HABANA, August 15, 1939.

[Received August 17.]

SIR: Confirmatory of my telegram No. 98 of today's date, 2 p. m.,⁴¹ I have the honor to enclose herewith a copy of the Note which I delivered personally to the Secretary of State today at noon informing him that my Government has fixed August 31st, 1939, as the date on which, in the absence of developments as indicated in my Note of July 20, 1939,⁴² it will make public announcement that the negotiations for a Supplementary Trade Agreement with Cuba have been indefinitely suspended.

I also enclose a memorandum⁴³ of my conversation with the Secretary at that time.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure]

*The American Ambassador (Wright) to the Cuban Secretary of State
(Angel Campa)*

No. 238

HABANA, August 15, 1939.

EXCELLENCY: I have the honor to refer to my Note No. 213 of July 20, 1939, and to subsequent conversations in Washington between the Under Secretary of State of the United States and the Ambassador of Cuba to the United States concerning the possible suspension on the part of my Government, for the reasons set forth in that note, of the negotiations looking toward a Supplementary Trade Agreement.

After further careful consideration of all the circumstances my Government directs me to inform Your Excellency that it has felt obliged to fix August 31, 1939, as the date on which, in the absence of developments as indicated in my Note of July 20, 1939, it will make public announcement that the negotiations for a Supplementary Trade Agreement with Cuba have been indefinitely suspended.

I avail myself [etc.]

J. BUTLER WRIGHT

⁴¹ Not printed.

⁴² See footnote 24, p. 531.

611.3731/2132

*The Cuban Secretary of State (Angel Campa) to the American
Ambassador in Cuba (Wright)*⁴³

[Translation]

No. 1417

HABANA, August 17, 1939.

MR. AMBASSADOR: I beg to refer to Your Excellency's note of August 15, related to the Embassy's note No. 215 [213] of July 20⁴⁴ of this year, and to the reply to the latter which I had the honor to hand to Your Excellency on the 23d of the same month;⁴⁵ to the subsequent conversations which took place in Washington between the Ambassador of Cuba and the Under Secretary of State of the United States, as well as to the possible suspension of the negotiations which are being carried on between both Governments with a view to agreeing to a supplementary treaty to adjust the commercial relations between Cuba and the United States.

Your Excellency states that following careful consideration of all the circumstances affecting this situation you have received instructions to inform me that the Government of the United States fixes the 31st of August of 1939 as the date on which, in case the developments indicated in your note of July 20 referred to above have not taken place, a public announcement will be made that the negotiations for a supplementary trade agreement between your Government and mine are indefinitely suspended.

In reply to said note of August 15 I hasten to inform Your Excellency that, although my Government still hopes that the conversations which have been carried on between the Ambassador of Cuba in Washington and the Under Secretary of State of the United States have cleared the way to a satisfactory solution of all the problems cordially examined by both Governments, as likely to improve the friendly relations between them and to redound to our mutual interest, in the face of the situation created by this new note of August 15 it (the Cuban Government) can only, although to its regret, limit itself to maintaining and reiterating the intent of its note of July 23d last in explanation of a just, serene and unavoidable position.

Moreover, the delay in these negotiations, the justified hope for their success and a legitimate anxiety on the part of Cuban and American public opinion, which must be taken very much into account in countries of democratic institutions such as those which fortunately govern the constitutional life of our peoples, lead me to suggest to

⁴³ Transmitted to the Department by the Ambassador in his despatch No. 2314, August 17, 1939; received August 19.

⁴⁴ See footnote 24, p. 531.

⁴⁵ *Ante*, p. 534.

your Government, in fulfillment of instructions from the President of the Republic, the advisability of proceeding immediately to make "simultaneous declarations on the part of both Governments in which they would announce at once their cordial intentions contained in the plan of economic cooperation already agreed upon, which the Government of Cuba is prepared, so far as concerns that part which devolves upon it, to carry out immediately and in a formal manner."

My Government does not conceal its serious fear that if, unfortunately, the difficult situation in which these negotiations now appear to be, does not permit the Government of the United States to postpone the publication of its Note, there would be created—because of its obligation to justify its position before public opinion—a delicate situation for the Government of Cuba, which has demonstrated by acts, its intention of fulfilling all the obligations which rest upon it under the plan, in the confidence that the Government of the United States, on its part, would not delay complying with the obligations which it has assumed in the course of these negotiations conducted within the noble tradition of close friendship always existing between the peoples of Cuba and of the United States.

I take [etc.]

MIGUEL ANGEL CAMPA

611.3731/2132

The Acting Secretary of State to the Ambassador in Cuba (Wright)

No. 1091

WASHINGTON, August 25, 1939.

SIR: The receipt is acknowledged of your despatches nos. 2306 and 2314 of August 17, 1939,⁴⁷ with reference to the note of August 17 from the Cuban Secretary of State, concerning the possible announcement of a suspension of negotiations for a supplemental trade agreement with Cuba.

The Department is in agreement with the conclusion set forth in the memorandum⁴⁸ enclosed with your despatch no. 2314 to the effect that this Government should not accede to the suggestion for a joint statement contained in the aforementioned note. There is enclosed herewith a draft of a note to be presented to the Cuban Secretary of State setting forth the reasons of this Government for rejecting this suggestion. You are authorized to make such changes in the wording of this draft as, in your opinion, appear desirable in the light of the local situation.

Very truly yours,

SUMNER WELLES

⁴⁷ Neither printed.

⁴⁸ Not printed.

[Enclosure]

*Draft of Note To Be Presented to the Cuban Secretary of State
(Angel Campa)* ⁴⁹

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note of August 17, no. 1417, in reply to my note of August 15 in which I informed you that the Government of the United States had fixed the 31st of August, 1939, as the date on which, in the absence of the developments described in my note of July 20, a public announcement will be made to the effect that negotiations for a supplementary trade agreement between our two Governments have been indefinitely suspended.

Your Excellency's note expresses the hope that recent conversations between the Ambassador of Cuba in Washington and the Under Secretary of State of the United States have cleared the way to a satisfactory solution of all the problems cordially examined by both Governments and refers to the situation created by this Government's note of August 15, at the same time reiterating the stand taken in Your Excellency's note of July 23.

Your Excellency's note also contains a suggestion, made in fulfillment of instructions from the President of the Republic of Cuba, for the making of "simultaneous declarations on the part of both Governments in which they would announce at once their cordial intentions contained in the plan of economic cooperation already agreed upon, which the Government of Cuba is prepared, as far as concerns that part which devolves upon it, to carry out immediately and in a formal manner".

This suggestion implies that there is in existence an agreement for economic cooperation between the two Governments involving mutual obligations. I wish to reiterate what I have frequently stated to Your Excellency and to other officials of the Cuban Government to the effect that no agreement of this nature is in existence or could be arrived at until the Cuban Government shall have taken steps to restore its international credit, including the discharging of those recognized obligations toward American citizens which have frequently been discussed with Your Excellency and which were described in my note of July 20.

It is only after these steps have been taken by the Government of Cuba that my Government will be in a position to translate into positive action its frequently expressed willingness to cooperate in economic matters with Your Excellency's Government, the first step in such cooperation being a careful study of the possibilities of the situation and of the specific proposals which Your Excellency's Government may wish to advance.

⁴⁹ Presented by the Ambassador in Cuba as note No. 250, August 28, 1939.

With reference to the penultimate paragraph of your note, I wish to point out that the obligations of the Cuban Government to which you refer existed prior to the discussions last November of the possibility of a plan of economic cooperation between the two Governments and that the binding effect of these obligations upon the Cuban Government could in no way have been strengthened by, or much less made contingent upon, the implementation of the expressed willingness of this Government to extend credits for a self-liquidating program of public works in Cuba or to negotiate a supplementary trade agreement.

Very truly yours,

611.3731/2184

The Ambassador in Cuba (Wright) to the Secretary of State

No. 2351

HABANA, August 29, 1939.

[Received August 31.]

SIR: I have the honor to enclose herewith a self-explanatory memorandum of my conversations with the Secretary of State on the 28th and 29th instant in connection with the delivery to him of my Note No. 250, concerning the possible suspension of the negotiations looking toward a supplementary trade agreement.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure]

Memorandum by the Ambassador in Cuba (Wright)

HABANA, August 29, 1939.

I delivered yesterday to the Secretary of State at 12 o'clock our Note No. 250, which is textually identical with the draft enclosed in the Department's instruction No. 1091 of August 25, 1939. As Ambassador Martínez Fraga was with the Secretary of State at that time, I deemed it wiser to leave these gentlemen to a discussion of the Note in question rather than to attempt to discuss it with them at that time. It was understood that we would have a further conversation at 11 o'clock this morning.

At 11 o'clock this morning I called at the Cuban Department of State and found that Ambassador Martínez Fraga was detained elsewhere. The Secretary said that he was compelled to observe that although Cuba would have fulfilled a part of her undertaking with us, if and when the legislation for the "Obligaciones" were passed, there was no indication that the Government of the United States was bound to fulfill her portion of the agreement: deeming it wiser to overlook the intimation of lack of good faith on our part contained

in his remark, I stated that—as had been set forth in the Note which I delivered to him yesterday—there had been no question of any written commitment or agreement on our part, save the assurance which I trusted that he and his Government had always accepted that we would immediately undertake the examination of the public works project and the extension of the other means of financial support and advice. This was, however, predicated upon the fulfillment of the conditions enumerated in my Note of July 20.

The Secretary said—as Batista has intimated to me many times before—that he would have to have something to exhibit to the people of Cuba in return for the passage of the “Obligaciones”. He then handed me the attached draft of a proposed statement to the press ⁵⁰ intended for publication should the “Obligaciones” be passed by both Houses of Congress and signed by the President, and requested an expression of my opinion thereon. After reading it hurriedly, I informed him that there was no possibility that my Government would acquiesce in the statement therein concerning any agreement to contribute toward the Stabilization Fund, and I added that the position of my Government had been made additionally clear in the telegram ⁵¹ which Mr. Welles had sent to Ambassador Martínez Fraga through me, and which I had also allowed the Secretary to read: I therefore suggested that he definitively exclude from the draft those words which referred to such an alleged agreement.

With regard to the allusion to the \$50,000,000 credit, I said that I thought the time had come for me to inquire where and at what time that figure had arisen: the Secretary made the astounding reply that he really did not know, but that he had understood that such was the extent of the credits intended. I said—as emphatically as I could—that there was no ground whatsoever for any such figure or, for that matter, of any specified figures; that we had ignored its continued appearance in the press of Cuba because it hardly seemed worthwhile to deny it; but that I could state categorically that there was no ground for the mention of such sum—no matter what was the origin of the rumor. The Secretary thereupon suggested that the figure be struck from the draft: I said that would be the best method of at last putting an end to such a rumor.

I then said that I would have to submit the proposed draft to my Government which I undertook to do by telephone—stating that I hoped to inform him tomorrow of such instructions as I might receive.

I thereupon called Mr. Briggs ⁵² by telephone and acquainted him in the sense of the foregoing. He called me at 4 o'clock in order to communicate to me a corrected draft to which the Government of the United States would have no objection, provided that the Public

⁵⁰ Not printed.

⁵¹ Telegram No. 96, August 7, p. 540.

⁵² Ellis O. Briggs, Assistant Chief, Division of the American Republics.

Works Bill were passed by both Houses of Congress and signed by the President.

He reminded me that there were other conditions specified in our Note of July 20th which remain to be complied with. I told Mr. Briggs that I was continually aware of that fact and was convinced that if and when the Bill were passed, this Government would immediately request and expect a gesture upon our part. I said that the extension of the Export-Import Bank credits had been originally dependent upon the passage of the Public Works Bill, but that the situation had become further aggravated by recent legislation to a point where these additional matters had been specified in my Note of July 20th. I told him, however, that the Revaluation Bill now appeared to be taking second place, that I believed that continued representations which had been made by all interested parties were having some effect, and that there was a good chance that the measure would be greatly modified or made finally to conform to our observations; that the Monetary Law merely awaited the inclusion of the Regulations in an amended law in order to comply without representations in the matter—in addition to the elimination of the retroactive feature which had been advocated by the interested banks; that the Tax Bill—although not forming a part of the situation of which we had complained—constituted a serious menace to American interests but was understood to have already undergone the deletion of a large number of its objectionable features.

In other words, these three measures might fall, largely of their own weight: in view whereof I ventured to recommend that if and when the Obligations were definitively out of the way, we might proceed to the next step, which would be the designation of an engineer of the Export-Import Bank who would immediately come to Cuba to examine the possibilities for the extension of credits for productive public works. I said that such elasticity of interpretation might save us the embarrassment of reiterated accusations of lack of good faith and that I believed that such an undertaking would not necessarily commit us to definite action, unless or until the other requirements had been fulfilled by Cuba.

Mr. Briggs stated that the suggestion was worthy of consideration and that it would be immediately taken under advisement.

J. B[UTLER] W[RIGHT]

611.3731/2136

The Ambassador in Cuba (Wright) to the Secretary of State

No. 2353

HABANA, August 30, 1939.

[Received September 1.]

SIR: I have the honor to enclose herewith a self-explanatory memorandum of my conversation with the Cuban Ambassador to Washing-

ton concerning the possible announcement of the termination of negotiations for a supplementary trade agreement.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure]

Memorandum of Conversation, by the Ambassador in Cuba (Wright)

HABANA, August 30, 1939.

The Cuban Ambassador to Washington called upon me today. He stated that yesterday he had had a long and spirited conversation with Colonel Batista, at which he was accompanied by Señor Amadeo López Castro.⁵³ In the course of this conversation, Dr. Martínez Fraga stated that he had given a résumé of the entire situation, together with an expression of his opinion as to the inevitable results. He himself had set the date of September 7th as the earliest date upon which his Government could safely count on the necessary two thirds majority for the passage of the "Obligaciones": it is therefore pursuant to his recommendation that the Senate has been convened for that date. He said that one of the reasons for the selection of this date was that Senator Pujol had only left last night in order to get into touch with Senator Font wherever he may be and to bring him back with him to Cuba (giving him the necessary assurances in connection with the incident which caused his sudden departure from Cuba).

The Ambassador said that he considered this to be the very last effort that he would make in this connection and then proceeded to outline to me his present position. He said that he had inquired of Colonel Batista whether it could be considered a fair return for his ceaseless efforts to accomplish the passage of this legislation, to request that he remain on as Ambassador to the United States when he had every reason to believe that if he registered as a candidate with the Constituent Assembly he could be elected (and if not to the Constituent Assembly to the Senate). Today, however, is the last date permitted for the registration of candidates for the Constituent Assembly. He said that he was informed in reply that he should not think of relinquishing his present post and therefore he would not submit his name as a candidate—in the hope that the Senate would on September 7th pass this legislation. He asked that Mr. Welles be informed of all of the foregoing.

I then showed him the text of the announcement which we proposed to make on the morning of September 1st (see the Department's instruction No. 1089 of August 23,⁵⁴ and telegram No. 100 of August

⁵³ Cuban Secretary of Agriculture.

⁵⁴ Not printed; it transmitted a copy of the announcement which the Department proposed to release on August 31 regarding an indefinite suspension of negotiations for a supplementary trade agreement (611.3731/2130).

29⁵⁵): I did not give him a copy but I said that I proposed to communicate it to the Secretary of State tomorrow (August 31). The Ambassador asked whether I thought it might be possible to postpone this announcement in order to await the developments on September 7th. I said that I would refer his inquiry to Mr. Welles, but that I felt absolutely certain that we could no longer postpone the date of this announcement—which had already been postponed in the hope that the bill might be passed. The Ambassador then said that it would be wise to make a similar announcement here at the same time, which would closely follow the announcement to be made by the Department: I read to him, in reply, the last paragraph of the Department's instruction No. 1089 of August 23, and stated that he would observe that my Government had foreseen such a desire on the part of the Cuban Government and had stated that it would be desirable that such action be taken simultaneously. The Ambassador then stated that the phraseology of the last sentence of the proposed statement for the press left the door open for the resumption of negotiations which he earnestly hoped might be the case, as it was the intention of his Government to continue its pressure for the passage of the bill: I replied that I have every reason to believe that such was the idea of the Department in adopting that phraseology.

The Ambassador said that, in such case, he assumed that facilities would be afforded for the proposal of items, etc., that had not been advanced before: I replied that I had no knowledge as to what forms such negotiations might take, but that he was doubtless aware that it would entail the reopening of the entire procedure before the Committee on Reciprocity Information. He replied that he did.

I then mentioned to him the matter of the statement to the press to which the Secretary of State had referred in his conversation with me yesterday: the Ambassador replied that he greatly regretted that he had not been able to be present at that meeting because he considered the proposal to be inopportune and not founded upon facts: in fact, he volunteered the information that the Secretary knew very little about it! In order to make our position clear, I stated that it would have been impossible for us to agree to any notice which included reference to the United States' contribution toward the Stabilization Fund, or to any statement which specified the sum of \$50,000,000 as having been agreed upon: the Ambassador replied that such was, of course, the case and that he very much regretted the proposal. I stated that as the proposal had been submitted to me, and by me to my Government, I had now received the draft of a proposed notice to which my Government would interpose no objection, provided it were clearly understood that the reference to the Supplementary Trade Agreement is, of course, contingent on

⁵⁵ Not printed.

whether or not these negotiations are suspended as of September 1st. He said that he believed that no further attention should be paid to the proposal: I replied that I was under obligation to the Secretary of State to make some reply: therefore I requested him to inform the Secretary of State to the above effect (he stated that he was on his way to the Department of State after leaving the Embassy) and further to inform Dr. Campa that I would communicate with him tomorrow.

I communicated the foregoing by telephone to Mr. Welles who confirmed our position in the matter. I therefore intend to hand to the Secretary of State tomorrow (August 31st) a copy of the statement to be released on the morning of September 1st for publication in the papers of the afternoon of that date.

At 5 o'clock Mr. Welles telephoned me stating that Martínez Fraga had sent a message by telephone to him through the Cuban Embassy stating that the situation was of great delicacy and danger and of great importance to him, assuring him that final and favorable action would be taken on September 7th and asking him to postpone the announcement of the suspension of negotiations until after that date. Mr. Welles stated that he had requested the Embassy in reply to inform the Ambassador that while he greatly regretted the circumstances to which the Ambassador had alluded, he found it impossible to consent to a further postponement of this announcement which had already been postponed: he ventured to believe that the announcement might strengthen the Ambassador's hand. Mr. Welles requested that I get into immediate touch with the Ambassador and give him the same message.

At 6:10 I succeeded in finding the Ambassador and conveyed the foregoing message to him: it apparently reached him before the message through the Embassy in Washington, for he seemed surprised. He said that he hoped that the decision would strengthen his hand but he very much doubted it.

611.3731/2138

The Ambassador in Cuba (Wright) to the Secretary of State

No. 2356

HABANA, August 31, 1939.

[Received September 5.]

SIR: I have the honor to enclose herewith a self-explanatory memorandum of my conversation with the President today, in which I informed him of our compliance with his request that the date of the announcement of our intention to suspend further negotiations for the supplementary trade treaty be further extended until September 9th—together with certain observations advanced by the President in connection with other matters relative thereto.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure]

Memorandum of Conversation, by the Ambassador in Cuba (Wright)

At 9 o'clock this morning I received a telephone message from the Cuban Department of State asking if I might call upon the Secretary before the regular hour on diplomatic reception day: I replied that I would go to see the Secretary at 10 o'clock, which I did.

The Secretary asked me whether I was not perturbed by the situation which was about to be created: I inquired whether he meant the European situation. He replied that that was bad enough, but he thought that our proposal to announce tomorrow the suspension of negotiations for the supplementary trade agreement was fraught with very serious consequences not only for Cuba but for relations between our countries: I said that, with all consideration for his views, I did not share his opinion, for our action was intended to put an end to indefinite and repeated delays and postponements and that I felt constrained to observe that his Government had had ample opportunity for the consideration of this matter since the delivery of my first Note on July 20th last. I said that I had delivered a message of the same import to Ambassador Martínez Fraga yesterday,⁵⁶ conveying, at Mr. Welles' request, a message from Mr. Welles to the Ambassador in answer to a telephone message which the Ambassador had sent through the Cuban Embassy in Washington, in which Mr. Welles had stated that he regretfully had reached the conclusion that further postponement was impossible. The Secretary said he was aware of this message.

The Secretary then said that he requested in the name of the President of the Republic that this decision be postponed until Saturday the 9th of September, and he added that if it were necessary he (the Secretary) would appear before Congress and explain to the members the situation. I replied that in view of the fact that this request came through him from the Chief of State my only alternative was to transmit it immediately to my Government, which I undertook to do.

At 11 o'clock (Habana time) I informed Mr. Welles thereof and I stated, in order to aid him in any position he might make, that I believed that at last this Government was thoroughly frightened and had become aware of the effect upon Cuba's economical and financial position which would inevitably arise from continued disinclination to meet this recognized obligation and the resultant necessity that we should announce the suspension of the aforementioned negotiations: therefore we were in a much stronger position than before and, furthermore, the efficacy of subsequent representations on our part would depend largely upon the consistency with which we maintained our position in this matter. I said that on the other hand, however,

⁵⁶ See *supra*.

we should have to face the probability that, in case of a European war which seemed so imminent, Cuba would obtain a higher and practically limitless market for her sugar which might change certain aspects of the situation entirely. I said further that a friendly Cuba—perhaps achieved by reasonable elasticity in this matter, might be of greater value to us than an antipathetic Cuba—possibly brought about by insistence upon the letter of the agreement. Mr. Welles stated that he would think it over and call me later.

Meanwhile the Embassy was informed that as a direct result of our insistence that the provisions of the treaty be observed with regard to the exportation of pineapple slips, the long-standing matter of the exportation of 2,000,000 of these slips to Puerto Rico was satisfactorily settled. From what we have been able to learn from all sources, a satisfactory solution of this treaty obligation would not have been achieved otherwise.

At 2 o'clock (1 o'clock Washington time), Mr. Welles called me and stated that in view of the source of this latest request and of his high regard for the President, he could not do otherwise than accede thereto, with the understanding, however, that the postponement of the date of the announcement of our intention to suspend negotiations would be extended until September 9th, and that my Government would find it impossible to agree to a further postponement. As the Secretary of State had asked several times in the interim whether I had received a reply, I deemed it advisable to inform him in the sense of the above and to request, through him, an interview with the President, in order to avoid any possible inference on his part that I had been instructed or desired to deal with the President behind the Secretary's back. An appointment was made for 5:15 o'clock.

At that hour I saw the President who was very cordial and seemingly unconcerned. I delivered the message orally as above described: he requested me to inform Mr. Welles not only of his high regard, but also of his appreciation of the attitude which he had assumed. He said nothing about the latent dangers of the situation, but he stated unequivocally that his Government would do everything in its power to secure the passage of this legislation by both Houses on the 7th.

I improved the opportunity to remind him that, although such action would be a great step forward, there were certain other points contained in my note of July 20th upon which the fulfillment of the entire program of assistance and cooperation were dependent. I asked whether I might again bring them to his recollection in order that there may be no misunderstanding: he replied that he would be glad to hear any observations that I had to offer.

I first cited the Morris Claim. The President replied that this was, of course, an acknowledged debt of the Cuban Government based upon a ruling of the Supreme Court, but that the determination of the final amount must depend upon the examination which Dr. Cataya was conducting and the results of his conferences with the representatives of the claimants. Our ground as to the final amount of this claim is so uncertain and we have so little information as to what the claimants would actually accept that I deemed it wiser to pursue this subject no further. I had in mind, however, the suggestion made by Martínez Fraga to Mr. Welles that if and when the "Obligaciones" Bill is passed, a request might be made of Warren Brothers and Purdy & Henderson⁵⁷ that they might accept a very small portion of the second issue of the bonds in order to permit the payment of the Morris Claim with bonds of the original issue. I did not mention this, however, nor do I believe this method of settlement would necessarily be practicable or acceptable.

I recalled to his attention the undertaking that he had given me that the Regulations under the Monetary Law would be embodied in that Law. The President replied that a provision to that effect was included in the Tax Bill. I did not discuss with him the point as to whether such was the proper place for it to appear, but I infer that this expedient is intended to overcome the necessity of remedial legislation directed to this point alone.

I then referred to the Tax Bill—improving the reference which the President had made thereto and I said that, although I had understood that many of the features of the bill which had been deemed objectionable by certain interests, both Cuban and American, had been eliminated, there still remained provisions which were in conflict with the Reciprocal Trade Treaty. He appeared visibly interested at this observation and asked whether I could indicate which they were: I replied that I had that day addressed to the Secretary of State a memorandum concerning the proposed tax of six percent on money exported from the country, and that I had recalled to the attention of the Secretary of State the attitude which we had taken regarding a similar proposed tax in 1937,⁵⁸ on the same grounds. The President stated that it might be helpful to know the points in the Tax Bill which we considered at variance with the Treaty: I replied that I would immediately follow this suggestion and would submit to the Secretary in due course a memorandum to that effect.

I then referred to the Revaluation Bill and said, quite frankly, that Ambassador Martínez Fraga had acquainted me with the general program to be followed: i. e. that the matter would be discussed in

⁵⁷ See section entitled, "Assistance of the Department of State in Efforts to Secure a Settlement of the Cuban Public Works Debt," pp. 522 ff.

⁵⁸ Correspondence not printed.

the House as a result of which amendments would undoubtedly be suggested which would necessitate discussion by the Joint Committee of the House and Senate; that the President will then view the situation in the light of all the existing circumstances and may be able to indicate his opinions either by suggested compromise or, in the last analysis, by veto. The President said that that was exactly his intention and that he was reserving his decision until that time—when he would give the matter his close attention and would decide matters according to his best judgment. I asked him whether he recalled the observations which the Chamber of Commerce had had the honor to present to him with regard to the Tax Bill: he said that he did and that he thought it was an admirable document. I asked him whether there had been brought to his attention the observations by the American Chamber of Commerce and other sources and individuals, concerning the Revaluation Bill: he replied in the affirmative. I asked him whether he had seen the memorandum which our Department of State had informally communicated to Ambassador Martínez Fraga on the date of the latter's departure from Washington and which Martínez Fraga had translated for Colonel Batista: he replied that he had not. I said that I would either request Ambassador Martínez Fraga to supply him with a copy of the translation or, if it might be understood that I would do so unofficially, I would undertake to do so myself: he replied that he would give it immediate attention.

J. B[UTLER] W[RIGHT]

837.51/2502

The Ambassador in Cuba (Wright) to the Secretary of State

No. 2475

HABANA, October 17, 1939.

[Received October 18.]

SIR: Supplementing my telegram No. 127, of October 16, 4 p. m.,⁵⁹ I have the honor to report that the President's veto of the bill to liquidate the moratoria was sent to the Congress with the following message (translation):

"In exercising a constitutional power by returning to the Congress, with my observations, the bill to liquidate the moratoria, I declare that this act does not involve anything which affects the respect and obedience due to the legislative power, or the ties of consideration and close affection which bind me to the authors of the bill, and especially to Colonel Batista, who was the initiator of the fundamental idea which the Congress carried out in, according to my judgment, a mistaken manner.

"The Legislative Power, in exercise of its prerogatives, has voted what it believes should be an adequate solution.

⁵⁹ Not printed.

"The Executive Power, likewise in exercise of its prerogatives, has vetoed the bill.

"It is now up to the Congress of the Republic to reconsider or to accept my veto.

"If it does the first I shall adhere to the legislative decision like a man respectful of the law. If it does the second I shall be prepared to cooperate within my powers toward a solution of the difficulty which faces us, offering the poor gift of my experience and my will to the service of the Republic."

Colonel Batista said to reporters, after reiterating his attachment to the President:

"It is up to the Congress now to decide, and I hope that it will decide as quickly as the seriousness of the matter demands. Congress also can make use of its prerogatives, and the President—of this I am sure—will be as respectful of the exercise of that right by the Congress as the latter is of the right exercised by the head of the nation.

"As far as I am concerned I shall respect those decisions, maintaining as I have said before, the same opinion and the same will as heretofore."

A part of the press states that Colonel Batista has already taken steps to endeavor to induce the Congress to override the President's veto. It is not generally believed, however, that proponents of the bill have a two-thirds majority in both Houses of Congress and there is a good deal of doubt, therefore, that an effort actually will be made to override the veto.

If the bill is not to be passed over the President's veto, there are two possible courses open to the Congress: (1) to endeavor immediately to pass a bill which will be more pleasing to the Executive Power, or (2) to postpone a solution of the question by the enactment of legislation which would further delay mortgage foreclosure proceedings until such time as the problem can be adequately dealt with. From the point of view of Cuba's credit, of course, it is preferable that the problem be solved at once.

As stated, both the President and Colonel Batista have made it clear that the former's veto of the bill does not involve any estrangement between the two. Last night they and their wives, together with the Secretary of State and Mrs. Campa, attended the opera together, and their photographs, taken in a box at the National Theatre, adorn the front pages of this morning's press.

Respectfully yours,

J. BUTLER WRIGHT

837.51/2526

The Cuban Ambassador (Martínez Fraga) to the Under Secretary of State (Welles)

WASHINGTON, November 30, 1939.

DISTINGUISHED UNDER SECRETARY AND FRIEND: In accordance with the confidential conversations which I had the pleasure of having with

you shortly before going to Habana on the nineteenth instant, I take pleasure in advising you that I discussed, in Cuba, with the Honorable President of the Republic and the Secretary of the Treasury the possibility of initiating, with the friendly cooperation of the Government of the United States, the opportune negotiations which would enable the Cuban Government to solve the urgent and extremely grave problem represented by the depreciation of its national currency.

As I stated to you in the course of the conversations referred to above, the depreciation of the Cuban peso continues and frequently becomes worse, in spite of the measures and provisions, many of them risky, adopted and put into force by my Government.

It is unnecessary to point out here the dangerous repercussions which such an anomalous situation has on the economic and financial relations between Cuba and the United States.

The experts believe that, if the depreciation is not remedied without loss of time, it will become endemic and, complicated by inevitable phenomena of lack of confidence, speculation and general economic insecurity, may nullify the generous efforts which our two Governments, in felicitous agreement, are realizing in other important fields.

The exceptional and difficult nature of the monetary depreciation, aggravated in the case of Cuba by the nonexistence of a central government bank which could prevent it in an adequate manner, explains, perhaps, the failure of the numerous attempts and heroic measures by means of which my Government has sought to solve so complex a problem.

Taking advantage of the cordial personal promise which you were good enough to make me in the sense of considering and studying confidentially the possibility of giving to Cuba the technical, and, should occasion arise, monetary cooperation which will permit the establishment of what, in the opinion of all the experts, is the basis of the solution, that is to say, a solid Stabilization Fund, and, complying with the confidential instructions of my Government, I take the liberty of enclosing a memorandum⁶⁰ explaining what, in our opinion, might serve as a guarantee for the lending operation on which, naturally, must be founded the monetary cooperation to which I have just referred.

Equally substantial and important as this latter aspect of the solution, without doubt, is the advice or plan which the experts in the service of the Government of the United States might offer and suggest for the purpose of creating the Stabilization Fund.

I, therefore, reiterating each and every one of the reasons of various kinds, which I have personally set forth to you on former occasions, respectfully request that, if it be possible, you consider the request

⁶⁰ Not printed.

of the Government of Cuba that this letter formulates, and submit the possibility of this urgent collaboration to the competent authorities and experts concerned, thus adding one more to the long list of generous services and invaluable proofs of friendship offered by the Administration of President Roosevelt and by you to my country.

You will note that the enclosed memorandum only describes the history, nature, and status of the possible guarantee for the previously mentioned lending operation. Purposely, we do not even suggest the general lines of a plan for the desired Stabilization Fund because we wish the experts, whose authority is universal, on whom the Government of the United States relies, to be the ones who, by means of their valuable advice, shall determine at least the broad bases of the plan which it would be appropriate to follow.

Please accept [etc.]

MARTÍNEZ FRAGA

SUPPLEMENTARY TRADE AGREEMENT BETWEEN THE UNITED STATES AND CUBA, SIGNED DECEMBER 18, 1939⁶¹

611.3781/2140

The Secretary of State to the Cuban Ambassador (Martínez Fraga)

WASHINGTON, May 24, 1939.

EXCELLENCY: You will recall that pursuant to conversations with officials of your Government which established a mutual readiness to undertake the negotiation of a supplemental trade agreement between the United States and Cuba, there was issued by my Government on November 30, 1938 a public announcement⁶² of intention to negotiate such an agreement, together with an accompanying list of products, the text of this announcement and list having previously been shown to you and having received your concurrence on behalf of your Government.

The public hearings scheduled by this announcement were duly held in Washington on January 3 and 4, 1939, and thereafter the appropriate Departments of my Government have been engaged in making the customary studies of the information received orally and in writing as a result of the announcement in question. These studies having been sufficiently completed, I now have the honor to submit, in the form of the memorandum which is enclosed,⁶³ the proposals of my Government with respect to the modification and amplification of the

⁶¹ For consideration of possible suspension of negotiations for this supplementary trade agreement because of difficulties in other matters, see section entitled "Discussions Regarding a General Program of Economic Cooperation Between the United States and Cuba," pp. 530 ff. *passim*. For previous correspondence, see *Foreign Relations*, 1938, vol. v. pp. 472 ff.

⁶² Department of State, *Press Releases*, December 3, 1938, pp. 398-400.

⁶³ Not printed.

provisions of Schedules I and II of the existing trade agreement ⁶⁴ between our countries which it is the purpose of the projected supplemental negotiations to effect.

Studies are also being made at the present time of certain questions related to the general provisions of the existing agreement, as well as of certain special problems affecting the trade between our countries. Upon the completion of these studies at an early date it is anticipated that certain further proposals respecting these matters will be formulated and that such proposals will accordingly be communicated to you in the near future.

In the formulation of the proposals relative to Schedules I and II of the existing trade agreement, account was taken of the views of your Government as communicated in Your Excellency's note of February 16, 1939,⁶⁵ the receipt of which was acknowledged on March 4, 1939.⁶⁶ With respect to the list of products set forth in your note under reference, as being those on which your Government desired concessions in the proposed supplemental trade agreement, it is noted that the concessions proposed in some instances constitute simply a reaffirmation of concessions already provided in the existing trade agreement. Since it is proposed to negotiate simply a supplemental agreement which will leave the existing agreement undisturbed except in respect of those specific provisions which may be the subject of modification in the proposed supplemental agreement, it is manifestly unnecessary to provide specifically for the continuance of existing concessions.

With respect to the remaining products mentioned in this connection on behalf of your Government, I must point out that in my Government's public announcement of November 30, 1938 regarding the proposed negotiations, which as I have mentioned was previously brought to your attention, it was stated that, unless further announcements were made, consideration of changes in import duties applicable to Cuban products imported into the United States would be confined to products enumerated in a list which accompanied the announcement in question, which was also brought to Your Excellency's attention. In order therefore to consider the possibility of granting new or additional concessions on products mentioned in Your Excellency's note of February 16 but not included in the list published by my Government on November 30, it would be necessary for my Government to issue further public announcement listing such products, to hold additional public hearings, and to await the subsequent completion of the necessary studies by the appropriate Government Departments. Since this would necessitate an extended deferment of the conclusion of the proposed negotiations for a supplemental agreement, and

⁶⁴ Signed at Washington August 24, 1934, *Foreign Relations*, 1934, vol. v, p. 169.

⁶⁶ Not printed.

since it is presumed that in the view of your Government as well as of mine the expeditious conclusion of these negotiations is to be desired, the proposals formulated on behalf of my Government and communicated herewith are confined, with reference to those affecting rates of import duty in the United States, to products included in the published list which accompanied my Government's announcement of November 30, 1938.

In this connection I wish also to acknowledge the receipt of Your Excellency's further note of April 13, 1939,⁶⁶ with its enclosures, requesting a reduction in the duty imposed on imports of fresh, chilled, and frozen beef into the United States from Cuba, and to state that your Government's request has had our sympathetic consideration, but that for the reasons aforesaid it is not deemed practicable to include this matter within the scope of the present negotiations.

Accordingly, the proposals of my Government respecting rates of import duty in Cuba, set forth in the enclosed memorandum,⁶⁶ are limited to a moderate list of requests considered by my Government to be a fair equivalent for the proposed additional concessions for the benefit of Cuban products imported into the United States, also set forth in the enclosed memorandum.

It may be noted, with respect to sugar, that the quantity of Cuban sugar which may enter the United States, and the amount of such sugar which may enter in the form of direct-consumption sugar are now determined by the quota provisions of the Sugar Act of 1937.⁶⁷ The announcement which was issued by my Government in connection with the public notice of intention to negotiate the supplementary agreement, in referring to the limited character of the proposed negotiations, stated that in the case of sugar consideration would be given to a further reduction of the import duty on Cuban sugar. It is not possible, therefore, to give consideration to the request of the Cuban Government for an annual sugar quota of 2,000,000 tons, of which 22 percent may enter the United States in a refined state.

The proposals contained in Your Excellency's note of February 16 relating to suggested changes in the general provisions of the existing trade agreement, including the question of a definition of the term "dumping", and for an addition to the note on pharmaceutical products which is to be found in Schedule I of the existing agreement, as well as the proposal made in Your Excellency's note of April 5,⁶⁸ relative to Article XI of the existing agreement, are receiving attentive consideration, and my Government's views on these matters will be communicated to you in connection with its proposals relating to

⁶⁶ Not printed.

⁶⁷ Approved September 1, 1937; 50 Stat. 903.

the general provisions and other special problems, which, as I have said, are expected to be ready for transmittal at an early date.

Accept [etc.]

For the Secretary of State:

FRANCIS B. SAYRE

611.3731/2041

The Cuban Ambassador (Martínez Fraga) to the Secretary of State

[Translation—Extract⁶⁸]

WASHINGTON, May 25, 1939.

EXCELLENCY:

10. I beg Your Excellency to accept the expression of my appreciation for the note to which I now reply. That note, with its enclosures, has been transmitted to my Government by the most rapid means.

11. While my observations may not prejudice the definitive reply of the Government of Cuba to the proposals made by Your Excellency's Government, I consider it an elementary and urgent duty to clarify certain points noticed in your note of the 24th instant.

12. In effect, Your Excellency kindly refers in the first paragraph of the said note—paraphrased in paragraph one of this note—to the circumstances that both the text of the notice of intention to negotiate, published on November 30, 1938, and the attached list of products which would be the object of hearings were previously shown me and that both obtained the expression of my concurrence [*acuerdo*]⁶⁹ on behalf of the Government of Cuba.

13. I beg Your Excellency to permit me to recall, in my turn, that in the numerous conversations held by the respective officials of our Governments and, particularly, in those which took place during the first weeks of the month of November 1938, the names of the products included in the above-cited list and other products, particularly small fruits and meats, were mentioned and considered. When, on November 29, the text of the notice of intention to negotiate and the annexed list of products were communicated to me, I limited myself to receiving the list and to stating that I would personally forward it to my Government, without expressing or being able to express any concurrence or lack of concurrence. I do not know whether the English word "concurrence" which Your Excellency uses in the paragraph of your note which I am now examining, possesses a meaning different from that expressed by *acuerdo*. The only action which I should or could have made on the occasion in question was of a material order: to

⁶⁸ The omitted paragraphs numbered 1 to 9, inclusive, acknowledged and recapitulated the note of May 24 to the Cuban Ambassador, *supra*.

⁶⁹ Brackets appear in the file translation.

receive the documents which were kindly offered me for the purpose of transmitting them to my Government.

14. Those documents and their content merely constituted the first formal manifestation of the conversations held until that time between the officials of our respective Governments, but they could in no way signify a basis of negotiation so inflexible as to prohibit my Government from proposing on its side, as it did in the list attached to my note of February 16 of this year,⁷² other modifications or amplifications supplementing the Trade Agreement of 1934.

15. To suppose the contrary would lead us to one of these two absurd situations: *a*) a pact (a unilateral pact for the reason which I shall set forth below) was practically effected between the officials of our respective Governments who had conducted the preparatory conversations on these negotiations and, accordingly, necessity for negotiation would vanish; or *b*) one of the High Contracting Parties, Cuba, accepted (unilaterally, for the reason which I shall set forth below) without the indispensable public hearing, analogous to that which the Government of the United States arranged to hold, certain concessions from among all those mentioned and considered in the preparatory conversations.

16. The unilateral element to which I refer twice in the above paragraph is obvious because the repeated queries made by officials of the Government of Cuba of the officials of the Government of the United States relative to the concessions which this latter Government would naturally request of that of Cuba, as a just equivalent of those which might be granted Cuba, received always as sole reply the statement that a request would be made "for a quota for rice, the product of the soil of the United States and something else".

17. As a result, the list of products published on November 30 by the notice of intention to negotiate did not constitute and could not constitute for the Government of Cuba or for the Government of the United States a barrier which would exclude future and more or less ample reciprocal proposals of modifications or amplifications by the said Governments to the existing Trade Agreement of 1934.

18. A rapid examination of the list of products of the soil and of the industry of the United States which Your Excellency so kindly attached to the note to which I now reply, and which contains the modifications and amplifications requested by your Government of that of Cuba in the Cuban customs duties on imports constitutes the best argument in favor of what I have just stated, because, in addition to including a request for a Cuban quota of 90,720,000 kilograms for American rice and a customs reduction for this product which replaces the present duty of 1.85 by another of 0.86, it adds twelve requests for

⁷² Not printed.

customs reduction and other requests relative to certain exceptions from duties and other substantial changes.

Finally, as is easily noted, both Your Excellency's Government and my Government—in officially formulating their respective proposals, the former in the note to which I now reply and the latter in my note of February 16—have both held the just and correct opinion of considering the preparatory conversations on these negotiations and the internal acts effected by each Government for the sake thereof to be mere bases of negotiation which in no way limit or could limit the field of their reciprocal proposals.

19. I trust, Excellency, that the remarks which I respectfully take the liberty of including in this note will happily clarify apparent contradictions and assist in the success of the negotiations which now occupy us.

20. I take special pleasure in advising Your Excellency that my Government has seen fit to provide that these negotiations, instituted by me in this capital, shall continue, as regards Cuba, under my charge and care.

I take [etc.]

MARTÍNEZ FRAGA

611.3731/2141

The Cuban Chargé (Barón) to the Secretary of State

[Translation]

WASHINGTON, July 20, 1939.

EXCELLENCY: With reference to this Embassy's confidential note dated May 25 last I have the honor to write to Your Excellency to inform you that my Government has been pleased to give me the pertinent instructions that I might reply to the confidential note dated the 24th of that month in which Your Excellency was good enough to submit for the consideration of the Government of Cuba, in the form of a memorandum, the proposals of the Government of the United States relative to the modification and amplification of Schedules I and II of the existing Trade Agreement of 1934, and, further, to explain the reasons which oblige your Government to decline to discuss, almost in their entirety, the proposals contained in the memoranda enclosed with this Embassy's notes of February 16⁷⁸ and April 13⁷⁸ of this year.

The Government of Cuba has studied with the greatest attention and with the keenest desire to reach an agreement advantageous to the Republic and to the United States the text of the counter-proposals and explanations communicated in the aforesaid note of May 24.

The Government of the Republic has given particular consideration to the fully grounded statements according to which Your Excellency

⁷⁸ Not printed.

defines the intention of your Government to negotiate a limited commercial adjustment which, necessarily, places outside the scope of these negotiations a good part of the Cuban proposals contained in the memorandum enclosed with this Embassy's notes of February 16 and April 13 last.

Notwithstanding the disappearance of the specific reasons for urgency which, eight months ago, made it advisable to reduce as much as possible the scope of the contemplated changes in and additions to Schedules I and II of the existing Trade Agreement, my Government agrees in the circumstances with the restrictive view maintained by Your Excellency in your note of May 24 and, desirous of contributing without delay to the greatest success of these negotiations, amends the point of view maintained in this Embassy's note of February 16 and, for the time being, abandons its firm intention of negotiating a full and comprehensive adjustment of those Schedules, an adjustment which it believes, and desires so to declare, is urgently necessary for the greatest stability and the greatest real and reciprocal benefits from the contractual arrangement regulating trade relations between our respective countries.

The Government of the Republic further desires to put on record that it sincerely trusts that it may be possible in the near future, and with the cordial and friendly cooperation of Your Excellency's Government, to transform into a satisfactory reality the proposal mentioned in the foregoing paragraph.

The amendment of the full and comprehensive view given in this Embassy's notes of February 16 and April 13 and the proposals contained therein requires, in my Government's opinion, in order that the course of the present negotiations may be efficiently directed, a limited formulation of its proposals which now, of course, must meet the restricted point of view maintained by Your Excellency's Government and which, as stated above, the Republic's Government shares and accepts in the circumstances.

In accord with this restrictive view, my Government, considering all its proposals contained in this Embassy's notes mentioned above not to have been formulated, considers the products of the soil and industry of Cuba and of the United States specifically mentioned in the enclosed memorandum ⁷⁵ to be matter open to discussion and negotiation for the purpose of modifying and amplifying Schedules I and II of the existing Trade Agreement of 1934.

The Government of the Republic wishes to state that it considers the proposals relative to Cuban sugar and tobacco, formulated in the above-mentioned notes of this Embassy and contained in Your Excellency's note of May 24, to be measures to repair damages and changes suffered in the customs situation and [to produce] ⁷⁶ the legitimate

⁷⁵ Not printed.

⁷⁶ Brackets appear in the file translation.

benefits guaranteed the said products of Cuban soil by the existing Trade Agreement, as a result of legal modifications of an internal order which occurred in the United States in 1936 and 1937.

The character of just reparation possessed by the Cuban and American proposals relative to sugar and tobacco from Cuba excludes these proposals from the field of discussion or study of reciprocal concessions on the part of the Government of the Republic and, accordingly, places the proposals of the Government of the United States relative to rice, textiles, canned foods, et cetera, which are studied and answered in the enclosed memorandum, in a position to require corresponding compensations in favor of the Government of Cuba.

My Government limits its request for such compensation to two of the proposals contained in this Embassy's notes of February 16 and April 13, which refer to the establishment by the Government of the United States of an import quota on meat, now reduced to five thousand tons, with duties similar to those of Canada and applicable to fresh and chilled or frozen meats, and to a change in the period of time during which entry of Cuban vegetables into the United States is permitted, as proposed in detail in the enclosed memorandum.

Favorable consideration of both proposals by Your Excellency's Government would put my Government in a no less favorable position to discuss and negotiate the concession to your Government of an import quota on rice produced and harvested in the United States, amounting to 90,000,000 (ninety million) pounds, with a low duty and in accordance with the specific stipulations contained in the enclosed memorandum.

The specific schedules, which I also have the honor to transmit to you, form part of the said memorandum.

Allow me, Excellency, to urge with the greatest respect that, if your Government considers it advisable, it inform my Government of the opinion which it may have of the proposals relative to certain changes of a general character, contained in this Embassy's notes of February 16 and April 5.⁷⁷

I take [etc.]

JOSÉ BARÓN

611.3731/2141

The Secretary of State to the Cuban Chargé (Barón)

WASHINGTON, August 31, 1939.

SIR: Reference is made to the Embassy's note of July 20, 1939, with enclosed memorandum and schedules,⁷⁸ conveying the counter-proposals of the Government of Cuba with respect to the proposed modification of the existing Trade Agreement of 1934 between the United States and Cuba.

⁷⁷ Neither printed.

⁷⁸ Memorandum and schedules not printed.

It is noted that the Government of Cuba considers that the proposals made to it relative to Cuban sugar and tobacco are to be regarded as reparations for damages sustained as a result of changes in the situation which have occurred subsequent to the conclusion of the Trade Agreement of 1934 and consequently as excluded from discussion as subjects for reciprocal concessions on the part of Cuba. It is also noted that the Government of Cuba desires concessions on certain meat products and extension of existing concessions on certain vegetables, in return for which it would be prepared to grant certain specified concessions on American products.

In reply, I have to advise you that the authority granted to the Executive under the Trade Agreements Act of the United States does not contemplate the reduction of import duties of the United States except in return for reciprocal concessions for American products in foreign markets; and further that, as has been pointed out, it would not be possible for my Government under its established procedure to offer concessions to the Government of Cuba on products not included in the list accompanying my Government's announcement of November 30, 1938, except after further public announcement and opportunity for the receipt of views from the interested public.

Accordingly, I regret to state that it would not be possible to conclude a trade agreement containing the concessions requested by your Government as outlined in your note under acknowledgement, under the terms of my Government's announcement of intention to negotiate a supplemental trade agreement with your Government, issued on November 30, 1939.

Accept [etc.]

For the Secretary of State:
SUMNER WELLES

837.51/2469a : Telegram

The Secretary of State to the Ambassador in Cuba (Wright)

WASHINGTON, September 11, 1939—7 p. m.

109. Confirming the information telephoned you by Briggs⁷⁹ this afternoon, the President is tonight giving out a press release for publication in tomorrow morning's papers to the effect that he has today signed a proclamation⁸⁰ by virtue of the power conferred on him by Section 509 of the Sugar Act of 1937 suspending the operation of the quota provisions of that Act as contained in Title II thereof.

The Secretary of Agriculture is issuing a public notice the effect of which will be, in accordance with the note to Item 501 of Schedule II of the Trade Agreement, to raise the Cuban duty on raw sugar to 1.50 cents per pound at once.

⁷⁹ Ellis O. Briggs, Assistant Chief of the Division of the American Republics.
⁸⁰ No. 2361, September 11, 1939; 54 Stat. 2654.

When the suspension of quota provisions comes to an end, the Department desires this Government to be in a position to restore the duty to the level at which it was before such suspension. For this purpose, the Department is disposed to keep open the supplemental trade agreement negotiations and therefore will not issue the notice of suspension which would otherwise have been issued today because of the failure of the Cuban Government to take action in accordance with its reiterated assurances.

Please transmit this information informally to the Cuban Secretaries of State and Agriculture, as well as to Senator Casanova, head of the Sugar Institute.

HULL

837.61351/2185

Memorandum of Telephone Conversation, by the Assistant Chief of the Division of the American Republics (Briggs)

[WASHINGTON,] September 13, 1939.

Ambassador Wright dictated the following translation of a memorandum given him informally this morning by Ambassador Martínez Fraga, who called at the Embassy with the Cuban Secretary of Agriculture:

"The abolition of the quota system is very grave for Cuba for the following reasons:

1. The basis (*raison de ser*) of the Treaty of 1934 is destroyed.
2. The Cuban Government will not be able to justify the keeping in force of the Treaty of 1934.
3. The sugar industry in Cuba will find itself obliged either to restrict (production), i.e., renounce the eventual advantages of the war, or to compete freely in open competition in the American sugar market.

"Both systems constitute a leap in the dark. The solution of such a dangerous situation could be the urgent modification of the Treaty of 1934 permitting the customs tariff of 90 cents and the application to this tariff of the presidential privilege of reducing it.

"I consider it indispensable that both Governments clarify the confusion which has been created, declaring the immediate intention of modifying the treaty in the manner indicated."

Ambassador Wright observed that although the language used in the penultimate paragraph was obscure in Spanish, the meaning was obviously that Cuba desired to have the duty returned to 90 cents, notwithstanding the suspension of the quota.

He said he had telephoned the foregoing at the urgent request of Dr. Martínez Fraga, who was aware that Mr. Welles was about to leave Washington and desired Mr. Welles to receive it at once.

Mr. Wright said that the impression seemed general in Cuba (notwithstanding the clear statements which he had made in accordance with the Department's telegram of September 11) that our action constituted "retaliation" against Cuba for the continued failure of the Cuban Government to act on the various matters—especially the Public Works Debt—in which we were interested. For example, he said that the newspaper *Avance* had suddenly come out last night in favor of settlement of the *obligaciones*,—action on which had again been promised by the Cuban Ambassador, this time at tomorrow's session of the Senate. From other sources, including Dr. Mañas, Ambassador Wright hears that the Cubans are "in a negotiating mood", and believe that something must be done to get the duty back to 90 cents if economic disaster is to be averted. Mr. Wright expressed the further opinion that although the matter would have to be handled with great delicacy, he was not sure that something effective could not shortly be done if we were in a position to make a proposal.

837.61351/2174

The Ambassador in Cuba (Wright) to the Secretary of State

No. 2388

HABANA, September 14, 1939.

[Received September 15.]

SIR: I have the honor to transmit herewith a copy, together with translations, of a note handed to me by the Secretary of State last evening in reply to my informal communication to him on the 11th instant of the decision of the President of the United States to announce by proclamation the discontinuance of the sugar quotas.

Respectfully yours,

J. BUTLER WRIGHT

[Enclosure—Translation]

The Cuban Secretary of State (Angel Campa) to the American Ambassador (Wright)

HABANA, September 13, 1939.

MR. AMBASSADOR: The personal communication which Your Excellency made to me yesterday concerning the decision of the Government of the United States to declare abolished the system of quotas which governed the sugar market, on which was specifically based the only important advantage which the Reciprocal Trade Agreement of 1934 offered the people of Cuba following the suspension of the advan-

tages to our tobacco, has caused a painful impression to my Government which it would be both insincere and useless on my part not to hasten to make known to the Government which Your Excellency so worthily represents. In fact, the disorder which this unexpected measure causes in our national economy is so complete and arouses such deep anxiety in the Cuban people that my Government does not hesitate to request, in a friendly manner, that the Government of the United States consider emergency action with a view to the immediate remedying of this seriously unbalanced situation which, without a doubt causes, with respect to Cuba, a condition of obvious inequality in the field of our reciprocal relations. Fortunately, I cherish the hope that within the instructions received from your Government—which I had the privilege of learning yesterday through the medium of Your Excellency, and which leave open the door for carrying on the negotiations with a view to broadening the Treaty of 1934—it may be possible to find a provisional formula which will permit the Government of Cuba—inclined perhaps to reduce the benefits accorded the United States to the limits fixed by the Treaty of 1902²¹—to maintain those commercial relations from which both countries have derived positive advantages within the brilliant scope which they have attained to their mutual convenience, and to the extent made necessary by the seriousness of the present time.

In that regard I do not consider it inopportune to suggest to Your Excellency that if it is the purpose of the Government of the United States in destroying the quota barriers to promote a just balance in prices—a commendable policy which all governments may perhaps have to pursue during this war in order to restrain undue speculation in products of prime necessity—the reestablishment of the current tax of 90 cents imposed on Cuban sugars would further that end.

In such a case Cuba would be prepared to sacrifice the unquestioned privilege which the system of quotas represents to her, the reestablishment of which might be considered later when the disagreeable circumstances of the moment will have changed. It is possible that within the broadening of the powers of the Executive Branch of the Union to negotiate reciprocal treaties, there may be found the solution, such, for example, as an exchange of notes between both Governments which would put into effect this provisional regime until there is signed the additional treaty which the Government of Cuba is anxious to enter into in its unshakable desire to establish a new and stronger tie in its friendship with the Government and the people of the United States.

I take [etc.]

MIGUEL ANGEL CAMPA

²¹ Signed at Havana, December 11, 1902, *Foreign Relations*, 1903, p. 375.

740.00111 A.R./332a: Telegram

The Secretary of State to the Under Secretary of State (Welles) ⁸²

[Extract]

WASHINGTON, September 21, 1939—7 p. m.

8. For the Under Secretary from Duggan.⁸³

The trade agreements organization has approved the negotiation of a supplemental agreement with Cuba in order (1) to restore the duty of ninety cents per hundred pounds on Cuban sugar during the period of suspension of sugar quotas by Presidential proclamation; (2) to insure the continuance of the ninety cent duty if and when quotas are reestablished; (3) to restore to Cuba the tobacco concessions; and (4) to take care of a number of technical matters which the trade agreements organization considers of importance. Secretaries Hull and Wallace ⁸⁴ have indicated their approval and Assistant Secretary Grady ⁸⁵ hopes to clear the matter with the President tomorrow. It is then proposed to send a negotiator to Cuba in order to complete the agreement as rapidly as possible. It is hoped that the foregoing is satisfactory to you.

[Duggan]
HULL

611.3731/2168: Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 22, 1939—noon.

[Received 8:45 p. m.]

4. For Duggan. Your 8, September 21, 7 p. m. (section 3). I am particularly relieved to know of this very satisfactory decision of the Trade Agreements Organization and of the approval of the Secretary and of Secretary Wallace. With regard to point 1 as stated in your section 3 I assume that the restoration of a duty of 90 cents will apply only to Cuban sugars amounting to the total provided for under the quota legislation. Please confirm my understanding on this point.

I am glad to have this information you have sent me because of the fact that the entire Cuban delegation which arrives today, I am in-

⁸² Then at Panama as American delegate to the meeting of the Foreign Ministers of the American Republics; see pp. 15 ff.

⁸³ Laurence Duggan, Chief of the Division of the American Republics.

⁸⁴ Henry A. Wallace, Secretary of Agriculture.

⁸⁵ Henry F. Grady, Assistant Secretary of State.

formed by Ambassador Martínez Fraga, has been sent solely for the purpose of discussing the sugar problem with me and their attitude during the meeting will undoubtedly depend in large part upon our assurance that we intend to deal fairly with Cuba in this matter.

WELLES

611.3731/2175 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 23, 1939—4 p. m.

[Received 9:12 p. m.]

8. For Duggan. My No. 4, September 22, noon. I had a full conversation last night with the Cuban delegation.

It would be my suggestion that the negotiator mentioned in section 3 of your No. 8, September 21, 7 p.m. be sent to Cuba within about a week's time and that upon his arrival in Habana the Embassy be authorized to make a brief public statement to the effect that negotiations are being undertaken for the conclusion of a supplementary trade agreement which will embrace both the sugar and tobacco questions as well as the solution of matters of interest to the United States. I would further suggest that there be a perfectly clear understanding between the two Governments that while these negotiations would be undertaken and the conclusion of the supplementary trade agreement expedited as much as possible the supplementary agreement if reached will not be made effective until and unless the Cuban Government gives us satisfaction on the questions detailed in our official communications to the Cuban Government of the past few months.

This is the tentative understanding I have reached with the Cuban Secretary of State and with Lopez Castro and Martínez Fraga. They are convinced that this is the most effective way of obtaining prompt action by their own Government because of their belief that as soon as public opinion in Cuba knows that a satisfactory supplementary trade agreement has been reached and that its going into effect is only contingent upon the solution of our requests the Cuban Congress would be forced to take favorable action.

I am very anxious for obvious reasons to reach a firm understanding in the above sense as soon as possible.

WELLES

611.3731/2168 : Telegram

The Secretary of State to the Under Secretary of State (Welles)

WASHINGTON, September 23, 1939—4 p. m.

13. Your 4, September 22, noon. The restoration of the 90-cent duty on Cuban sugar in the proposed supplemental trade agreement

is to be made without reference to any specific amount based upon quota legislation or otherwise. This point was exhaustively discussed both by the Trade Agreements Organization and by other interested officials and the conclusion was reached that the fixing of a tariff *quota* would be undesirable because (a) it would tend to hamper the attainment of the President's objective in suspending the quotas, that is to say, a free flow of sugar to the American market from all sources of supply and (b) it would involve administrative and technical difficulties both in Cuba and in the United States.

Arrangements have been made for Mr. Grady to see the President upon his return from Hyde Park on Monday. I appreciate fully that it would be helpful to you in securing the cooperation of the Cubans to give them an idea of the nature of the proposition now under study, but in view of the danger of leakage and of the effect which this would have on the market (and possibly in other directions) we believe it might be wisest for us not to disclose its outlines to them until the President's decision has been obtained and we are ready to take action.

HULL

611.3731/2167 : Telegram

The Under Secretary of State (Welles) to the Secretary of State

PANAMA, September 24, 1939—2 p. m.

[Received 5:45 p. m.]

10. Your 13, September 23, 4 p. m. I am very hopeful that Grady may see the President without fail on Monday and that you will be able to send me by rush cable the President's decision. Nothing would be more hopeful than for me to be able to inform the Cuban delegates of a favorable decision in this regard and to advise them that a representative of the Department will proceed to Habana in the very near future for the purpose of restoring to Cuba the tariff benefits mentioned.

WELLES

611.3731/2187

Memorandum of Conversation, by the Assistant Chief of the Division of Trade Agreements (Deimel)

[WASHINGTON,] November 14, 1939.

Participants: The Cuban Ambassador, Señor Dr. Pedro Martínez Fraga
Assistant Secretary Grady
Mr. Deimel

The Ambassador called by appointment to discuss the possibilities of winding up the supplemental trade-agreement negotiations. He

referred briefly to various earlier stages of these negotiations; he indicated that in the existing circumstances it seemed better to conclude the negotiations on a relatively restricted basis, and said that as he saw it this would mean covering three points: (1) the necessary minor adjustments; (2) the tobacco duties; and (3) the sugar question, in connection with which he referred to earlier discussion of a quota concession on rice and indicated that his Government would be prepared to give such a concession as *quid pro quo* for a sugar concession.

Mr. Grady said that on the whole the Ambassador's views seemed to be along the lines of our own: that we had in mind the desirability of winding up the present supplemental trade-agreement negotiations on a restricted basis, leaving to some more propitious time a more general adjustment of economic relations; that we could probably close up negotiations on the various technical questions rather readily, and that the question of the tobacco duties would present no particular difficulty; that with respect to sugar we considered the most desirable solution would be one envisaging restoration of the *status quo ante* quota removal; that it was important to modify the agreement in such manner as to make sure of the restoration of the ninety cent duty if and when the quotas should be reimposed, but that he could not speak very definitely on this at the moment since we were engaged in discussion with the Department of Agriculture of various aspects of the question of quota reimposition.

The Ambassador intimated that a mere restoration of the ninety cent duty would not constitute such a concession as he had in mind in speaking of a *quid pro quo* on rice, and asked as to the possibility of a further reduction in the rate, but did not pursue the matter when Mr. Grady indicated that this would not be feasible now; Mr. Grady added that something might perhaps be done by way of providing for maintenance of the ninety-cent rate in the event of a subsequent temporary quota suspension.

The Ambassador said that he was planning to go to Habana at the end of this week or early next week with a view to personally acquainting the President of Cuba and one or two others with the situation; that he thought we should be prepared with a supplemental agreement ready to be signed when quotas are reimposed. Mr. Grady repeated that we were working on aspects of this question and hoped that he might have something more definite to say a little later, before the Ambassador went to Habana, and would ask him to come in again in a few days.

611.3731/22384

*Memorandum of Conversation, by the Assistant Chief of the
Division of Trade Agreements (Deimel)*

[WASHINGTON,] December 13, 1939.

Participants: Señor Dr. Pedro Martínez Fraga, Cuban Ambassador
Mr. Deimel
Mr. Reinstein⁸⁶
Mr. Smith⁸⁷
Mr. Briggs
Mr. Bonsal⁸⁸

The Cuban Ambassador called by appointment to receive the draft text⁸⁹ of proposals for conclusion of the supplemental trade-agreement negotiations. The draft which had been previously approved was presented to him and the text was read over with him with appropriate explanations. The Ambassador noted specifically the provision in the sugar note which would effect restoration of the reduced duty upon announcement of the restoration of quotas, without necessarily awaiting the date of their actual restoration.

With respect to his proposal on rice it was pointed out to him that the rates and quantities had been left blank because of some doubt whether those he proposed would actually prove a benefit to the American rice industry and thus achieve the desired result. He agreed that it would not be desirable to include this proposal unless it could be formulated in such a manner to be of material interest to the rice producers. It was pointed out to him that the rice association's interest was now primarily in disposing of an adequate volume and that their earlier views as to margin of preference had been modified; and further that the statistics of imports of American rice into Cuba for the last two years exceed the amount of the proposed quota. Since the proposal would involve a materially higher duty and lower preference on rice imported in amounts exceeding his proposed quota, the net effect might be one disadvantageous to the rice producers or at least regarded by them as making their position in the Cuban market worse rather than better. It developed in the conversation that the Cuban Ambassador had not formulated his proposal on the basis of any recent discussion with persons directly concerned in the marketing of rice in Cuba. Accordingly, at his request Mr. Deimel agreed to communicate with Mr. Reid, Executive Vice President of the Rice Millers Association with a view to developing information which would clarify the matter.

⁸⁶ Jacques J. Reinstein, of the Division of Trade Agreements.

⁸⁷ H. Gerald Smith, of the Division of Trade Agreements.

⁸⁸ Phillip W. Bonsal, of the Division of the American Republics.

⁸⁹ Not printed.

As to the remainder of the proposed Schedule I, it was explained to the Cuban Ambassador that this contained merely those items which we had proposed in May and which the Cuban Government had not rejected in the Ambassador's reply in July; that of the sixteen items other than rice, twelve consisted merely of a writing into the Agreement of customs clarifications and classifications effected by the Cuban Government since the conclusion of negotiations in 1934; that only the remaining four items, Palm Beach cloth, canned salmon, canned mackerel, and canned peanut butter, would effect any improvement in treatment of American trade and that consisted primarily of the insertion of new classifications and rates to bring the duties on these products to a level more nearly corresponding with the rates on closely competitive products. It was pointed out to the Ambassador that some improvement of treatment for American goods was necessary although of course we did not intend to ask for more than was reasonable. The Ambassador indicated that he did not think there would be any difficulty with these items.

The Ambassador stated that the supplemental agreement would have to be ratified by the Cuban legislature which would require a change in the final article, but that this ratification could be accomplished promptly so that signature Friday or Saturday and ratification Monday might be possible.

611.3731/2242½

*Memorandum of Conversation, by the Assistant Chief of
the Division of Trade Agreements (Deimel)*

[WASHINGTON,] December 16, 1939.

Participants: Señor Dr. Pedro Martínez Fraga, Cuban Ambassador
Mr. Deimel
Mr. Smith

The Cuban Ambassador called this afternoon to receive and discuss the replies to the observations relating to the supplementary trade agreement which he had handed to Mr. Grady on December 15. The informal memoranda, of which copies are attached,⁹⁰ were handed to him on these points and several additional points of minor technical significance.

The Ambassador read these over and indicated that they were completely agreeable to him with the exception of the question of exempting certain sugar from the 1940 quota even if it came in after January 1. He said he thought there was some danger that the importers of this sugar in the United States might not consider it in their interest or necessary to pay the duty and clear the sugar before Janu-

⁹⁰ Not printed.

ary 1 so that it might be left in customs jurisdiction until next year and be charged against the Cuban quota. I explained that I had discussed this point with Mr. Bernhardt,⁹¹ who did not seem to feel that this was likely and did not feel that there was any scope in the sugar legislation to alter the practice of charging imports against a quota at the time it is withdrawn from customs custody; that he had not, however, said that I could make a flat statement that this was impossible and that he would look into the question again, although he doubted very much that any possible leeway would be found. I pointed out that in any case it was a matter affecting quota administration rather than the trade agreement.

The Ambassador said he had no desire to delay the conclusion of the trade-agreement negotiations and suggested leaving it this way: that the trade agreement would be concluded as proposed; that the Department of Agriculture's belief that there would be no problem of sugar not cleared might prove correct; but that if, say around Christmas, it appeared that the Ambassador's fears would be realized, that we would then again confer on the situation to see what could be done. I pointed out that I could make no promises as to what might be done, but that I felt sure that we would be glad, if his fears showed any sign of eventuating, to look into the situation with him again to see what, if anything, could be done.*

I indicated also to the Ambassador that some apprehension had been felt in the Department of Agriculture that if undue advantage were taken of any period during which the duty might be reduced, but before quota limitations were again in effect, to land and clear an extraordinary amount of Cuban sugar, that it would raise difficulty in Congress and probably result ultimately in an equivalent curtailment of Cuban quotas. I did not say that this would happen, but that it was something to bear in mind, in which the Ambassador seemed to concur.

With respect to the subject of rice the Ambassador indicated that the suggested method of handling this matter was entirely satisfactory, that he had this question very much at heart, and that he hoped we could discuss it with the Cuban Secretary of Agriculture when he was here next week.

We also discussed the time schedule, it being agreed that so far as practicable it would be planned to sign the agreement Monday evening,

⁹¹ Joshua Bernhardt, of the U. S. Department of Agriculture.

*I later discussed this question with Mr. Grady and Mr. Bernhardt and they both felt that this was the correct answer. Mr. Bernhardt noted that some small amount of sugar in bond might belong to people who would have no special interest in clearing it before the end of the year but did not feel that this would amount to very much, and although he did not feel that there would be any scope in the quota legislation to exempt any such quantity if it came in after the first, nevertheless he felt that one or the other of the governments might find some way of relieving any such situation if it should develop. [Footnote in the original.]

release it to our press upon signature for publication in Tuesday morning's papers, obtain ratification in Cuba on Tuesday and provide for exchange of ratification and proclamation on Wednesday, December 20, so that the agreement can enter into effect Thursday, December 21. I said that we would probably wish to release the text of the agreement with a short press release of four or five pages; that we were working on this press release⁹² and that I would try to clear it with him over the weekend. I also said that there was some technical change in the sugar note to clarify its intent which Mr. Reinstein was now going over with the Treasury. The Ambassador asked that a clean text of the agreement be provided him in time to send it to Cuba by airmail Sunday evening.

[For text of the supplementary trade agreement and protocol, signed at Washington, December 18, 1939, see Executive Agreement Series No. 165, or 54 Stat. 1997. On the same date, the Secretary of State and the Cuban Ambassador signed the memorandum printed *infra.*]

611.3731/2241a

MEMORANDUM⁹³

In connection with the signature of the supplementary trade agreement between the United States of America and the Republic of Cuba, signed this day, it was agreed as follows:

The phrase "subject to the provisions of this paragraph" in the second sentence of the third paragraph of the note to item 501 of Schedule II of the Trade Agreement of August 24, 1934, as amended by the supplementary trade agreement, shall be understood to mean that, if the rates of duty set forth in Column 2 of Schedule II should at any future date become effective by reason of a public notice issued pursuant to the provisions of the sentence in which this phrase occurs, and subsequently limitations on the importation into, or the marketing in, the United States of America of sugar originating in the Republic of Cuba cease to be provided for by law, the application of these rates will be

⁹² For press release of December 19, see Department of State *Bulletin*, December 23, 1939, p. 729.

⁹³ In a memorandum of January 25, 1940 (611.3731/2261½), Mr. J. J. Reinstein of the Division of Trade Agreements stated that this memorandum was prepared at the request of the Treasury Department and that since this request was received only three quarters of an hour prior to the time fixed for the signing of the agreement it was not possible to arrange for signature or initialing of minutes by the negotiators. The memorandum was therefore prepared for the signatures of the plenipotentiaries. It was understood with the Cuban Ambassador that it was a notation for the record on a technical point and was not to be published with the agreement.

terminated pursuant to the provisions of the first sentence of the same paragraph. If, thereafter, such limitations should again be imposed, the rates of duty would again be determined in accordance with the provisions of the second sentence.

CORDELL HULL

*Secretary of State of the
United States of America*

PEDRO MARTÍNEZ FRAGA

*Ambassador Extraordinary and
Plenipotentiary of the Republic of Cuba*

DECEMBER 18, 1939.

DOMINICAN REPUBLIC

NEGOTIATIONS FOR A CONVENTION BETWEEN THE UNITED STATES AND THE DOMINICAN REPUBLIC MODIFYING THE CONVENTION OF DECEMBER 27, 1924, REGARDING DOMINICAN CUSTOMS REVENUE¹

839.001 Trujillo, Rafael L./854

*Memorandum of Conversation, by the Assistant Chief of the Division
of the American Republics (Chapin)*²

[WASHINGTON,] July 11, 1939.

Participants: General Trujillo³
The Dominican Minister, Sr. Pastoriza
The American Minister to the Dominican Republic,
Mr. Norweb
Mr. Duggan⁴
Mr. Chapin

General Trujillo, accompanied by the Dominican Minister and Mr. Norweb called to see Mr. Duggan late in the afternoon after the tea given by the President and Mrs. Roosevelt at the White House. The General first expressed appreciation for the gracious reception given him at the White House and then indulged in the usual amenities.

The first point which the General brought up was his desire to obtain some 4,000 Springfield rifles for the Dominican Army to replace the present Spanish Mausers. Mr. Duggan explained that legislation was now pending in Congress whereby the arsenals, factories, and navy yards of this Government would be authorized to supply certain arms and munitions to the governments of the other American republics, but that unfortunately he did not believe this legislation included authorization for the sale of rifles.

General Trujillo said that he had noted that the United States Army was now substituting a new automatic rifle for the Springfield, and that very soon we would have surplus Springfields. He expressed the opinion that perhaps all that would be necessary would be an order

¹ Continued from *Foreign Relations*, 1938, vol. v. pp. 491-503. For text of convention signed December 27, 1924, see *ibid.*, 1924, vol. I, p. 662.

² During the previous months of this year informal discussions took place between the American Legation and the Dominican Ministry for Foreign Affairs regarding a convention and an enabling act for setting up a Dominican National Bank to replace the receivership of Dominican customs. Exploratory in character, these discussions resulted in a succession of new drafts which were further modified during the remainder of the year.

³ Rafael Leonidas Trujillo Molina, Chief of Staff of the Dominican Army.

⁴ Laurence Duggan, Chief of the Division of the American Republics.

from the President. Mr. Duggan explained again that such authority did not lie exclusively with the President and would probably necessitate an act of Congress, but that when there was a surplus of Springfields the Department would be glad to consider a formal request from the Dominican Government.

Mr. Norweb stated that the General was anxious to discuss informally the proposed revision of the Convention of 1924, whereat Mr. Duggan said that we would be most interested in learning at first hand the General's views, and that he hoped that the General would speak with complete frankness.

General Trujillo then said that "if the Government of the United States was really sincere in its desire" to relieve the Dominican people of the existing anomalous situation, there was a "very simple solution" which would be merely for the President of the United States under the authority conferred on him by the Convention to nominate a Dominican citizen as Receiver General of Customs.

Mr. Duggan replied that this was indeed a completely new idea and that although the proposed solution had the advantage of simplicity, it would require some consideration. Mr. Duggan continued that we had understood all along that Dominican objections with respect to the present special relationship between the two countries were more concerned with the form rather than with personalities. There then ensued some brief discussion, in which it was pointed out to the General that his proposed solution did not absolve the United States Government from any responsibility toward the bondholders, and that it was the sincere desire of the United States in accordance with its general policy so to modify the Convention, if that were possible, as to replace any direct relationship between the two governments by one between an organization representing the bondholders and the Dominican Government under terms which would protect the rights of these bondholders.

The General then stated that he felt that the present proposal which involved the transfer of the duties of the Receivership to a "Dominican National Bank" was unsatisfactory, since in effect this bank would be neither "Dominican" nor "national" as the control of its board of directors would be in the hands of foreigners. As Mr. Duggan was out of the room at this moment, Mr. Chapin observed that the form had been chosen advisedly due to the understanding that the Dominican Government wished to found a national bank and since it was felt that the proposed form would be more acceptable to the Dominican Government. General Trujillo stated that the Dominican Government did in fact desire a national bank. There then ensued a general discussion upon Mr. Duggan's return, as a result of which it was agreed by all that there was no absolute necessity for tying in a national bank plan with the proposed modification

of the Convention. It was suggested that perhaps the National City Bank could be approached with a view to ascertaining whether it would be willing to sell the Dominican branches to the Dominican Government as a separate operation.

Mr. Duggan then referred to one of the earlier drafts for a revision of the Convention of 1924, namely that presented in March 1937,⁵ which met most of what we understood to be Dominican aspirations and which provided for the collection of the customs by a receivership administered by Dominicans under the general supervision of a "customs representative" who with several American assistants would be appointed by the Dominican president from a panel submitted by the Executive Committee of Dominican bondholders.

The opinion was expressed that this might be a satisfactory basis upon which to build up new drafts.

Mr. Duggan suggested that the Department would be glad to continue discussions along these lines with the Dominican Minister in the absence of General Trujillo in the hope that some concrete and acceptable plan might be evolved in time to present to General Trujillo upon his return from Europe through the United States to his own country. The General acknowledged somewhat grudgingly this suggestion, but left in an atmosphere of apparent cordiality.

839.51/4721

Memorandum of Conversation, by the Assistant Chief of the Division of the American Republics (Chapin)^{5a}

[WASHINGTON,] July 25, 1939.

Mr. W. W. Lancaster⁶ called me yesterday afternoon about five o'clock to say that he had just concluded an hour's conversation with Señor Pastoriza, the Dominican Minister, who had informed him that he was accompanying General Trujillo to Washington Tuesday morning. He said that the General was prepared to proceed actively with negotiations on the basis of the proposed Dominican Bank Plan for the modification of the 1924 Convention, and is willing to stay as long as two weeks, if necessary, in order to clear up any remaining difficulties.

Señor Pastoriza indicated to Mr. Lancaster that the only real point at issue was the method of selecting the Board of Directors of the proposed Dominican National Bank. He said that the Dominican Government had experienced considerable difficulty with the present

⁵ *Foreign Relations*, 1937, vol. v, p. 453.

^{5a} Addressed to the Chief of the Division of the American Republics and the Under Secretary of State.

⁶ Member of the New York law firm of Shearman and Sterling, counsel of the National City Bank of New York.

fiscal agents, the Guarantee Trust Company, who were very "technical". When I inquired of Mr. Lancaster whether the possibility of substituting the National City Bank for the Guarantee Trust Company had been discussed, he said that as far as the National City Bank was concerned, while they would be willing to serve if pressed, they would prefer to keep clear of the whole structure. In this connection, Mr. Lancaster said that General Trujillo had observed to Mr. Henneman⁷ that "the Dominicans did not propose to buy the branches of the National City Bank merely to have that Bank run them". When informed by Señor Pastoriza that Mr. Henneman had always actively opposed the sale of the Dominican branches to the Dominican Government, since he felt they were a source of profit to the National City Bank, General Trujillo then sent word through Lancaster to the effect that he had not meant to be as abrupt in his statement.

Mr. Lancaster stated that he had suggested to Señor Pastoriza that the original board might be constituted by an informal exchange of notes between the Dominican and American Governments. This suggestion was apparently acceptable to Pastoriza. However Mr. Lancaster stated that he did not have any suggestions to offer as to the method of perpetuating the Board of Directors.

It is my understanding that Señor Pastoriza will get in touch with the Department of State shortly after his arrival today.

839.51/4724

*The Chief of Staff of the Dominican Army (Trujillo) to
President Roosevelt*

WASHINGTON, July 26, 1939.

MY DEAR MR. PRESIDENT: I wish to express my deepest appreciation for all your courtesies during my brief sojourn in Washington. I am most obliged for the friendliness of your reception and for the courtesies shown me by members of Congress and Government officials and by my good friends the officers of the Army, Navy and Marine Corps.

May I be permitted to reiterate to you at this time what I had occasion to say personally at the White House. The people and the Government of the Dominican Republic are pledged to the aims of continental solidarity that you so ably personify; they have set for themselves an unwavering course of cooperation in this field, and, however modest their contribution may be, none could be more sincere and definite.

May I be allowed to avail myself of this opportunity to call your friendly and personal attention to the only point that disturbs the normality of relations between our two countries. The United States

⁷ Harry Henneman, vice president, National City Bank of New York.

and the Dominican Republic are bound by a treaty, a product of circumstances and times, that is out of harmony with present trends, whereby our customs are under the control of American officials.

That accord had as its purpose to add to the already sufficient guaranty of the American Government for our loans, a machinery for the direct collection of custom funds which would ensure the punctuality of the payments.

Our Government has loyally complied with the terms of the pact, however much it may hurt its feelings, and it believes that its immaculate record of eight years of the wisest and most responsible management of public interests and strict discharge of international obligations warrant the revision of a statute that was enacted under circumstances that no longer exist.

We know that the Government of the United States is as much interested as the Dominican Government in putting an end to a situation that can hardly be reconciled with the new continental spirit. However, it has occurred to me that, instead of undertaking the tiresome negotiation of a new treaty through ordinary channels, where a certain amount of friction is always bound to appear when questions affecting the sovereignty of a nation are discussed, you, Mr. President, could solve the problem in an equitable and exemplary manner that would take nothing from the guarantee given for the loans, behind which stand both the American and the Dominican Governments. Complicated administrative and legislative tramitation could thus be spared, and the Dominican people could have the moral satisfaction to which they aspire.

May I suggest that you could appoint as General Receiver of Dominican Customs a citizen of my country, or else leave that post unfilled, thereby giving our Government the opportunity of exercising its own authority and appointing the new official itself. In no way are these suggestions, I think, in conflict with the treaty.

Article I of the pact that rules this question says: "That the President of the United States shall appoint a General Receiver of Dominican Customs who, with such Assistant Receivers and other employees of the Receivership as shall be appointed by the President of the United States in his discretion, shall collect all the customs duties accruing at the several custom houses of the Dominican Republic until the payment or retirement of any and all bonds issued by the Dominican Government in accordance with the plan and under the limitations as to terms and amounts hereinbefore recited" et cetera.

A gesture, as the one suggested, on your part, Mr. President, would be received by the Dominican Government with unprecedented jubilation and gratitude. Such [would] be an ample, generous and frank solution, taken in the spirit in which you wish the relations between our peoples to be conducted; and, furthermore, it would detract nothing from the rest of the obligations contracted through the treaty.

Among these obligations, the study of which could be the subject of further negotiations, there is one which prevents the Dominican Government from revising its tariff. You can imagine what such a clause, in force for over a third of a century, must have meant to my country. In times of violent economic and political upheaval, both internal and international, in which all the nations of the world have had to revise their standards of production and interchange, together with their revenue systems, one of the mainsprings of which is the customs, the Dominican Republic has been prevented from taking any steps in this direction because of that treaty clause.

This clause has acted as a fetter to government action when this action was most needed to consolidate the process of political and economic restoration from which my country is now successfully emerging.

Please be good enough, Mr. President, to forgive me for bringing this matter to your attention while you are so busily engaged with other problems. I have been encouraged to do it because of the kindness and friendship with which you honored me and because of the affectionate interest with which you have invariably faced all questions concerning Latin America.

Accept [etc.]

RAFAEL L. TRUJILLO

839.51/4738

*Memorandum of Conversation, by the Assistant Chief of
the Division of the American Republics (Chapin)*

[WASHINGTON,] August 2, 1939.

Mr. Norweb called me from New York this morning at about 10:30 to say that he had just returned from seeing off General Trujillo on the *Normandie*, where he was occupying the Deauville suite, the most luxurious accommodations on the vessel.

Mr. Norweb said that he had had an opportunity to discuss at some length with General Trujillo the question of the revision of the Convention of 1924. General Trujillo stated that while the Dominican Government was very anxious to establish a Dominican national bank on the basis of a purchase of the Dominican branches of the National City Bank of New York, it did not wish to surrender financial control of this proposed national bank to a board of directors with predominantly American membership. Apparently, however, he was quite willing to have the bank collect the customs and to have that part of the organization of the bank which did collect the customs under American control. General Trujillo stated that he was much gratified at the cordiality of the reception accorded him in the United States, and referred in particularly warm terms to the Secretary of State.

He told Mr. Norweb that he and Sr. Pastoriza had had an opportunity at the reception at the Dominican Legation on July 27 to discuss the proposed convention with the Secretary, and that the latter had stated that upon his return from his vacation he would be prepared personally to give consideration to the matter. General Trujillo added that in a subsequent conversation between the Dominican Minister and the Secretary of State the following day, the Secretary had confirmed to Sr. Pastoriza his intention of giving personal consideration to the proposed convention upon his return from vacation.

Mr. Norweb stated that the General and Sr. Pastoriza appeared to lay particular stress on these statements attributed to the Secretary, and that the General had instructed Sr. Pastoriza to forego his leave at the present time and to await instructions from President Peynado from the Dominican Republic.

General Trujillo informed Mr. Norweb that he had been advised by his counselors in the Dominican Republic to avoid taking the lead personally in the negotiations and to have them conducted through regular channels by reference to the present Dominican Government, subject of course to the General's approval. The General stated that he was returning to the United States sometime in October on his way back to the Dominican Republic and hoped that negotiations would have reached a point of agreement by that time. He told Mr. Norweb that he believed that there was still room for negotiation upon the basis of the existing drafts, but that in case this was not possible, the Dominican Government would submit through Pastoriza an entirely new proposal based upon the considerations which he, General Trujillo, and Sr. Pastoriza had outlined informally to Mr. Duggan on the occasion of their call at the Department of State earlier in July.

S[ELDEN] C[HAPIN]

839.51/4724

The Acting Secretary of State to President Roosevelt

WASHINGTON, August 3, 1939.

MY DEAR MR. PRESIDENT: I enclose a draft letter in reply to a communication addressed to you by General Trujillo, Chief of Staff of the Dominican Army and former President of the Republic, in which the suggestion was made that the aspirations of the Dominican Government with respect to the liquidation of the existing special financial relationship between that Government and ours would in large measure be met should you agree either to appoint a Dominican citizen as Receiver General of Dominican Customs or else to leave that post unfilled.

Faithfully yours,

SUMNER WELLES

[Enclosure]

Draft of Reply to Communication From the Chief of Staff of the Dominican Army (Trujillo)

MY DEAR GENERAL TRUJILLO: In acknowledging the receipt of your letter of July 26, 1939, I desire to say that the officials of this Government have been only too glad to extend to you friendly courtesies. I am pleased that you found your stay in this country enjoyable.

Your reiteration that the foreign policy of the people and Government of the Dominican Republic is pledged to the aims of continental solidarity cannot but evoke a feeling of gratification on the part of this Government.

I sincerely appreciate your frankness in making your suggestion with respect to the existing Convention of 1924 between the Dominican Republic and the United States and wish to assure you that for my own part personally, I welcome them in the spirit in which I know they have been made. I feel sure that you realize that this Government no less than that of the Dominican Republic has been desirous of finding a solution which would, while honoring the contractual obligations of both Governments towards third parties, clear away the remaining vestiges of the former special financial relationship between the two countries.

While the method that you suggest, namely, that the President of the United States either appoint a Dominican citizen as Receiver General of Dominican Customs or else leave that post unfilled, has much to recommend it on the grounds of simplicity, such a solution could only be partial in its effects.

Under the Convention of 1924, and in the contracts of the Dominican external bonds, the two Governments assumed certain responsibilities toward the purchasers and owners of these bonds. Merely to appoint a Dominican citizen as Receiver General of Dominican Customs, even were that gesture satisfactory to the Dominican people and Government, would not in effect transfer any of the responsibility of the Government of the United States to the Dominican Government, which has been one of the chief objectives of both Governments. Furthermore, it is my understanding that there are several other provisions of the Convention, including that mentioned by you with regard to alterations in the Dominican Customs Tariff, which stand in need of revision.

It was with the view to effecting a complete revision of the provisions of the Convention of 1924 in an effort to respond to the aspirations of the Dominican Government and people while safeguarding the obligations assumed towards the holders of Dominican external bonds, that the Government of the United States first agreed to undertake

negotiations for a new instrument which might be substituted for that Convention.

It was my hope that these informal negotiations, which had proceeded to what was believed to be the point of mutual agreement, might be brought to a successful conclusion.

Finally, I need hardly bring to your attention the fact that while the Executive Branch of this Government is charged with the responsibility of negotiating treaties and conventions, under our Constitution it must submit these instruments to the Senate for its advice and consent.

In closing may I take the opportunity again to assure you that this Government is sincerely desirous of concluding an agreement to replace the Convention of 1924 which will respond to Dominican aspirations and will dissolve the remaining direct financial relationship between the two Governments without prejudice to the interests of third parties. To this end this Government is prepared either to continue with a discussion of existing proposals or to examine with sympathetic understanding any new proposal which may be proffered by the Dominican Government.

Very sincerely yours,

839.51/4728

The Minister in the Dominican Republic (Norweb) to the Secretary of State

No. 840

CIUDAD TRUJILLO, August 21, 1939.

[Received August 29.]

SIR: I have the honor to report to the Department that the President of the Dominican Republic, Dr. Peynado, and the Foreign Secretary, Mr. Despradel, have separately informed me that so far as their Government is concerned negotiations looking toward a revision of the American-Dominican Convention of 1924 have been suspended.

Both President Peynado and the Foreign Secretary agreed in saying that it was possible that conversations might be resumed upon the return through Washington of General Trujillo as they understood that the General and Mr. Pastoriza had talked on the subject with Secretary Hull late in July. However, the nature of such renewed conversations, if they were resumed, would depend entirely upon General Trujillo's views and what Mr. Pastoriza could tell him as to the possibilities in Washington. President Peynado and the Foreign Secretary professed complete ignorance as to the nature of the conversation between Secretary Hull, General Trujillo and Mr. Pastoriza.

It is clear to me that no one in the Dominican Republic will touch the Convention question pending the return of General Trujillo.

Respectfully yours,

R. HENRY NORWEB

839.51/4731

The Minister in the Dominican Republic (Norweb) to the Secretary of State

No. 873

CIUDAD TRUJILLO, September 5, 1939.

[Received September 8.]

SIR: In the trust that renewed study of the plan to replace the Receiver General of Dominican Customs by a fiscal agent representing the bondholders might afford a basis for revision of the 1924 Convention, I have the honor to submit the following observations, together with a sketch of such a proposed arrangement.

The history of the negotiations between the American and Dominican Governments since 1937, seeking revision of the 1924 Convention, makes it abundantly clear that the two sides to the conversations have been attempting to achieve two mutually conflicting objects: the maintenance of foreign control of Dominican customs collection for the protection of holders of Dominican bonds while at the same time preserving the fiction of Dominican sovereignty over the customs service.

The time has come for a restatement of objectives. . . . The United States Government in line with its present Latin American policy is willing to give up its present position vis-à-vis the Dominican Government as a tutelary state: to drop out of the picture in so far as collection of the Dominican customs revenues is concerned. It cannot, however, because of the fact that in 1907^s and 1924 it pledged its moral credit to the holders of Dominican bonds, admit that the collection of the custom revenues pledged to the repayment of those bonds revert wholly to Dominican hands, in view of the lamentable record of the past with respect to Dominican finances. It is willing, however, by means of a new agreement between the two governments to perfect an arrangement by which the bondholders themselves and the Dominican Government mutually arrange for the collection of customs to be applied to the Dominican foreign debt.

Once these premises have been understood and accepted by the Dominicans the framework of a possible new arrangement could be discussed. As pointed out above it would be in essence an agreement between the Dominican Government and the bondholders themselves confirmed, however, by a new Convention between the American and Dominican Governments thus placing the seal of both states upon an instrument doing away with the now anachronistic Convention of 1924.

The collection of Dominican customs would be arranged by a voluntary delegation of power by the Dominican Republic to its creditors

^s See convention signed February 8, 1907, *Foreign Relations*, 1907, vol. I, p. 307.

and not to a foreign state as under the existing Convention. Technically this would not be an impairment of sovereignty as the personnel of the customs service would be appointed by the Dominican Executive even though they were selected by the bondholders or their representative, the Fiscal Agent. This in itself is a considerable advance over the juridical position of the Dominican Republic at the present time as a state bound by the 1924 Convention to the American Government. Actually, however—and the Dominicans should not blink the fact—real control of the customs collection would be in the hands of the bondholders through their representative.

The draft of the proposed Convention set forth below would, therefore, contain a considerable amount of sugar-coating and to this country of lawyers should be more acceptable from a legal point of view, particularly with reference to sovereignty. Even though no pretense would be made that the Dominican Government was to have entire control of its customs collection for the application of the revenues therefrom to the payment of the foreign debt, the Dominican Government could truthfully say that it had appointed the Fiscal Agent and other officials charged with such collection and that therefore the customs service was essentially a Dominican organism. The provision in the draft below that the customs service should be staffed by Dominican citizens with the possible exception of the Fiscal Agent and the two assistants he is empowered to nominate, would not change materially the present set up in the Receivership but would satisfy national aspirations in this regard. Furthermore there is nothing in the draft Convention to prevent the appointment of Dominicans to any or all of these three essential posts were they to be nominated by the bondholders or the Fiscal Agent.

In this connection the present draft does not include any phraseology to prevent a stalemate between the nominating power of the Foreign Bondholders Protective Council (this might likewise read the Committee of Dominican Bondholders) and the appointive power of the Dominican President, since this might be more tactfully handled by an exchange of notes in which the two Governments would agree that the President of the Dominican Republic would at once appoint the Fiscal Agent nominated by the bondholders and that he would further at once appoint the personnel of the customs service selected by the Fiscal Agent.

The new draft eliminates two factors of the 1924 Convention which have been onerous to the Dominican Government. The first of these is Article III of the 1924 agreement which gave the United States veto power over the right of the Dominican Government to increase the public debt. Retained, however, is the proviso included in previous drafts of the "Bank Plan" Convention which prevents the Dominican Government from pledging the remainder of the amalgamated customs

revenues not applied to the interest and amortization of the present foreign debt as the basis for any new financial obligation.

Another objectionable feature from the Dominican point of view to the 1924 Convention has been the practical freezing of the customs tariff in effect when the 1924 Convention was ratified without ease of modification. The draft Convention⁹ appended to this memorandum, in interjecting the idea of an amalgamation of the old customs tariff and the present duties on imports levied in the guise of so-called internal revenue taxes, gives the Dominican Republic a welcome opportunity for a scientific revision of its present antiquated tariff structure. This revision would, it is logical to expect, result in improved revenues for the Government as compared with the present tariff schedules. It would also serve, provided the study be made by expert economists, to increase commerce in the Dominican Republic. Furthermore, it would be possible under the proposed draft Convention for this new amalgamated customs tariff to be revised from time to time as the needs of the Dominican Republic gave warrant, provided always, of course, that such revision would not so diminish the customs revenues as to impair the services of amortization and interest on the foreign debt.

Under the draft Convention appended herewith there would be no need for any reference to the bank plan. It is an open question if the Dominican Republic is particularly enthusiastic for a national bank. . . . There is an unlimited field of potential legislation open to the Dominican Government which would in effect create a monopoly for the national bank of all commercial financial transactions. . . . Should a Dominican National Bank be created under the auspices of the American Government and prove a failure it would be difficult for the United States to escape censure.

However, as between the two governments it appears that the Department of State is not directly concerned with whether the Dominican Republic acquires a national bank or not. Our sole objective is to remove the United States Government from its present position of fiscal guardian to the Dominican Republic and to replace the American Government by a representative of the bondholders for the protection of their equity as represented by the Dominican foreign debt. The establishment of a national bank has no particular effect upon the attainment of these objectives. The question should more properly be one for private negotiation between the Dominican Government and the American bank now apparently eager to dispose of its business in the Dominican Republic. It would appear that the fundamental policy of the Department may become beclouded by connecting a new political arrangement between the two governments with a private contract of sale between a bank and the Dominican Government; and

⁹ Not printed.

that the success of our own negotiations may be impaired because of their linking with private negotiations.

Also to be considered as an essential concomitant to the proposed draft Convention would be an exchange of notes providing for an orderly liquidation of the Dominican floating debt and an exchange of notes establishing a Receivership pension plan. If the Dominican Government is, as it will claim in the negotiations, a solvent organization whose credit is sound and whose finances are in order there is no reason on earth why its long outstanding floating debt obligations, most of which are small in amount and owned by persons fully as necessitous of money as the Dominican Government, should not be paid. As for the pension plan it is a sound system which has received Government approval and to which no objection can be offered.

In the final analysis there are only two points upon which agreement must be reached. One of these points is already accepted by both governments—that the United States shall cease to collect Dominican customs for the benefit of the bondholders of the Dominican Republic. The other point has not been accepted but it seems reasonable and might eventually form the basis of agreement—that the bondholders be assured their money will be repaid to them by supervising the collection of the revenues pledged to their debt, through an official of their own choosing, whose authority over the customs service shall be adequate, but who shall act for the Dominican Government as well as for the bondholders.

Respectfully yours,

R. HENRY NORWEB

839.001 Trujillo, Rafael L./395

*The Chief of Staff of the Dominican Army (Trujillo) to
President Roosevelt*

WASHINGTON, October 25, 1939.

MY DEAR MR. PRESIDENT: Upon leaving on my homeward trip, I wish to express once more my appreciation for all the courtesies which were shown me during my visit in the United States. At the same time, I beg to acknowledge receipt of your letter of August 4,¹⁰ in reply to mine of July 26 and which reached me in Paris when, in the midst of the alarms of pre-war days, I was preparing the return trip of my family to America.

I was happy to know that you also feel that, due to its simplicity, the idea of taking definite steps towards the solution of the problem which divides our two countries by appointing a Dominican citizen

¹⁰ See draft of reply to communication from the Chief of Staff of the Dominican Army, p. 586.

for the post of General Receiver of Customs or by leaving the post vacant, is highly commendable. As you so justly realize, this method, partial in its results, would have the advantage of breaking through eight years of Chancery negotiations in search of a complete solution, and, in my opinion, it would be the basis for a rapid understanding of the general convention which, as you well advise, must replace that of 1924.

In the meantime I have been advised that the post of General Receiver of Customs is now vacant¹¹ and that new proposals for a convention between our two countries are being considered. Under these circumstances, a negotiation undertaken under your personal auspices, Mr. President, could not fail to reach the solution that our two governments desire.

Welcoming the cordial invitation expressed in your above mentioned letter of August 4, stating that the Government of the United States "will examine with benevolent understanding any new proposal submitted by the Dominican Government", this Government intends to submit to the consideration of the State Department a new basis for discussions which contains in substance the essential points upon which that Department has been insisting and which eliminates, at least partially, the dispositions of the Convention of 1924 which my country considers as offensive to its sovereignty.

The Dominican proposal, taking into consideration the interest of third parties which you mention in your letter, would strengthen the guaranty of the external debt binding to its service the total amount of the Government's income, which amounts to 11 million dollars, instead of making one sole collection of customs which amounts to more or less \$2,800,000, representing the guaranty in accordance with the present Convention.

The Dominican proposal, in its general outline, can be expressed as follows:

I.—The Government of the United States and the Government of the Dominican Republic agree to abrogate the Convention of December 27, 1924.

II.—The Government of the United States and the Government of the Dominican Republic appoint, by mutual agreement, the National City Bank of New York as depositor of the general funds of the Dominican Government and agree to it that an official of that Bank will act therein in the capacity of representative of the Fiscal Agent of the loans. This official will receive by indorsement on the first days of each month, the amount representing the payment of the amortization and interests of the loans of 1922 and of 1926, by means of instructions for payment which will be given to the bank by the Dominican Government or through the Treasury Department.

¹¹ William E. Pulliam had resigned from this post, which he had filled since 1921, on August 1, 1938.

III.—The Government of the Dominican Republic agrees not to dispose of the funds deposited in the bank until the amount corresponding to the amortization and interests of the external debt has been segregated and paid in total.

IV.—It is understood that the amortization of the external bonds of 1922 and of 1926 will be made in accordance with the agreement reached with the Foreign Bondholders Protective Council, Inc. on August 16, 1934.

A Convention based on these points would give back to my country the right to manage their own Customs and revise their tariffs, thus opening the door to sure prosperity.

Being well acquainted, Mr. President, with your interest in the solution of this problem, I have taken the liberty of calling once more your attention to our points of view on the matter.

In taking leave of you, Mr. President, I wish to reiterate the assurances of my appreciation for your courtesies and of my highest esteem and consideration.

RAFAEL L. TRUJILLO

839.51/4761

The Dominican Minister (Pastoriza) to the Secretary of State

WASHINGTON, December 18, 1939.

MR. SECRETARY OF STATE: I have the honor to inform Your Excellency that the Dominican Government, in fulfillment of the promise made by Generalissimo Doctor Rafael Leonidas Trujillo Molina to His Excellency, President Roosevelt, in the letter which he addressed to him on October 25, 1939, in response to a letter dated August 4th of the same year, which the former received during his stay in Paris from the first mandatary of the United States, is willing to offer to the Government of the United States, as bases for a satisfactory modification of the Dominican-American Convention of 1924, all guaranties necessary to arrive at the conclusion of a new instrument which shall replace, to the mutual advantage, the one which is today existing between our two countries.

Generalissimo Doctor Rafael Leonidas Trujillo Molina, in the aforementioned communication, expressed to His Excellency, President Roosevelt, that the new bases of discussion which the Dominican Government proposed to submit to the Department of State for consideration, would comprise the essential points which the Department of State has emphasized, and would eliminate, at least in part, the provisions of the Convention of 1924, which the Dominican Republic has considered prejudicial to her sovereignty. The plan which, in accordance with that promise, the Dominican Republic hereby submits to the United States Government for consideration, tends substantially

to strengthen the guaranty which the Convention in force assures to the Bondholders, since it pledges to the service of the external debt the total of our revenues which amount to more than twelve million dollars per annum. The security stipulated by the Convention in force, on the contrary, amounts to only two million six hundred dollars approximately, which sum is considerably lower than that mentioned in this new plan which obviously constitutes proof of our sincere desire to conciliate the points of view of the two Governments and to facilitate between them an agreement designed to eliminate the only problem of an international nature which remains between our two nations.

The plan which, according to instructions received from my Government, I have the honor to submit to the Department of State for consideration, may be summarized as follows:

First.—The Government of the United States and the Government of the Dominican Republic agree to repeal the Convention of December 27, 1924.

Second.—The Government of the United States and the Government of the Dominican Republic, appoint, by mutual agreement, the National City Bank of New York as depositary for the general funds of the Dominican Government, and agree that an employee of the said bank shall act therein in the capacity of representative of the Fiscal Agent of the (external) loans. During the first few days of each month, that employee (representative) shall receive, by indorsement, the sum which represents the payment of the amortization and interest on the loans of 1922 and 1926, by means of pay orders which shall be handed to the bank by the Dominican Government through the Secretariat of State of Treasury and Commerce.

Third.—The Government of the Dominican Republic undertakes not to dispose of the funds which are received by the bank until it has set apart and paid in full the sum which corresponds to the amortization and interest on the external debt.

Fourth.—It is understood that the amortization of the external bonds of 1922 and 1926 shall be made in accordance with the agreement reached with the Foreign Bondholders Protective Council, Inc., under date of August 16, 1934.¹²

If, inspired by the good disposition which the Honorable President Roosevelt displayed for the solution of this problem, as he expressed in the letter dated August 4th, last, addressed to Generalissimo Trujillo, that the Government of the United States would study with benevolent understanding any new proposals submitted by the Dominican Government, the Department of State studies these new grounds of discussion with friendly interest, the efforts which our two Governments are making in order to solve this problem, no doubt will, in this instance, bring about the result which both parties desire and which they have pursued up to this time without having been able to find a satisfactory solution.

¹² *Foreign Relations*, 1934, vol. v, p. 201.

This new plan, in fact, bears evidence that the interest which the Dominican Government is pursuing in the solution of this matter is primarily of a moral nature and corresponds above all to our legitimate aspiration to reestablish completely our sovereignty which has been prejudiced by the Dominican-American Convention of 1924 and to give this international instrument, at the same time, a meaning and direction, compatible with the profound and sincere friendship which today exists between our two countries.

I avail myself [etc.]

ANDRÉS PASTORIZA

ECUADOR

PROPOSALS FOR A GENERAL PROGRAM OF ECONOMIC COOPERATION BETWEEN THE UNITED STATES AND ECUADOR

822.51/797

*The Minister in Ecuador (Long) to the Under Secretary of State
(Welles)*

QUITO, March 31, 1939.

DEAR MR. WELLES: Dr. Aurelio Mosquera Narvaez, the President of Ecuador, invited me to the Presidential Palace this morning and received me with the Minister for Foreign Affairs.

The President briefly referred to the efforts of his administration in taking steps which would improve the handling of public affairs, adding that he thought some of the worst influences had been eliminated and hoped now to be able to make substantial strides forward. In addition he stressed the fact that the Banco Central, Ecuador's Bank of Issue, was being re-officered and a new Board of Directors would soon be installed from whom it was reasonable to expect a proper administration of the bank's finances which eventually would [be] reflected in its improved position.

The President added that he had been impressed with the policy of Washington in seeking some practical manner in which to aid the countries that worked with it: that Ecuador had seen with approval the aid extended in the case of Brazil¹ and that Ecuador would like to do several constructive things, but before being able to do them would need a loan of possibly as much as ten million dollars. He asked if I would confidentially convey this suggestion to the Department and then let him know how the Department was impressed with the intimation he had made.

I told him I would be pleased to send an airmail letter today which should reach Washington next Monday morning conveying his message, but that there were several ways of approaching such a matter. One would be for the Government to make a financial statement outlining such plans as it might have under contemplation, another would be to invite a Financial Counselor to come down, look over the field and prepare a statement; but I hesitated to suggest the latter method because it was my impression that on a previous occasion when a fi-

¹ See pp. 348 ff.

nancial adviser had been here some disagreements had arisen at a time when Mr. Boniface² was then as now an important figure in the banking world.

The Foreign Minister, Doctor Julio Tobar Donoso, broke in and said he knew of the matter to which I referred, but that the incident had its explanations for the adviser who was furnished by the Kemmerer Commission³ was by some regarded as theoretical. At least it was a case where the two men did not get along.

The President said he was sure that if the Department favored the idea some practical method of working out the details could be found.

I regretted that we had no phone to Washington as it would be easier to talk the matter over with you, but promised that I would write today without fail.

While I realize that insufficient information is hereby furnished with regard to the use of the proposed loan and while also aware that Ecuador's record with respect to bonds has been somewhat unsatisfactory in the past, I would appreciate hearing whether there is any possibility of this matter receiving serious consideration should more exact data be obtained.

The individuals in the present Government are a high class lot of Ecuadoreans, filled, I believe, with the best of intentions and it seems now that they are pretty well set in the saddle; yet judging from the past they might be succeeded by a less capable group.

Very sincerely yours,

BOAZ LONG

822.51/792 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, April 5, 1939—9 a. m.

[Received 2:20 p. m.]

21. In connection with my letter of March 31 to Mr. Welles regarding Ecuador's desire for loan I wish to add that the present administration seems friendly to our Government and is stronger now than it was a few weeks ago before the strike of university students reported in my despatch No. 396, March 20, 1939.⁴ If a loan could be made and the proceeds be expended intelligently and productively, I think it would be a good thing.

The Foreign Minister said yesterday if one large enough loan were available it might be refunding.

If deemed more desirable make it small I think 5 million dollars would be greatly appreciated.

LONG

² Neptali Bonifaz, chairman of the Board of Directors of the Central Bank of Ecuador.

³ American Commission of Financial Advisers headed by Edwin W. Kemmerer, Princeton University professor, 1926-27.

⁴ Not printed.

822.154/73 : Telegram

The Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, May 8, 1939—4 p. m.

19. Department's instruction no. 96 of March 23, 1939.⁵ The President has approved the designation of Harry P. Hart, an Associate Structural Engineer of the Bureau of Public Roads, to proceed to Ecuador for a period of approximately 1 year.⁶ Please inform the Ecuadoran Government, adding that the President has likewise accepted the suggestion that this Government be reimbursed by Ecuador for the cost of Hart's transportation and other expenses between the United States and Quito and return, an allowance in Ecuador at the rate of 150 dollars per month, and his expenses in traveling within Ecuador. (For your information: these amounts are payable to the United States Government as such and not to Hart, who will be paid by the United States Government).

Hart is at present in California and is being instructed to proceed as soon as possible. You will be informed later as to the date of his arrival.

HULL

822.51/818

*The Ecuadoran Embassy to the Department of State*⁷

MEMORANDUM

Because of the geographical position and topography of its lands, the Republic of Ecuador offers great potentiality for the economic production of every kind of agricultural produce and livestock which up to now has not been developed nor increased due to lack of roads joining productive zones with the shipping ports. The result is that production has been limited to fill in the requirements of local markets and this restriction means that the country has but poorly taken advantage of its agricultural wealth without it being able to reach full rendering desired.

Ecuador's mineral wealth is apparent but the number of exploiting enterprises working its deposits at present are almost insignificant. Consequently, a net of roads giving access to mining zones and which would connect, safely and economically with sea ports, is indispensable for developing this inexhaustible source towards individual and public prosperity.

⁵ Not printed.⁶ This assignment was in response to a request from the Ecuadoran Government for the services of a highway engineer to assist in formulating and carrying out plans for highway development.⁷ Handed by the Ecuadoran Ambassador to Under Secretary of State Welles on May 23, 1939.

Ecuador disposes of vast and extremely fertile lands situated but at a short distance from the chief interior markets and export centers, lands which enjoy healthy climates and suitable for the welcome of thousands of colonists who, without having to bring with them large capital, would soon reach economic independence.

Up to now Ecuador has not stood out as a country which offers great tourist attraction. Its natural beauty and treasures of art as exhibited by her ancient monuments are hardly known. Slow means of traveling has resulted in that Ecuador, much to its economic prejudice, finds itself shut out from the great tourist streams of the world.

The country has tried to live and progress almost by itself and its development has therefore been slow. A working plan to include the elementary requirements of modern commercial intensive living has never been able to be put into practice. It is felt that the moment has arrived when, leaving this conservative policy aside, active development of a programme which includes the scientific exploitation of its natural wealth, can be begun. This would necessarily involve disbursing a large capital and as it is unobtainable within the country, it will have to be obtained from abroad.

The Government of Ecuador began by acknowledging that it is from every point of view essential to come to an arrangement respecting the payment, in cash, of the external debt as represented by the Bonds of the Guayaquil & Quito Railway,⁸ and it is because of this that it has firmly resolved to arrive at a solution which shall equitably consider mutual rights and interests both of the country and its creditors. Nobody has a greater interest than the Government to have its credit unencumbered as soon as ever possible, because it is fully alive to the fact that it is the only way open towards its national economic reconstruction.

The possibility of reaching an agreement with the Bondholders, whereby they would take over the technical management of the Guayaquil and Quito Railway and the Quito Ibarra Railway, for a certain number of years, might also be considered, the Government guaranteeing tariffs which, after carefully studying their relation with the various interests concerned, can render a sufficient margin to cover interest and amortization services on the final amount agreed through negotiation, an arrangement which might be based more or less on the following conditions:

a) If the Bondholders were to esteem it convenient, they would modernize the services of both railways and place them in a condition to render greater revenues;

b) The Bondholders would have to agree as to the necessity of reducing the amount of capital owing in harmony with the net revenue of both railways which would be the only one applicable to the interest

⁸ See *Foreign Relations*, 1936, vol. v, pp. 536 ff.

and amortization of the capital that would represent the new and final amount of the debt;

c) The Bondholders might furnish the capital necessary to complete the Railway from Ibarra to San Lorenzo or to any other port of the Pacific.

The general idea is that the present development of the country's business makes it indispensable that a corporation will direct and finance in a thoroughly efficient manner both railways as to place them in a state of paying for the operating, maintenance and depreciation requirements as well as cover interest and amortization of the debt and of the new capital to be furnished by the Bondholders over a prudential number of years. It is thus that the Government would relieve itself of the payment of the debt and the Bondholders would become sufficiently covered. In the event that the railways exploitation revenues showed an excess after meeting interest and amortization services, the Government would have a right to 50% of such excess.

Running parallel to aforementioned, and as an essential complement, efforts should also be made concerning the obtaining of a loan of sixteen million, five hundred thousand dollars.

The Government of Ecuador would distribute the proceeds of the Loan as follows:-

a) Settlement of Bondholders and Banco Central; payments on outstanding internal debt for fiscal practice during 1938 and for the Salt Bonds.	5,500,000.00
b) Highways and Railway betterments.	9,000,000.00
c) Agriculture, Industries and Irrigation.	2,000,000.00
Total.	16,500,000.00

The Nation disposes of the following resources for the Loan's interest and amortization services:

a) Dues on petroleum and gold productions.	680,000.00
b) Tax on cable service.	60,000.00
c) Consular dues.	120,000.00
Total.	860,000.00

It should be observed that these dues are received by the Government in American currency or its equivalent.

It should also be noted that the Government of Ecuador is open to invest what is necessary from this Loan in machinery to carry on the work or to enter into contracts with Foreign Companies to execute same.

It is not opportune to enter into details within the confines of this Memorandum in regard to the reconstructive and reproductive nature of the Loan's investment, from the point of view of the enormous increment that the many national productive fields would give, based

on the incalculable natural wealth of the country, awaiting only the vivifying impulse given by Capital that would obtain a fecund development in productivity, sound and sure foundation for economic individual and collective progress.

At the time of dealing with the details of the financial operation, all the antecedents and statistical data respecting the double fiscal and general economy can be made known, all of which will decidedly strengthen the solidness and security of the guarantee which from now is offered for the payment of the Loan.

822.51a/156

The Under Secretary of State (Welles) to the Secretary of State

ANCON, CANAL ZONE, October 1, 1939.

MY DEAR MR. SECRETARY: I am enclosing a copy of a memorandum of conversation between myself and the Minister for Foreign Affairs of Ecuador, and will appreciate it if the Department will give prompt study to this matter so that a decision can be reached as soon as feasible upon my return to Washington as to the best ways and means of proceeding to develop the work of economic cooperation with Ecuador. I believe the copy of the report to me by the Ambassador of Ecuador will be found in the Department's files.⁹ The copy given to me here is being retained by Mr. Feis¹⁰ and will be brought by him to Washington.

I presume the Department will have copies of Mr. Fetter's report.¹¹
Sincerely yours,

WELLES

[Enclosure]

Memorandum by the Under Secretary of State (Welles) to the Adviser on International Economic Affairs (Feis)

[ANCON, CANAL ZONE,] September 26, 1939.

Dr. FEIS: The Minister for Foreign Affairs of Ecuador and his colleague came to see me this afternoon and asked whether I had as yet received a copy of Mr. Fetter's report and also whether any decision had been reached with regard to the memorandum left with me by the Ambassador of Ecuador a short time before we sailed and of

⁹ See memorandum handed by the Ecuadoran Ambassador to Under Secretary of State Welles on May 23, *supra*.

¹⁰ Herbert Feis, Adviser on International Economic Affairs.

¹¹ Report not printed. Frank Whitson Fetter, professor of economics at Haverford College, was sent to Ecuador in the summer of 1939 to make an economic and financial survey in behalf of the Government of the United States in connection with Ecuador's request for financial assistance.

which the Minister handed me a copy which is attached herewith. I replied in the negative to both inquiries.

We had a fairly ample discussion during the course of which I limited myself to the reiteration of the principles contained in my speech of yesterday¹² and to the assurance that the proposals already submitted were receiving the most careful study in Washington and that I could state with certainty that the most favorable possible consideration would be given when a proposal was advanced by Ecuador which would provide for productive development in Ecuador and which would be regarded as financially justifiable by the appropriate governmental institutions in Washington.

The Minister for Foreign Affairs said that he would give me additional detailed projects before he left, and we also discussed the need of Ecuador's undertaking with as little delay as possible a comprehensive plan for the situation of non-competitive agricultural production in Ecuador. I may say that both the Minister and his associate, Dr. Icaza, appeared not only to understand the desirability of this from the standpoint of public opinion in the United States, but to be genuinely interested in it *per se* because of the promise it held for the creation of additional commerce in the United States. I told him that immediately upon my return to Washington I would urge our Secretary of Agriculture to select a competent expert to go to Ecuador to study the situation and recommend to the Government of Ecuador a suitable plan of complementary agricultural production.¹³ You may wish to get out a report to Washington to be sent by air mail.

822.51/827

The Ecuadoran Minister for Foreign Affairs (Tobar Donoso) to the American Under Secretary of State (Welles)

[Translation]

MEMORANDUM

1. On September 26, 1939, the Delegation consisting of the Minister of Foreign Relations of Ecuador, and Doctor Antonio Quevedo, Minister of Ecuador in Peru, called upon the Representative of the

¹² *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá September 23-October 3, 1939* (Washington, Government Printing Office, 1940), pp. 33-39.

¹³ In instruction No. 171, October 18, the Minister in Ecuador was informed that Atherton Lee and Charles L. Luedtke had been detailed by the President to assist the Ecuadoran Government for a period of about 1 month in the study of problems relating to the production and development of tropical products. Mr. Luedtke had made a previous agricultural survey on Ecuador in February-March 1939. (822.61A/13, 22)

Secretary of State of the United States of America at the Consultative Meeting in Panamá.

2. In accordance with the conversation during that visit, the Ecuadoran Delegation has the honor to state the following:

A) CONTRACT FOR THE CONSTRUCTION OF PUBLIC WORKS IN ECUADOR

3. The Delegation would greatly appreciate the provision of the required assistance by the Department of State for the favorable conclusion of the negotiations initiated with a view to having one or more United States companies contract for the construction, completion and improvement of the highways, railways and port works specified in the memorandum that Tobar Donoso gave to Mr. Welles during the conversation mentioned.

4. With the mentioned memorandum—another copy of which was delivered some months before in Washington by Señor Colón Eloy Alfaro¹⁴—there are included maps of the various Provinces of Ecuador with indications of the railways and highways the construction or improvement of which is desired by the Government of Quito. There are not provided in the mentioned memorandum all the details relating to agricultural, livestock and industrial development, but the data relative to such development will be provided subsequently.

5. The Government of Ecuador does not have available sufficient funds to cover the total expenses required for the construction of these public works, so that the company that makes the contracts, with the benevolent cooperation of the Government of the United States and of the Export-Import Bank, would necessarily advance the capital required which would be refunded subsequently, in the manner and form that shall be agreed upon. The Government of Ecuador does not desire to receive the funds for the works, but the works themselves, so that the funds would be handled by the entity that undertakes the works, without prejudice to the right of the Government of Ecuador to admit the expenditures and to pass upon the technical specifications of the works.

B) LONG TERM CREDITS FOR THE PURCHASE OF RAILWAY MATERIAL, MACHINERY, HEAVY MATERIALS, ETC.

6. The Delegation expressed its appreciation for the statements in Mr. Welles' speech and referred to that in which he said that for "the purchase of railway material, machinery, heavy materials, etc., there would be required longer term credits". The Delegation indicated that, in addition to the works specified in the memorandum delivered to Mr. Welles on September 26, there should be constructed or improved certain other productive works that require certain purchases—the

¹⁴ See memorandum handed by the Ecuadoran Ambassador to Under Secretary of State Welles on May 23, p. 598.

respective entities to be indicated opportunely—of materials and machinery, among which are:

- locomotives
- freight cars
- passenger cars—gas-electric coaches
- rails
- bolts
- nails and railway spikes
- telegraph and telephone material
- steel bridges
- steel bars for reinforced concrete
- cement
- repairs for locomotives and for passenger and freight cars
- machinery for highway construction
- trucks
- cranes with electric motors

The Government of Ecuador desires to be able to purchase the mentioned articles in the United States paying for them over a long period. It would appreciate having the Government at Washington and, especially, Mr. Welles lend cooperation in the steps necessary to attain this objective.

C) COOPERATION OF THE UNITED STATES IN THE ECONOMIC DEVELOPMENT OF ECUADOR

7. The Delegation expressed appreciation for the declaration made by Mr. Welles that "the Government of the United States desires to cooperate with the other American Governments in the efforts that each one of them may make for development of the resources of its country in accordance with sound economic standards and in non-competitive fields"; and his statement that "when it may be desired, they would be assisted in negotiating for credits, either through the system of private banks, or through the official agencies of the Government when the latter have at their disposal funds for such purposes".

8. In respect to this declaration the Delegation indicated that the Government of Ecuador desires to develop the resources of its country, the economic situation of which is being affected by the European war which has closed markets of exportation, rendered difficult the importation into Ecuador of various products, and disorganized the system of transportation that serves the commerce of the country, all of which may produce consequences affecting the stability of Ecuadoran monetary exchange.

Exports According to Ecuador Statistics

9. a) In conformity with the law of March 3, 1939¹⁵—which would

¹⁵ *Registro Oficial*, March 11, 1939.

lose its reason for existence if the commercial balance were equalized—in order to ascertain the exact amount of Ecuadoran exports must take into account only 15 percent of the total value of exports of crude petroleum and 20 percent of the value of exports of mineral earth (gold), because from both lines of business, exploited by foreign companies, there remain to the benefit of the country only the mentioned percentage.

b) The average percentage of our exports to Europe is 49.877 percent of the total value of our exports (Annex No. 1¹⁶).

c) The articles that have been exported the most from 1929 to 1938 and the countries of destination of those exports are set forth in Annex No. 2. Annexes Nos. 3, 4 and 5, indicate in detail the exports of each Ecuadoran article (including the total value, without any deduction, of the exports of gold and petroleum) in the years 1936, 1937 and 1938, respectively. Annex No. 6 summarizes Ecuadoran exports to principal countries and shows that the annual percentages of exports to Germany, which are now paralyzed, varied approximately between 20 and 27 percent of our total exports. France has absorbed from 8 to 12 percent of our exports and Great Britain another percentage; both countries have begun to reduce their importation of the articles they bought in Ecuador. As a result, it may be deduced that the European war has closed markets that consumed from 30 to 40 percent of Ecuadoran exports.

Ecuadoran Import Statistics

10. Everything concerning imports in recent years is set forth in Annexes Nos. 7 and 8.

Ecuadoran International Transportation Statistics

11. Annexes 9 to 16 set forth in detail the manner in which international transportation from and to Ecuador, by air and water, was effected in the years 1931 to 1938. From these tables it appears that German ships have transported more cargo than those of any other flag.

12. As a consequence of this situation it is going to be indispensable to Ecuador to obtain new markets for its products, and to do everything possible so that other navigation lines may transport the cargo that was formerly carried by the Germans.

13. To contribute to the development of Ecuador and to maintain or increase present imports the Government of Quito desires also to develop the agricultural and mineral resources of the country that are not in competition with products of the United States.

¹⁶ Annexes mentioned in this memorandum not printed.

Necessity for American Experts

14. The Government desires to obtain the assistance of the Government at Washington for the purpose of sending to Ecuador agricultural and mining experts who may determine which resources of both types may be developed on sound economic bases of non-competition.

Necessity for Capital and Investment from the United States

15. As soon as such experts present their report, the Government of Ecuador would look with gratitude upon assistance from the United States in the investment of American capital necessary for the development of the agricultural and industrial resources to which reference is made.

D) COMMERCIAL RELATIONS WITH THE UNITED STATES STATISTICS

Ecuadoran Exports

16. Ecuadoran exports to the United States are set forth in Annex No. 17, but it was necessary to decrease in Chapter III of the Annex the total value in the instances of gold and petroleum as mentioned in No. 11 (9^o), letter (a) of this memorandum, and fine silver and certain other products set forth in Chapter V of the same Annex which are articles reexported to the United States.

Commercial Balance with the United States

17. Annex No. 18 provides these data respecting the years 1936, 1937 and 1938, with the deductions made as indicated in letter (a) of No. 11 (9^o) of this memorandum. Such balance from January 1, 1936 to March 31, 1939 shows an unfavorable balance for Ecuador of 36,147,064 sucres.

Arrangements for Increasing the Commerce Between the United States and Ecuador

18. Taking into consideration this circumstance, the Minister of Foreign Relations of Ecuador hopes to be able to count on the good will of the Government of Washington for the purpose of seeking with it the means for increasing the interchange between the two States, by means of necessary arrangements that will permit an increase in Ecuadoran exports to the United States which will result in an even greater market in Ecuador for American products.

19. In view of the good will manifested by Mr. Welles, the Government of Ecuador will instruct its representatives in Washington to continue discussion of these matters with the Department of State.

PANAMÁ, October 1, 1939.

REPRESENTATIONS TO THE ECUADORAN GOVERNMENT REGARDING
IMPORT CONTROL PROVISIONS CONSIDERED AS NOT IN COMPLIANCE WITH TRADE AGREEMENT

611.2231/378a

The Secretary of State to the Minister in Ecuador (Long)

No. 91

WASHINGTON, March 2, 1939.

SIR: Reference is made to correspondence during the past few months between the Legation and the Department in connection with Ecuadoran import control measures and their relation to provisions of the trade agreement¹⁸ and to imports from the United States.

With particular reference to your despatch no. 307 of January 12, 1939,¹⁹ with which there was enclosed a translation of an unofficial text of the new import control regulations issued on January 6, it would appear that the Ecuadoran Government has, as in the case of the previous import control regulations during the period following the effective date of the trade agreement, disregarded the provisions of that agreement in connection with restrictions upon imports from the United States. The Department believes it desirable for two reasons to bring formally to the attention of the Ecuadoran Government the applicability of the terms of the trade agreement in connection with restrictions upon such imports: (1) to impress upon that Government the importance which this Government attaches to the full observation of the provisions of the agreement in order that its integrity may not be impaired and (2) to secure for articles of United States origin the protection provided by the terms of the agreement. There is accordingly enclosed a note which, if you perceive no objection, you are requested to hand to the Ecuadoran Foreign Minister as soon as a suitable opportunity presents itself.

In presenting this note, you should point out to the Minister that your Government is fully aware of the difficult economic situation which Ecuador is facing, and has no desire to make that situation more difficult by requiring an unreasonably strict interpretation of the letter of those provisions of the trade agreement concerning the imposition of import control measures. At the same time, your Government regards it as of great importance that the clear terms of the agreement be observed and that articles of United States origin receive the treatment to which they are entitled under the terms of the agreement during periods in which there is control of imports in Ecuador.

If, following a study of the enclosed note, the Foreign Minister or other Ecuadoran officials should request information or suggestions as to the manner in which the import control system and the provisions of the trade agreement may be reconciled insofar as concerns the im-

¹⁸ Signed August 6, 1938, Department of State Executive Agreement Series No. 133, or 53 Stat. 1951; see also *Foreign Relations*, 1938, vol. v, pp. 509 ff.

¹⁹ Not printed.

portation of articles from the United States included in Schedule I, you may point out to them that either Government, under the terms of the second paragraph of article VII of the agreement, may for any of the reasons stated therein, including protection of the currency, impose restrictions upon the importation of schedule products from the other country, provided the procedure outlined in that paragraph for notice and consultation is followed and the two Governments reach agreement concerning the proposed measures. In this connection you may say that you are certain that your Government would not be disposed to object to reasonable import control measures deemed necessary by the Government of Ecuador for the purpose of safeguarding the value of the currency in periods of exchange stringency. You may add that you would be glad to transmit to your Government any proposal which the Ecuadoran Government may wish to make at this time with a view to regularizing the present situation within the terms of the agreement.

For your own information, you will observe that the enclosed note raises the question of specific action to reconcile the Ecuadoran import control system and the provisions of the trade agreement only with respect to articles imported from the United States included in Schedule I of the agreement (article VII), and that a decision is reserved regarding the applicability of the terms of article VIII. While the Department believes that a strict interpretation of article VIII of the agreement in the light of the present Ecuadoran control regulations would show at least a technical contravention of that article, the Department does not wish to press this question at the present time, at least until the effect of the new system upon imports from the United States has been demonstrated.

With reference to that portion of your despatch no. 307 of January 12 in which you refer to alleged discrimination against American products in the granting of import permits, you should investigate this thoroughly, and if you find evidence of such discrimination under the present import control system, take up the question immediately with the appropriate officials.

Please keep the Department promptly and fully informed of developments in connection with the matters referred to above.

Very truly yours,

For the Secretary of State:
FRANCIS B. SAYRE

[Enclosure]

*Note To Be Presented to the Ecuadoran Minister for Foreign Affairs
(Tobar Donoso)* ²⁰

EXCELLENCY: Reference is made to the reciprocal trade agreement between the United States and Ecuador signed on August 6, 1938 and

²⁰ Presented by the Minister in Ecuador to the Ecuadoran Minister for Foreign Affairs as note No. 23, March 13, 1939.

effective October 23, 1938, and the applicability of certain provisions thereof in connection with the regulations understood to have been issued on January 6, 1939 by Your Excellency's Government for the control of imports.

It is my Government's understanding that under the import control regulations issued by the Government of Ecuador on January 6, 1939, monthly quotas are to be assigned to individual importers on the basis of their average importations during a previous period, and that within the limits of their quotas, importers are free to make purchases from any country of any products connected with the normal operation of their particular lines of business. It is my Government's understanding also that the import control regulations make no exception from the general rule in connection with the importation of articles included in Schedule I of the trade agreement. It would appear, therefore, that in drafting these new regulations Your Excellency's Government failed to take into consideration the pertinent provisions of the trade agreement with respect to articles included in that Schedule.

I am instructed to bring to the attention of Your Excellency that, by the terms of the first paragraph of Article VII of the agreement, neither Government may impose any prohibition, import quota, import license, or any other form of quantitative regulation on the importation or sale of any article the growth, produce or manufacture of the other country included in the appropriate schedule annexed to the agreement. It may be noted that this paragraph prohibits not only the imposition of quotas but even the requirement that a permit be secured by an importer in connection with the importation of such articles. Your Excellency's attention is likewise invited to the fact that, although the provisions of the second paragraph of Article VII of the agreement permit restrictions to be imposed upon imports of articles included in the schedules for certain stated reasons, Your Excellency's Government did not give the notice and arrange for the consultation between the two Governments required in such circumstances.

With respect to the question of the applicability of the provisions of Article VIII of the trade agreement to the existing import control regulations, my Government wishes to reserve comment at this time.

Accept [etc.]

611.2231/381

The Minister in Ecuador (Long) to the Secretary of State

No. 417

QUITO, April 3, 1939.

[Received April 7.]

SIR: Reference is made to the Department's instruction No. 91 of March 2, 1939, regarding Ecuadorean import control measures and

their relations to provisions of the Trade Agreement and to imports from the United States, and to my despatches No. 392 of March 17, 1939, and No. 405 of March 27, 1939 thereon.²¹

I have the honor to report that I am in receipt of a note dated March 29, 1939, from the Minister for Foreign Affairs²² in which he quotes the Minister of Finance to the effect that, as soon as the Board of Directors of the Central Bank has been constituted, his Ministry will request a reform of the Import Control Regulations and will take into account the complaints presented by the countries with which Ecuador has concluded trade agreements. The Foreign Minister declares that he feels sure that careful consideration will be given to the modifications of the Regulations which will be duly presented by the Ministry of Finance, adding that the factors concerning the balances of payments and the trade agreements signed, among them that with the United States, will be first studied.

A translation of the foregoing note is enclosed for the Department's information.

In this connection, I have the honor to inform the Department that the President of the Republic told me a couple of days ago that he expected that the Board of Directors of the Central Bank would be completed shortly and that they would not delay in proceeding to revise the Import Control Regulations.

Respectfully yours,

BOAZ LONG

611.2231/385

The Minister in Ecuador (Long) to the Secretary of State

No. 442

QUITO, April 15, 1939.
[Received April 21.]

SIR: I have the honor to report that on April 13th the President of Ecuador informed me that as soon as possible after the return of the Minister for Foreign Affairs from vacation, he hoped we might have a conference regarding the Trade Agreement. I replied that I should be pleased to meet them at their convenience.

On the 12th Dr. Alejandro Ponce Borja, recently made General Manager of the Banco Central, advised me that at the instance of his Board of Directors he wished to confer with me regarding methods for improving trade relations between the two countries. Yesterday when he undertook to deal with the subject, he limited his remarks to our protest dated March 13, 1939, saying the Minister for Foreign Affairs had requested him to exchange views with the Minister of Finance and the Directorate of the Banco Central, to ascertain if all restrictions might not be removed on items listed in Schedule I.

²¹ Neither printed.

²² Not printed.

Dr. Ponce Borja said that the opinion of the persons consulted was that to do so would render their whole Import Control System ineffectual: that we knew there was a Control when we signed the Agreement and he wondered if we might not go easy in insisting upon strict compliance for a time at least, until a study could be made.

I informed Dr. Ponce Borja that before the Trade Agreement was signed there was general talk about canceling all Import Control plans; that although signed August 6, 1938, the Agreement did not become effective until October 23rd; that when I returned toward the end of December 1938 the matter of withholding or restricting import permits had been informally discussed with officials at Guayaquil, and later at Quito, and that Don Ricardo Ortiz of the Foreign Office had proposed to the Minister of Finance that the new Import Control Regulations then under study should be declared inapplicable to the French and American Commercial Agreements. To this the Minister seemed to offer no particular objection, but when the public was informed of the Regulations, no such provision was included.

Compliance.

I continued that if compliance would, as he thought, ruin Ecuador's Import Control Regulations, and such control was still deemed to be necessary, notwithstanding recent public sentiment to the contrary, then we might follow the provisions of the Agreement for arranging some other understanding. I added that we would immediately seek to tabulate the imports over recent years on all items in Schedule I in order to ascertain whether the opinion which had been given to him was correct and that when the tabulation was finished the Consul would come up from Guayaquil and we would go into the matter in an effort to ascertain what indeed the effect would be upon the Import Control should our Trade Agreement be followed literally.

A copy of this despatch has been sent to the Consulate General at Guayaquil and as Mr. Nester has been informed for weeks that this subject was coming up for consideration he will no doubt visit Quito as soon after assembling his figures as possible.

Respectfully yours,

BOAZ LONG

611.2231/385: Telegram

The Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, April 24, 1939—5 p. m.

15. Your despatch 442, April 15. While there is no objection to your proceeding with statistical studies mentioned in the penultimate paragraph, you should, whatever the result thereof, be guided by earlier instructions, particularly the first paragraph of page 2 of

instruction 91 of March 2,²³ in your further discussions with the Ecuadorans. The Department desires an early settlement of present unsatisfactory situation with respect to trade agreement provisions.

HULL

611.2231/382

The Secretary of State to the Minister in Ecuador (Long)

No. 112

WASHINGTON, May 5, 1939.

SIR: Reference is made to your despatch no. 420 of April 5, 1939,²⁴ enclosing a copy of an Ecuadoran law enacted March 3, 1939 dealing with the determination of export values of crude petroleum, mineral earth and gold bullion and specie and providing for the basing of quotas for imports from individual countries upon the value of Ecuadoran exports to such nations.

The possible effects of this law upon United States trade relations with Ecuador and on the operation of the trade agreement, naturally are of concern to the Department. There is enclosed a note which you are requested to hand to the Foreign Minister at an early opportunity, which sets forth this Government's position on the broad question involved.

While making it clear to the Minister that your Government cannot accept the validity of the bilateral, country by country, trade balance theory of the law under reference, you may wish to point out that even on the basis of that questionable theory, the law is open to a number of objections. For example, the specified percentages of the export values of mineral earth and crude petroleum which the law would permit to be included for the purposes of calculating Ecuador's balance of trade with individual countries, would appear to be considerably less than the actual proportion of the export value of those products which returns to Ecuador. Regarding mineral earth, you might point out that the Ecuadoran Government imposes an export tax of 12 percent of the value of the shipments of that commodity. Under the new law, this would leave a balance of only 8 percent as the estimate by that Government of the value of exports of mineral earth which return to Ecuador to cover all the production costs of that commodity in the country. You might cite any recent data, such as that included with your despatch no. 447 of April 19, 1938 [1939],²⁴ which you believe to be reliable, which you may be able to secure to show the actual percentage of the value of exports of mineral earth returned to Ecuador in recent years from exports of that product.

²³ Fourth paragraph of the instruction.

²⁴ Not printed.

With regard to crude petroleum you might also endeavor to secure reliable information from local sources with which to support any statements you may make to the Foreign Minister showing that the estimate of 15 percent would appear to be much less than the proportion of the value of exports of that product from Ecuador which actually returns to the country.

The law would also appear to be deficient in that it apparently fails to take into account invisible credit items such as investments of foreign capital, expenditures of tourists in Ecuador, and so forth. It is the Department's understanding that new capital investments in the country are considerable, particularly in the case of the United States in mining enterprises.

Supplementing recent instructions on the general question of Ecuadoran import restrictions since the effective date of the trade agreement, you should inform the Foreign Minister that while it is a matter of increasing concern to your Government that the Ecuadoran Government has up to the present time not modified the control system in respect of imports from the United States so as to bring it into conformity with the provisions of Articles VII and VIII of the agreement, your Government views with sympathy and understanding the economic and financial problems with which the Government of Ecuador is faced and recognizes that in times of exchange stringency it may be necessary to restrict the total amount of imports so as to keep that amount within the actual exchange availabilities. However, any necessary restrictions need not be applied on a bilateral balancing basis, which is unsound economically and inherently discriminatory. They can be imposed on a non-discriminatory basis, in accordance with the provisions of the trade agreement and the broad principles of commercial policy endorsed repeatedly by conferences of the American States and by other nations pursuing liberal trade policies.

Please keep the Department fully informed of any pertinent developments.

Very truly yours,

For the Secretary of State:
FRANCIS B. SAYRE

[Enclosure]

*Note To Be Presented to the Ecuadoran Minister for Foreign Affairs
(Tobar Donoso)*

EXCELLENCY: At the request of my Government, I desire to bring to the attention of Your Excellency's Government the concern of the Government of the United States with respect to the possible effects upon the commercial relations between the United States and Ecuador, with particular reference to the provisions of the trade

agreement between our Governments signed August 6, 1938, of the law enacted by the Ecuadoran Congress on February 25, 1939 and approved by the President on March 3, 1939, dealing with the method of determining the export values of crude petroleum, mineral earth and gold bullion and specie and providing for the basing of quotas for imports from individual countries upon the value of Ecuadoran exports to such nations.

With respect to the relation of that law to the trade agreement, the arbitrary elimination from the value of exports from Ecuador to the United States, for the purpose of computing such value, of mineral earth and crude petroleum except for the percentages indicated, would undoubtedly have the effect, in accordance with the terms of Article 4 of the law under reference, of necessitating import control measures on the part of Ecuador to reduce imports from the United States. It may be pointed out that no provisions exist in the trade agreement which would permit restrictions to be imposed upon imports from the United States for the reasons set forth in the law. Such restrictions of imports from the United States would therefore appear to contravene the provisions of the trade agreement. The method by which the Government of Ecuador might, if necessary, restrict imports from the United States, is set forth in Articles VII and VIII.

Further with respect to the relation of the Ecuadoran law under reference to the trade agreement, it would appear that if a portion or all the value of certain exports to the United States were eliminated from commercial statistics for purposes of calculating the balance of trade between Ecuador and the United States, those statistics might reveal an import balance for Ecuador. The question therefore arises as to whether Your Excellency's Government would in accordance with the provisions of existing legislation, increase customs duties on all imports from the United States (unless such legislation may be presumed to have been superseded by the new law). It is evident that if such action were taken, there would result a clear contravention of the provisions of Article I of the agreement in so far as products included in Schedule I are concerned, and a contravention of the provisions of Article XI of the agreement with respect to all other articles imported into Ecuador from the United States unless import duties were also increased to the same extent upon like articles imported from all other countries.

From the foregoing, it will be clear to Your Excellency why my Government views with great concern the possible effect of the law under reference on the trade agreement between our countries. My Government strongly hopes that the legislation referred to may be amended at an early date, and before its provisions have become effective in respect of the trade between the United States and Ecuador, in

order to take into account the terms of the trade agreement of August 6, 1938.

From the above considerations with respect to the relation between the law of March 3, 1939 and the trade agreement, it is equally clear that the effectuation of that law would have a most unfortunate effect on the general trade relations between the United States and Ecuador, and in the opinion of my Government might well lead to demands by various affected interests in the United States for retaliatory action by my Government.

Further, with respect to the provisions of article 4 of the law under reference, which would in effect place Ecuadoran foreign trade upon a bilateral trade balancing basis, my Government cannot but feel that this represents a complete departure from the broad policies espoused by the United States and other countries in recent years for the freeing of world trade from such restrictive and inherently discriminatory measures. In the carrying out of these broad policies my Government has continued to hope for the support of Your Excellency's Government in giving effect to the declarations adopted at recent Pan American Conferences, through the trade agreement between our Governments concluded on August 6, 1938, and otherwise.

Accept [etc.]

611.2231/390 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, May 5, 1939—4 p. m.
[Received 7:47 p. m.]

31. Department's telegram No. 15, April 24, 5 p. m. In reply to the note presented in accordance with Department's instruction No. 91, March 2, Minister for Foreign Affairs on May 3 gave written notice under article VII of the trade agreement. He added that from what he had heard the Board of Directors of the Central Bank are planning to reinstate the system of quotas by nations instead of by individuals.

Text by air mail.

LONG

611.2231/391 : Telegram

The Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, May 11, 1939—4 p. m.

22. Your despatch 470, May 5.²⁶ Notice given by Foreign Minister does not indicate what schedule products it is desired to restrict, extent of restriction in each case, or share of each global quota intended to be allotted to the United States.

²⁶ Not printed, but see telegram No. 31, May 5, 4 p. m., *supra*.

You should secure specific proposals from Tobar on above questions and transmit substance thereof by telegram, keeping in mind provisions of second paragraph of Article VII regarding 30 day period within which agreement should be reached.

HULL

611.2231/392 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

Quito, May 13, 1939—1 p. m.

[Received 3:50 p. m.]

36. Department's telegram No. 22, May 11, 4 p. m. After conference with Minister for External Affairs he offered to submit proposals at the earliest possible date stating Ortiz²⁷ was conferring with officials of the Central Bank.

From conversation this morning with Alejandro Ponce Borja²⁸ it appears that the Government is in a quandary but an appointment has been arranged for a conference with the competent Government officials on Tuesday.

LONG

611.2231/394

The Minister in Ecuador (Long) to the Secretary of State

No. 492

Quito, May 19, 1939.

[Received May 23.]

SIR: I have the honor to report that the meeting mentioned in my telegram No. 36 of May 13, 1 p. m., 1939, took place on Tuesday in the form of a luncheon at the Legation attended by the Minister for Foreign Affairs, Mr. Ricardo Ortiz, Chief of Commercial and Consular Affairs, Dr. Alejandro Ponce Borja, Mr. Luke of the South American Development Company, Messrs. Nester of Guayaquil, Gade²⁹ and myself.

Mr. Luke orally gave figures included in his letter to me, sent with despatch No. 447 of April 19, 1939,³⁰ and these he amplified with other data which came out naturally as those present asked questions, but the general showing was that the Mining Company he represents actually brought back into Ecuador during 1938 (at least according to Mr. Luke's figures) approximately 83% of the total of its exports from Ecuador.

²⁷ Ricardo Ortiz, Director General of Commerce and Consular Affairs, Ministry for Foreign Affairs.

²⁸ General Manager of the Banco Central.

²⁹ Gerhard Gade, Second Secretary of Legation.

³⁰ Not printed.

Dr. Tobar remained unconvinced, and said he wished to study the matter further.

We handed him figures brought by Mr. Nester from Guayaquil which showed that our country was buying more cocoa during the early months of 1939 than usual; also that its coffee purchases in 1938 were greater in kilos than in 1937, albeit the dollar value was less due to lower prices and exchange. We tried to show that we were doing our part. Dr. Tobar, as always, said he wished to do the right thing but needed more data from Mr. Luke. Mr. Luke offered to furnish any figures Dr. Tobar might request. It is understood that Mr. Luke's Company will supply as nearly as possible the data desired by Dr. Tobar by handing him its figures, either Saturday or Monday next. Dr. Tobar has indicated that immediately he receives the figures and has time to analyze them he will make a proposal.

Respectfully yours,

BOAZ LONG

611.2231/394 : Telegram

The Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, May 24, 1939—7 p. m.

25. Your telegram 36, May 13, 1 p. m. and despatch 492, May 19. Your telegram 36 refers to Department's telegram 22 of May 11 concerning compliance by the Ecuadoran Government with import control provisions of the trade agreement.

Your despatch 492 refers to your telegram 36 but is concerned with an entirely different matter, the application of Ecuadoran law of March 3 on the percentage of the export values of certain products which may be allowed for statistical purposes.

While you should continue to press for a satisfactory solution of the latter question in accordance with the Department's instruction no. 112 of May 5, you should concentrate your attention on the matter of Ecuadoran compliance with the import control provisions of the trade agreement, in accordance with the Department's telegram 22 of May 11 and previous instructions on that subject. The 30-day consultation period envisaged in Article VII will expire on June 2. There remains very little time, therefore, for us to receive and consider specific proposals requested.

HULL

611.2231/395 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

Quirro, May 25, 1939—7 p. m.

[Received May 26—2:37 a. m.]

41. Department's telegram No. 25, May 24, 7 p. m. If Department desires now to modify trade agreement the Ministry of Foreign Affairs

orally suggests fixing as the annual quota for the United States of 40 million sucres. However, it is now proposed to modify the regulations governing import control, establishing instead of import permits a deposit of 30% of the value of merchandise ordered. He added that if the latter is approved our commerce probably would benefit since most United States exports consist of necessities.

The Government of Ecuador profoundly regrets having to suggest this reduction, but if the 30% method is not approved, the same principle as now suggested in our case will be applied to all countries with which Ecuador has commercial relations.

The Foreign Minister regards the present as a transitory situation likely to exist until exports can be increased which should result if Ecuador obtains a loan.

The Central Bank this afternoon approved 30% plan described above, but it must receive the approval of the Council of State and there is much opposition on the part of Chambers of Commerce. Notwithstanding the opposition the Minister for Foreign Affairs hopes that a decision as to the changes indicated will be made soon, but if matter is not settled prior to June 1 he will give me a note confirming the above mentioned quota for the United States.

Tobar at first proposed 31 million (see despatch No. 459, April 27³¹) but after a long argument he reluctantly raised figure to 40 million. He repeated the hope that it would not be necessary to make public the modification arrangement for reasons given in my letter of May 22³² to Mr. Duggan.³³

LONG

611.2231/398

The Minister in Ecuador (Long) to the Secretary of State

No. 500

QUITO, May 26, 1939.
[Received May 31.]

SIR: With reference to the Department's instruction No. 112 of May 5, 1939, and previous correspondence, regarding the Ecuadorean Law of March 3, 1939, calculating the exports of mineral earth at only 20 percent of its declared value, I have the honor to inform the Department that, in spite of prior and subsequent oral assurances from members of the Foreign Office, I am in receipt of a note numbered 61 D. C. and dated May 18, 1939, from the Ministry of Foreign Affairs, to the effect that the Law in question is an economic measure, does not affect the Treaty, and applies impartially to all countries.

³¹ Not printed.

³² Not found in Department files.

³³ Laurence Duggan, Chief of the Division of the American Republics.

An English translation of this self-explanatory note is duly enclosed for the Department's information.

Respectfully yours,

BOAZ LONG

[Enclosure—Translation]

The Ecuadoran Minister for Foreign Affairs (Tobar Donoso) to the American Minister (Long)

No. 61 DC

QUITO, May 18, 1939.

MR. MINISTER: The very courteous note No. 45 of the eighth instant from Your Excellency,³⁴ regarding the fulfilment of the Legislative Decree of March 3rd last, which regulates the computation of the commercial balance, in dealing with the exportations of crude petroleum, mineral earth, and gold in bars; and the effects which such regulations might have upon the Trade Agreement signed between Ecuador and the United States of America, was immediately brought to the attention of the Minister of Finance and of the Central Bank, with the recommendation that it be studied prior to any other administrative question.

In conformity with the request of the Foreign Office, the President of the said banking institution, gave me the following reply which I quote:

"Central Bank of Ecuador, Quito, May 16, 1939, No. 3792.

"Dr. Julio Tobar Donoso, Minister for Foreign Affairs, City.

"I have the pleasure of making immediate reply to your courteous note of that Ministry, numbered No. 334-DC and dated the fifteenth instant, with which you enclosed the communication from the Minister of the United States of North America to your Ministry, regarding the fulfilment of the Legislative Decree of March 3rd last, concerning the manner of computing the trade balance of the exportations of crude petroleum, mineral earth and gold in bars, and its relation to the Trade Agreement signed between Ecuador and the United States of North America on August 6, 1938. The Ministry under your worthy charge was good enough to quote the said note and to request me to advise you thereon as soon as possible. I can give you my opinion as follows: The above-mentioned Legislative Decree was issued by the last Extraordinary Congress, being based on the fact that, as regards Ecuadorean economy; the exportation of mineral earth and petroleum represents, in reality, a supply of foreign exchange to the country only in the proportion set forth in the said Decree, and I understand that it was the Ministry of Foreign Affairs which promoted the enactment of the Decree in question, for the reasons mentioned. Consequently, the Ministry of Foreign Affairs should maintain, in my opinion, the same reasons in reply to the note of the Minister of the United States. The Legislative Decree of

³⁴ See note printed on p. 613.

March 3rd last, does not refer expressly to the exportations from Ecuador to the United States, as one might assume from the note of the Minister of that country, but to petroleum, mineral earth, and gold, destined to any country, without any complaint having been received, as far as I know, from any country. While it is certain that, in making the deductions provided for in the Law in question, the figures of exports to the United States may be reduced to the point where it appears that (Ecuador) has an unfavorable trade balance with that country, this situation in perspective has no way changed the preference which the Import Control, under this Bank, observes with respect to the heavy purchases which, generally, are made from the United States, a country heading sales to Ecuador.

Very truly yours,
N. Bonifaz".

As Your Excellency may confirm, the purpose which inspired the Legislative Decree of March 3rd of this year, is essentially economic and is not concerned with special means of appreciating the various markets which supply themselves with Ecuadorean production. Thus, the provisions constituting the same, do not exclusively or partially affect certain countries, except that their application, of a uniform, general, and absolutely impartial character, creates unfavorable projections in the volume of the trade balance, for all those nations which buy from us products of mineral origin that are set forth in the Decree in question.

Moreover, as the President of the Central Bank well says, the operation of the said Decree has not prevented the normal commercial development between my country and that so worthily represented by Your Excellency; nor has it created any obstacles to the free and favorable issuance of permits for the importation of merchandise from the United States of America.

I avail myself [etc.]

J. TOBAR DONOSO

611.2231/395 : Telegram

The Acting Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, May 29, 1939—4 p. m.

27. Your 41, May 25, 7 p. m. In view of the unsettled situation reported in your telegram, and as a temporary solution pending such time as the Ecuadoran Government arrives at a definite decision on its import control system, you are authorized, prior to June 2, to acknowledge the Foreign Minister's note of May 3³⁵ and subsequent offer of 40 million sucres for the United States in the following terms:

"In view of the difficult economic situation facing Ecuador, my Government would not object, as a temporary measure, pending

³⁵ Not printed, but see telegram No. 31, May 5, 4 p. m., from the Minister in Ecuador, p. 615.

further clarification of the Ecuadoran import control system, to restrictions on all imports from the United States, including articles covered by Schedule I of the trade agreement, to a total of 40,000,000 sucres for 1939, provided that figure represents in relation to total permitted imports into Ecuador from all countries a percentage of such imports not less than the percentage of total Ecuadoran imports supplied by the United States during a previous representative period, for example, 1936-38. During that period the United States supplied about 34 percent of total Ecuadoran imports. My Government assumes that such restriction will be administered by the Government of Ecuador in a fair and equitable manner as between imports of individual commodities and that in the application of the Ecuadoran import control system, no other or more onerous formalities or requirements will be imposed in connection with imports from the United States than those imposed in connection with imports from any other country."

WELLES

611.2231/396 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, May 30, 1939—3 p. m.
[Received 7:45 p. m.]

42. Department's No. 27, May 29, 4 p. m. After acquainting the Minister for Foreign Affairs with the contents of Department's telegram under acknowledgment Dr. Tobar said that he would send me a note by tomorrow making the proposal of 40 million sucres and I replied that immediately upon receipt I would send him a note containing the points mentioned in Department's telegram No. 27 and it was my understanding that this would complete the negotiations for the time being. He did not ask about publicity being given to the exchange of notes nor did I refer thereto.

Dr. Tobar stated that yesterday, after the new Minister of Finance had taken office, the position of the Central Bank with respect to the 30% plan was fully explained to him. Some of the Chambers of Commerce have requested that it be not effective until July 1 instead of June 1 as originally intended. At this moment it is not possible to predict the outcome.

LONG

611.2231/399 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, June 1, 1939—6 p. m.
[Received June 2—1 a. m.]

43. Procedure outlined in my telegram No. 42, May 30, 3 p. m. has been carried out. Foreign Minister offered to send a note today, after

confirming figures of 34 percent mentioned in our note, agreeing thereto, but owing to illness of Ortiz he says that he cannot do so until tomorrow.

LONG

611.2231/401

The Minister in Ecuador (Long) to the Secretary of State

No. 507

QUITO, June 1, 1939.

[Received June 6.]

SIR: With reference to my despatch No. 500 of May 26, 1939, and previous correspondence, regarding the Ecuadorean Law of March 3, 1939, calculating the exports of mineral earth at only 20 percent of its declared value, I have the honor to report that, in conformity with my request (Despatch No. 492 of May 19, 1939), Mr. R. P. Luke, the Resident Manager of the South American Development Company, has furnished me with statistics, covering the years 1936, 1937, 1938, and 1939 up to April 30th, on the production of his Company, salaries and taxes paid, and the amounts of dollars returned to Ecuador. Mr. Luke was good enough also to have prepared a memorandum on the Cotopaxi Exploration Company, a subsidiary of the South American Development Company, giving details of the large investments and expenditures made by the former Company up to December 31, 1938 and estimates thereof for the first four months of 1939. Copies of the foregoing documents⁸⁷ are enclosed for the Department's information.

While it appears that the Government either cannot or will not take steps to repeal or amend the Law of March 3, 1939, before the Congress convenes in August, it is believed that it might consent, in spite of its uncompromising note No. 61 D. C. of May 18, 1939 (Despatch No. 500 of May 26, 1939), to recommend a higher percentage than the present 20 percent. The figures furnished by the American gold-mining companies should prove valuable in showing that the computation of 20 percent is inequitable.

In view of the foregoing considerations, I have the honor to inquire whether the Department wishes me to maintain the attitude expressed in the draft note contained in its instruction No. 112 of May 5, 1939, that the Law of March 3, 1939 contravenes the provisions of the Trade Agreement, or whether consideration should be given to a possible proposal to increase the 20 percent to a larger percentage.

The French Minister, who learned of the draft law when it was first introduced into the Assembly last year, secretly agreed with the Ministry of Foreign Affairs to accept the computation of petroleum at 15

⁸⁷ Not printed.

percent, in case the Franco-Ecuadorean trade agreement were concluded.

The British Chargé d'Affaires confidentially states that his Government has made no objections, in view of the fact that the Ecuadorean Government recently removed Great Britain from the list of countries on whose products a 50 percent surcharge tax is imposed upon importation into Ecuador, although Ecuador had an unfavorable trade balance of about 31 percent with Great Britain last year.

Respectfully yours,

BOAZ LONG

611.2231/402

The Secretary of State to the Minister in Ecuador (Long)

No. 126

WASHINGTON, June 15, 1939.

SIR: Reference is made to your telegrams nos. 42, 43 and 44 of May 30, June 1 and June 2, 1939,³⁸ respectively, and to your despatches nos. 497 and 510 of May 26 and June 2, 1939, respectively,³⁹ regarding the question of securing the compliance of the Ecuadoran Government with the import control provisions of the trade agreement between the United States and Ecuador.

With the exchange of notes between the Foreign Minister and yourself, the formal action called for by the provisions of the trade agreement may be considered to have been fulfilled. In its revised form as reported in your telegram no. 44, however, the Foreign Minister's note of June 2 is not completely satisfactory, but it is believed that it may be considered adequate. For example, in the first paragraph Dr. Tobar states that "while the system of control of importations is in effect", imports from the United States may be limited to 40,000,000 sucres. The qualification in your note of May 30 read "as a temporary measure pending further clarification of the Ecuadoran import system". In case future difficulties should arise on this point, reference may be made to the terms of your note.

As another example, the elimination of the fourth paragraph of the original draft of the Foreign Minister's note, while satisfactory in removing any connection with the law of March 3, 1939, also removes the minimum percentage figure of total Ecuadoran imports which the 40,000,000 sucres are to represent. However, the third paragraph of Dr. Tobar's note of June 2 states that his Government "will take strictly into account" the proportion of Ecuador's total imports supplied by the United States in the years 1936-38, inclusive.

Regarding the question of giving publicity to the arrangement, the Department appreciates the reasons advanced by the Foreign Minister

³⁸ Telegram No. 44 of June 2 not printed.

³⁹ Neither printed.

for wishing to avoid publishing the terms of that temporary agreement. However, the provisions of article VIII of the trade agreement provide for the giving of public notice of the amounts of permitted imports. Further, traders in both the United States and Ecuador are entitled to have that information. The Department is of the opinion, therefore, that the Ecuadoran Government should in the near future issue a statement along the lines of that which the Department proposes to issue here. This statement, a copy of which is enclosed,⁴⁰ gives the substance of the arrangement worked out with the Ecuadoran Government, and the Department would like to issue it concurrently with the release of a similar statement by the Ecuadoran Government. You may show the enclosed draft to the Foreign Minister, indicating our desire to have statements issued simultaneously in Washington and Quito. Any release date after you receive this instruction would be satisfactory to the Department, and you should telegraph a few days in advance, information as to the date that may have been selected by the Foreign Minister. If Dr. Tobar declines to issue a statement in Quito, you should inform him that your Government feels that such action is necessary in view of the provisions of article VIII and the importance of informing traders in both countries. You may also inform him that the Department intends to issue a statement in Washington whether or not one is released in Quito.

There remains the further matter of assuring that the arrangement set forth in the notes will be carried out in practice, that is, not only will not less than 40,000,000 sucres of imports be permitted to enter Ecuador from the United States during 1939, but that amount will represent in relation to total imports into Ecuador, not less than the proportion (34 percent) of such total supplied by the United States in the period 1936 to 1938, inclusive. In order to do this, it will be necessary for you to ascertain, as soon as possible, the value of imports into Ecuador from the United States during the first five months of the present year (that is, up to the approximate date of the conclusion of the recent agreement). On the basis of that information, it will be possible to determine what part of the permitted total of 40,000,000 sucres for the United States has already been supplied by this country, and the balance which remains for the rest of the year. Each month during the remainder of 1939 you should ascertain the amount of imports into Ecuador from the United States and from all countries and report this information to the Department.

Please continue to keep the Department currently informed regarding the questions discussed above.

Very truly yours,

For the Secretary of State:
FRANCIS B. SAYRE

⁴⁰ Not printed.

611.2231/404 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, June 23, 1939—3 p. m.

[Received 8:45 p. m.]

49. I have submitted to the Minister for Foreign Affairs the text of press release which accompanied Department's instruction No. 126, June 15 which is satisfactory to him. Dr. Tobar informs me however that there is some probability the 30% plan referred to in previous correspondence will go into effect July 1. He has supplied me with a draft of the latter and thinks it would be well for the Department to understand its terms, after which he will be agreeable to publication of whatever release the Department deems to be convenient. Copy will be forwarded by air mail leaving here tomorrow.

LONG

611.2231/401

The Secretary of State to the Minister in Ecuador (Long)

No. 129

WASHINGTON, June 24, 1939.

SIR: Reference is made to your despatch no. 500 of May 26, 1939, and enclosed translation of a note from the Ecuadoran Foreign Minister, and to your despatch no. 507 of June 1, 1939, on the subject of the relation to the provisions of the trade agreement between the United States and Ecuador of the terms of the Ecuadoran law of March 3, 1939, which provides for the percentages of the export value of certain Ecuadoran products which may be allowed for statistical purposes in calculating the trade balance between Ecuador and individual foreign nations.

For your own information, the reply of the Foreign Minister to your note no. 45 of May 8, 1939⁴¹ is unsatisfactory in that it disregards completely this Government's fundamental concern with the law in question; it is no answer that the law since its effective date "has not prevented the normal commercial development" between Ecuador and the United States, nor "created any obstacles to the free and favorable issuance of permits for the importation of merchandise from the United States of America." It is pertinent to observe, with reference to the above statements quoted from the Foreign Minister's note of May 18, 1939, that to the best of the Department's knowledge, the law has not yet been applied.

The fact that the law under reference has not yet been applied does not, however, diminish the concern with which this Government views

⁴¹ See note printed on p. 613.

its provisions, both on account of the conflict with the trade agreement should they be applied, and because those provisions appear to confirm the commercial policy of Ecuador upon a bilateral, country-by-country, trade-balancing basis, a policy to which, as you know, the Government of the United States is strongly opposed as being directly contrary to the trade-liberalizing principles which this Government is pursuing, and for which principles it is endeavoring to secure the active support of other Governments.

The important question is not the exact percentage of the value of the exports of certain products which the Ecuadoran Government may permit for the calculation of the country's trade balance, but the effects of such action as they relate to the treatment which may be accorded imports from the United States, and the principles embodied in the law.

This Government would of course be glad to receive assurances that the law of March 3 would be repealed at the next session of the National Assembly. If this is not possible, an adequate but less satisfactory solution would be to receive assurances either that the law will be amended so as to eliminate any possible conflict in practice with the provisions of the trade agreement, or that, in view of the trade agreement, the law will not be applied against imports from the United States. In this connection, if the Government of Ecuador actually complies fully with the provisions of the trade agreement and of the arrangement recently concluded regarding permitted imports from the United States, a considerable part of this Government's concern with the law of March 3 will disappear. Because of the principle involved, however, it is believed that your efforts along the lines just indicated should be continued, and to that end there is enclosed the text of a further note which you are authorized to hand to the Foreign Minister at an early date, once the matter of publicity has been settled in connection with the question of securing Ecuadoran compliance with the import control provisions of the trade agreement. It is believed that the enclosed note is self-explanatory, and it is hoped that it will result in a satisfactory solution of the question under reference.

You should also continue your efforts to see that the Foreign Minister is supplied with information as to the actual returns to Ecuador from exports of the commodities affected by the law, not primarily for the purpose of having larger percentages of export values permitted by the law, but more importantly as a means of securing the repeal or amendment of the law, or assurances along the lines indicated above.

If it is not possible to attain any of the above objectives, the Department will instruct you further upon receipt of a report as to the results of the action suggested herein.

In connection with the question under discussion, it may be noted that on page 3 of the draft note enclosed with the Department's instruction no. 112 of May 5, 1939, reference was made in parenthesis to the apparent inconsistency between various Ecuadoran laws dealing with customs and import control matters. This phase of the present question does not appear to have been covered by any of your despatches, and the Department would appreciate receiving an explanation.

By the terms of Article 4 of the law of March 3, 1939, "the quotas fixed for imports from each country shall be in proportion to Ecuadoran exports to each of those countries," with a margin of 20 percent in favor of Ecuador, which would seem to imply that permitted imports from any country could not exceed 80 percent of Ecuadoran exports to such country. Notwithstanding the above law, by a legislative decree of March 7, 1939, appearing in the *Registro Oficial* of March 15, and enclosed with your despatch no. 421 of April 5, the basic customs law was modified to provide that the Minister of Finance could impose a surcharge of up to 75 percent on imports from countries whose trade with Ecuador was found to be "unfavorable" to the latter by more than 30 percent. Presidential Decree no. 82, effective April 1, 1939 and appearing in the *Registro Oficial* of that date, refers to the above-mentioned legislative decree but provides for a customs surcharge of 50 percent, the same as during 1938, on imports from countries whose trade with Ecuador is "unfavorable" to the latter by more than 30 percent. While the provisions of Presidential decree no. 82 appear to be transitory in that the list of countries will presumably change in the future with the state of the trade balance between Ecuador and individual foreign nations, as that list has changed in the past, the legislative decree of March 7 appears to be basic Ecuadoran law and provides for action to be taken in the event Ecuador's trade balance with any country becomes "unfavorable" to the stated extent. The Department does not see, however, how Ecuador's trade balance with any country could be "unfavorable" to any extent if by the provisions of article 4 of the law of March 3 permitted imports from any country may not exceed 80 percent of Ecuador's exports to that country. Inasmuch as there does not appear to be anything in either the law of March 3, or those of March 7 or April 1, to take care of the apparent inconsistency, the Department would appreciate an explanation of which law or laws are presumed to be in force at present.

Very truly yours,

For the Secretary of State:
FRANCIS B. SAYRE

[Enclosure]

*Note To Be Presented to the Ecuadoran Minister for Foreign Affairs
(Tobar Donoso)*

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note no. 61 DC of May 18, 1939⁴² regarding the effects of Ecuadoran Legislative Decree of March 3, 1939, in reply to my previous note of May 8, 1939⁴³ on the same subject.

I have transmitted Your Excellency's note to my Government, which now requests me once more to address Your Excellency on this question.

In Your Excellency's note under reference, it is stated that the law since its effective date "has not prevented the normal commercial development" between Ecuador and the United States, nor "created any obstacles to the free and favorable issuance of permits for the importation of merchandise from the United States of America." Without questioning these statements, my Government respectfully suggests that the reason the law under reference has not operated in an adverse manner against the commerce of the United States is that the provisions of the law have not been placed in force up to the present time.

It continues to be the hope of my Government that for the reasons indicated in my previous note to Your Excellency on this subject, the law in question may be repealed at an early date.

Accept [etc.]

611.2231/407: Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, June 28, 1939—10 a. m.

[Received 2:35 p. m.]

51. My telegram No. 50, June 27, 10 a. m.⁴⁴ Thirty per cent import control plan⁴⁵ becomes effective July 1, the text being identic with Spanish transmitted with my despatch 538, June 23.⁴⁴

LONG

611.2231/406: Telegram

The Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, June 29, 1939—2 p. m.

29. Your telegrams 49 and 50, June 23 and 27⁴⁶ and despatch 538, June 23.⁴⁴ It is assumed that the 30 percent plan supplements the

⁴² *Ante*, p. 619.

⁴³ See note printed on p. 613.

⁴⁴ Not printed.

⁴⁵ Decree of June 26, *Registro Oficial*, July 1.

⁴⁶ Telegram No. 50, June 27, not printed.

existing import permit system. Please confirm. In any case, this Government will expect the Ecuadoran Government to carry out its undertaking in the recent exchange of notes.

The press release will be issued here for use on Thursday, July 6th, unless the Foreign Minister objects to that particular date. Telegraph immediately if that date is satisfactory. The Department does not insist, but believes it desirable that similar statement also be issued in Quito.

No objection is perceived in principle to 30 percent plan, but the following comments should be conveyed immediately to the Foreign Minister unless published text makes them inapplicable:

Article 15, fifth paragraph.⁴⁷ We assume there would be no discrimination as between countries of origin. Final paragraph.⁴⁸ We also assume no discrimination, such as requiring 30 percent in case of an American product and 10 percent on the same product from another country.

Article 29⁴⁹ clearly conflicts with Article 11 of trade agreement. No reason is seen for such exemption, as deposits may be made in either foreign or local currency. We cannot concur in this provision and if exemptions are granted to compensation transactions, the United States must necessarily insist upon similar exemption for imports from the United States.

Article 37. We would expect that any new requirements on imports from the United States will be imposed only in accordance with the provisions of the second paragraph of Article 12 of the trade agreement.

HULL

611.2231/409 : Telegram

The Minister in Ecuador (Long) to the Secretary of State

QUITO, June 30, 1939—5 p. m.

[Received 11:34 p. m.]

53. Department's confidential telegram No. 29. After conveying substance to Minister for External Affairs he authorized me to say that 30 percent plan completely supersedes earlier import control regulations, which now may be totally disregarded, but that Ecuador's commitments under recent exchange of notes will be maintained.

Minister Tobar is agreeable to publication by us of the release which accompanied Department's instruction No. 126 on July 6

⁴⁷ This paragraph provided for exemption from deposit under certain conditions of articles imported for industries.

⁴⁸ This paragraph gave the Administrative Council of the Central Bank of Ecuador authority to modify the percentage of the deposit within certain limits.

⁴⁹ Article 29 exempted from the deposit requirement authorized importations whose value was covered by exportations of coffee.

but says confidentially that Ecuador prefers not to publish in order to avoid difficulties with France. Doctor Tobar assures me that article 15, 30-percent plan will be administered impartially and that second paragraph of article 12 of our trade agreement will be respected.

As to article 29, (30% plan) Minister Tobar consulted Dr. Alejandro Ponce Borja, manager of Central Bank, who stated its provisions were designed to care for small amount of lowest grade coffee not salable elsewhere which is usually traded to Chile; adding that if we could use these screenings we would receive same treatment under article 29.

Will check up on coffee screenings and report later.

LONG

611.2231/409 : Telegram

The Secretary of State to the Minister in Ecuador (Long)

WASHINGTON, July 5, 1939—6 p. m.

30. Your 53, June 30, 5 p. m. As the 30 percent plan completely supersedes earlier import control regulations, and it appears from clause *b*) of article 14 that import permits will be issued without any restrictions on value or source of imports, following 30 percent deposit and presentation of application in proper form, articles 7 and 8 of the trade agreement do not appear pertinent to the new system. As this Government's efforts over the past several months were directed to securing compliance by the Ecuadoran Government with those articles in view of their applicability to the import control system then in force, the termination of that system makes pointless the issuance of a press release describing an agreement worked out on the basis of that system. A release will therefore not be issued here at this time.

For the present, you should observe closely and report on the operation of the 30 percent plan, keeping in mind particularly the provisions of article 11 of the trade agreement. It should be borne in mind, however, that if any applications for permits covering imports from the United States are rejected, the provisions of articles 7 and 8 of the trade agreement once more become applicable.

Despite Ponce Borja's explanation regarding coffee screenings, we still find objection to article 29 of the new law in that, in effect, it places in a preferential position trade with countries importing such grades of Ecuadoran coffee and hence discriminates against all countries not taking such coffee.

HULL

611.2231/420

The Secretary of State to the Minister in Ecuador (Long)

No. 157

WASHINGTON, August 29, 1939.

SIR: Reference is made to your despatches nos. 588 of July 28 and 614 of August 18, 1939 and to the Department's telegram no. 39 of August 7, 1939⁵² regarding the results of the trade agreement between the United States and Ecuador, particularly with respect to the effect upon the revenues of the Ecuadoran Government of the concessions granted on various products imported from the United States.

For your own information, the Department considers that the circumstances in Ecuador under which the agreement has operated since its effective date have in large measure served to defeat the purposes for which the agreement was negotiated. The concessions granted by Ecuador were intended to stimulate exports from this country and to protect American trade in the commodities affected against less favorable treatment during the life of the agreement, but since the effective date of the agreement import restrictions have been in effect in Ecuador apparently both arbitrary in their application and in conflict with those terms of the agreement providing for methods of applying such restrictions should they be found necessary for any of the reasons stated therein. Any comparison of imports into Ecuador before and after the effective date of the agreement would not, under such circumstances, appear to be of any particular value. Had there been no form of import control in effect in Ecuador during the period of the agreement, or even had such control been applied in accordance with the terms of the agreement, it would then of course be useful to analyze imports into Ecuador from the United States prior and subsequent to the effective date of the agreement.

With regard to the effects of the trade agreement upon imports into the United States from Ecuador, on which you have requested statistical data, the concessions which this Government was in a position to offer in the trade agreement consisted, as you know, almost entirely of bindings upon the free list, the single exception of importance being the reduction in duty granted on so-called Panama hats. The binding free of duty of important Ecuadoran export products was of course of value to Ecuador in assuring continuance of such favorable customs treatment. Nevertheless, concessions of such a nature could not in themselves have been expected to facilitate larger exports of the commodities affected from Ecuador to the United States. Increases in imports of articles on this country's free list depend primarily upon improved purchasing power in the United States, which is in turn dependent upon general economic conditions. The comments above are for your confidential information.

⁵² None printed.

In view of the foregoing, the Department does not desire that the question of the results of the trade agreement be taken up with the Ecuadoran Government at this time. Should officials of that Government raise the question, you should request them to convey their views in the form of a note or memorandum, which should be transmitted for consideration by the Department.

Very truly yours,

For the Secretary of State:
HENRY F. GRADY

822.516/312

The Chargé in Ecuador (Gade) to the Secretary of State

No. 729

QUITO, October 26, 1939.
[Received November 1.]

SIR: With reference to the Legation's despatch No. 708 of October 13, 1939,⁵³ enclosing Emergency Decree No. 247 of October 11, 1939, which reduced the advance deposit required for orders of imports, from 30 percent of the value thereof to 15 percent, I have the honor to transmit herewith the text of Emergency Decree No. 220 of September 11, 1939, published in the *Official Register* of September 22-23, 1939, and an English translation.⁵³

This Decree totally exempts from the requirement to make a deposit, orders for the importation of implements and machinery for agriculture and industries established in the country, prime materials and other articles necessary to the operation of such industries, as well as foodstuffs indispensable to the centers of mining and agricultural exploitation which have contracts with the Government. The Decree also provides for the return of deposits made on orders of merchandise to be imported from Germany and other European countries that are not in a position to make shipment.

Respectfully yours,

GERHARD GADE

622.006/94

The Chargé in Ecuador (Gade) to the Secretary of State

No. 795

QUITO, December 27, 1939.
[Received January 2, 1940.]

SIR: With reference to the Legation's telegram No. 100 of December 13, 1939,⁵³ reporting that the Import Control System will be abolished on January 1, 1940, I now have the honor to transmit herewith the text of Executive Decree No. 14 of December 23, 1939 (as published in *El Comercio* on the following day), which abolishes the System.

⁵³ Not printed.

An English translation of the Decree⁵⁴ is also enclosed for the Department's information.

Respectfully yours,

GERHARD GADE

ATTITUDE OF THE UNITED STATES TOWARD THE PROPOSED ACQUISITION OF THE GALÁPAGOS ISLANDS FROM ECUADOR⁵⁵

822.014G/427

*The Under Secretary of State (Welles) to President Roosevelt*⁵⁶

WASHINGTON, May 6, 1939.

MY DEAR MR. PRESIDENT: In submitting its report to the Chairman of the Committee on Foreign Affairs of the House of Representatives with respect to H. R. 5378, "To authorize the President to enter into negotiations with the Republic of Ecuador for the acquisition of the Galápagos Islands",⁵⁷ the Department of State affirmed its understanding that you held the opinion "that it would not be in the public interest for the Government of the United States to acquire the Galápagos Islands". The Secretary of State added, however, as follows:

"That although this Government is not itself interested in acquiring the Islands, any endeavor on the part of any non-American power to purchase or lease the Islands or to use any part of them for a naval, military, air, or even a commercial base under whatever terms would be a matter of immediate and grave concern to this Government".

No consultation was held with the War and Navy Departments at the time this report was framed, since this Department had understood from communications of the War and Navy Departments received in previous years that the Galápagos Islands were of no considerable positive strategic value to this Government, although admittedly, as stated in the above paragraph, their use or possession by a non-American power might be definitely embarrassing to this Government from a military as well as from a political point of view.

It would appear, however, that due possibly to the great advances which have taken place in military and naval science and to the

⁵⁴ Not printed.

⁵⁵ For previous correspondence, see *Foreign Relations*, 1935, vol. iv, pp. 517 ff.

⁵⁶ The original of this letter was returned to the Department with the notation: "SW-OK-FDR".

⁵⁷ The text of the bill read: "Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the President of the United States is hereby authorized to enter into negotiations with the Republic of Ecuador for the acquisition of the Galápagos Islands. There is hereby authorized to be appropriated such sums as may be necessary to carry out the purposes of this Act."

general world situation, the War Department is now of the opinion that the acquisition by the United States of the Galápagos Islands and as a corollary thereto, of Cocos Island, is desirable, and contemplates so recommending to the Chairman of the Committee on Foreign Affairs of the House of Representatives. There is enclosed in this connection a copy, referred to this Department for comment by the Director of the Budget, of a proposed letter from the Secretary of War to Mr. McReynolds.⁵⁸ I am unaware of the recommendation which the Navy Department has made or contemplates making in the premises.

It is my understanding that your own views on the future of the Galápagos Islands contemplate the formation of a plan under which there would be established a virtual joint trusteeship of the American republics over the Islands whereby they would be administered as an international wild life reserve by a board of the Pan American Union. While the Islands would, of course, remain nominally under Ecuadoran sovereignty, this sovereignty would be limited, and they would be kept under constant vigilance by an international joint patrol representing the American republics.

It was with this end in view that the Delegation of the United States at the Eighth International Conference of American States at Lima introduced a project for nature protection and wild life preservation, which in slightly modified form was approved by the delegations of the American states as Resolution XXXVIII on December 23, 1938.⁵⁹ It is my understanding that it is your hope that at some future date the importance of the Committee of Experts to be established as a result of this Resolution may be built up to a point where such an inter-American body could undertake the direct administration of the Galápagos Islands. You will recall that unfortunately the Government of the Republic of Ecuador has been in such a fluid political condition that it was felt impossible before the Conference to approach it with any proposal of the character mentioned above.

May I have your authorization to inform the Secretaries of War and of the Navy that you do not desire those two Departments at this time to recommend the approval of resolutions pending in the Congress providing for the acquisition by the United States of territory belonging to the other American republics?

Faithfully yours,

SUMNER WELLES

⁵⁸ Not printed.

⁵⁹ Resolution XXXVIII, Nature Protection and Wildlife Preservation, *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. 140.

740.00111 A.R./699

The Chargé in Ecuador (Gade) to the Secretary of State

No. 743

QUITO, November 4, 1939.

[Received November 10.]

SIR: With reference to my despatch No. 720 of October 20, 1939,⁶⁰ regarding the establishment of the Ecuadorean Maritime Safety Zone, which includes the Galápagos Islands, I have the honor to inform the Department that, on November 3, the Director General of the American Union, Señor Manuel Corona Cid, interviewed the Minister for Foreign Affairs, Dr. Tobar Donoso, for an article to appear in the next edition of the Union's bulletin, the *Heraldo Americano*, published in Montevideo.

Señor Corona enquired whether Ecuador had negotiated [regarding] the Galápagos Islands with the United States, in view of persistent rumors to this effect in Argentina, Uruguay and other South American countries. Dr. Tobar categorically denied any negotiations whatsoever. In reply to a query as to the alleged plan of the United States Navy Department to establish a naval base in the Galápagos, Dr. Tobar declared that the Foreign Office had no official knowledge thereof.

The Director General of the American Union then enquired as to what effect the conclusions reached at the Panama Conference would have on the use of the Galápagos Islands by the United States Navy as a guaranty of American neutrality and for the defense of the zone included in Ecuadorean territorial waters. Dr. Tobar replied that the Declaration of Panama⁶¹ established the safety zone adjacent to American territory and that within this zone were included the Galápagos Islands. He added that the Declaration also stated that the American countries should agree upon the individual or collective patrol of that zone.

In conclusion, Señor Corona asked whether ports would remain open to the entry of United States warships, without prior notice or permission. The Foreign Minister in reply declared that "The entry of United States warships into ports of the Continent is subject today, as before the Panama Conference, to the same rules of international courtesy".

Respectfully yours,

GERHARD GADE

SUPPLEMENTARY EXTRADITION TREATY BETWEEN THE UNITED STATES AND ECUADOR, SIGNED SEPTEMBER 22, 1939

[For text of the treaty, signed at Quito, see Department of State Treaty Series No. 972, or 55 Stat. 1196.]

⁶⁰ Not printed.

⁶¹ *Ante*, p. 36.

GUATEMALA

AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA RESPECTING A MILITARY MISSION, SIGNED MARCH 28, 1939

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 155, or 53 Stat. 2431.]

HAITI

ATTITUDE OF THE DEPARTMENT OF STATE REGARDING CERTAIN DEFENSE PROPOSALS OF THE HAITIAN GOVERNMENT

711.38/295 : Telegram

The Minister in Haiti (Mayer) to the Secretary of State

PORT-AU-PRINCE, March 23, 1939—11 p. m.
[Received March 24—9:25 a. m.]

37. In a conversation this morning the Minister of Foreign Affairs¹ showed great disquietude over the general European situation and Haiti's future with respect thereto. Reference was made to a talk with Duggan² and myself summarized in my confidential letter to the Under Secretary of March 8.³

After further discussion the Minister of Foreign Affairs asked me to inquire whether you are favorable to his ideas, which he states are President Vincent's, and which appear now to contemplate the following action:

A formal declaration by the Haitian Government with respect to hemispheric defense in line with statements recently published and reiterated by the Haitian delegation at the Lima Conference.⁴ This declaration would take the logical step of referring to concrete Haitian contribution to hemispheric defense in the form of necessary protective works and an air base, et cetera, in the region of Gonaives, whether on the mainland or on the island of Gonave, or both to be undertaken and maintained by the United States. This declaration would be replied to by a statement by the United States. Our delegation would fall in with the idea and at the same time would contain phraseology constituting a guarantee by the United States of the political and territorial sovereignty of Haiti. Furthermore there should, if possible, be simultaneously a similar exchange of declarations with the Dominican Government *mutatis mutandis* or at least the offer of such parallel action.

¹ Leon Laleau.

² Laurence Duggan, Chief of the Division of the American Republics, visited Port-au-Prince February 26-March 2 on the return journey to the United States following his attendance at the Eighth International Conference of American States at Lima.

³ Not found in Department files.

⁴ For correspondence concerning this Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.

The presence of a large part of our fleet at Gonaives and the numerous naval visits at Port-au-Prince and elsewhere have confirmed the tremendous popularity of the navy here and the Minister for Foreign Affairs' statement with regard to the genuine pro-Americanism of the Haitian people. I believe that now is the time to capitalize this to Haiti's benefit and our own.

MAYER

711.38/296 : Telegram

The Minister in Haiti (Mayer) to the Secretary of State

PORT-AU-PRINCE, March 24, 1939—10 a. m.
[Received 12:20 p. m.]

38. My number 37, March 23, 11 p. m. In further explanation of the Haitian Government's ideas both the "necessary protective works" and the "air base" in the region of Gonaives would be as much or as little as we desired. The main thing apparently is that the Haitian Government desires American naval or military establishment of some sort in the country. This would complement and give added strength and emphasis to the virtual naval base which we now have at Gonaives by virtue of the arrangement whereby we simply notify time of the arrival of warships, rather than ask permission for their presence in Haitian waters. My own idea would be that these "necessary protective works" and the "air base" should be initiated on a small scale, capable of whatever development experience or international politics might indicate.

MAYER

711.38/296 : Telegram

The Secretary of State to the Minister in Haiti (Mayer)

WASHINGTON, March 30, 1939—3 p. m.

28. Your 37, March 23, 11 p. m., and 38, March 24, 10 a. m. Your two telegrams under reference have been given careful and sympathetic study.

The Department hopes that as a result of the Good Neighbor policy the military and naval forces of the United States will always be cordially welcomed wherever they may go in the American republics. Happily this would now seem to be the case in Haiti. Every facility and courtesy has been afforded our naval forces during recent maneuvers in the neighborhood of Haiti and as you know, the Bay of

Gonaives has been found particularly adaptable for certain types of naval training operations. The Navy Department has every intention of continuing its visits to Haiti as long as these visits are welcome.

However, the establishment and maintenance of permanent United States military and naval works on foreign soil would require the negotiation of the proper agreements, and secondly, appropriation of the necessary funds by the Congress. The attendant publicity with its possible repercussions both in the United States and abroad, especially in the other American republics, need scarcely be developed.

After mature consideration, the Department has become convinced that it would not be far-sighted policy for the United States to establish and maintain in times of peace military and naval works in countries where it has not already acquired rights under existing treaties or where strategic considerations are not exigent, and in this latter case only after the negotiation of a mutually satisfactory agreement.

Accordingly the Department feels obliged to request you to discourage this feature of the proposal as presented, although far from perceiving any objection to a formal declaration by the Haitian Government with respect to hemispheric defense amplifying its statement of November 14, 1938,⁵ the Department would welcome such a declaration providing it were couched in general terms. Should the Haitian Government be disposed to make such a declaration, prior consultation regarding its content and form would appear to be highly desirable.

I have every confidence that without offending the sensibilities of the Haitian authorities, you will be able to explain our position. As stated above, it is our hope that through the naval visits made now from time to time a sense of mutual interest will be built up which will be every bit as strong as a written agreement supplemented by the establishment and maintenance of actual military and naval works.

HULL

⁵ The pertinent paragraph of the note of November 14, 1938, from the Minister of Foreign Affairs Laleau to Mr. Mayer read: "It is with this thought in mind that it is particularly agreeable to thank you for the important documents which you were good enough to communicate to us, and to say that we engage ourselves once more to work in perfect accord with your Government in all that concerns the defense and safeguarding of our Continent, for the maintenance and perpetuation of the high ideal of peace and of Pan American fraternity which constitutes the most beautiful example of humanity and stability which one could offer to a world which seems to have lost its sense of international equilibrium and universal security."

The "important documents" mentioned above, were the latest speeches delivered, one by Mr. Cordell Hull and one by Mr. Sumner Welles.

For the complete text of the note of November 14, 1938, see Haiti, *Secrétairerie d'Etat des Relations Exterieures, Quelques Faits Diplomatiques* (Imprimerie de l'Etat, Rue du Centre, Port-au-Prince, Haiti), p. 62.

711.38/301

The Minister in Haiti (Mayer) to the Secretary of State

No. 480

PORT-AU-PRINCE, April 5, 1939.
[Received April 10.]

SIR: I have the honor to refer to Department's telegram No. 28, March 30th, 3:00 P. M. and previous correspondence on the subject of an exchange of declarations between the American and Haitian Governments with regard to naval bases, guarantee of sovereignty, etc.

I carried out the Department's instructions this morning in a conversation with the Minister of Foreign Affairs, in view of the continued absence of President Vincent in the north. I believe I was able successfully to fulfill the Department's wishes in this regard and that the situation was explained to M. Laleau in a manner calculated to avoid any wounding of Haitian sensibilities, although it seemed quite evident that the Minister of Foreign Affairs was disappointed.

Respectfully yours,

FERDINAND L. MAYER

711.38/305

The Minister in Haiti (Mayer) to the Secretary of State

No. 564

PORT-AU-PRINCE, July 5, 1939.
[Received July 11.]

SIR: I have the honor to transmit herewith enclosed in translation^a a portion of a chapter of the new book shortly to be issued by President Vincent entitled *Imposant les Jalons (Marking Out the Fundamentals)*.

This declaration, for such it really is, appeared in large type headlines across the front page of all the newspapers of yesterday, July the fourth. Both President Vincent and the Minister of Foreign Affairs told me quite plainly at the Legation Reception that this declaration was published on that day both as a compliment to the United States and because the contents of the declaration were concerned so intimately with the close relations which President Vincent considered his country should have with the United States of America.

The declaration begins with a carefully thought out and expressed exposition of the point of view of our country and its desires with respect to the peace of the world, our attitude toward hemispheric defense and, in some detail, the strategic and tactical position of the

^a Not printed.

Greater Antilles in the whole scheme of the defense of the United States and of the Americas in the event of war.

This exposition and argumentation leads up to the following final statements: (Translation)

"It is, therefore, evident that our (Haitian) geographic position assigns to us a role of the first importance in the strategy providing for the defense of the Western Hemisphere. Since these are the facts, which cannot be otherwise, does it not seem that the moment has come to give concrete and effective form to the continental solidarity solemnly proclaimed at Buenos Aires⁷ and at Lima,⁸ as well as by the particular declarations of the Governments concerned?

"While it has been well understood that in case of war or a menace of war on our continent consultations would take place to eliminate this menace, yet the menace of war is permanent today and war is more and more apt to come by surprise. The independence of states is frequently crushed without a blow being struck and a policy of '*fait accompli*' tends to be substituted for the rules of international law. War is now made without any declaration, since juridically and to take a present example, there is no war between Japan and China.

"Secondly, it is necessary in safeguarding peace always to be ready to make war. There is no longer time to 'consult', when the moment to act has already struck. Isn't it much wiser to determine in advance conditions and the form of collaboration and cooperation for each of us in the work of common defense, envisaged perhaps a little too theoretically until now? It is not when the conflagration has been lighted that the means should be established for the preservation of the houses so menaced. Having decided to act together, each American state should be ready on the line to help extinguish the flames.

"It is for these reasons that I suggested the conclusion some months ago within the framework of the principles proclaimed at Buenos Aires and Lima, of a Mutual Assistance Pact between the United States of America and the three governments of the Antillean Ocean, since in case of peril and by reason of their geographic position they constitute the principal bases for the defense of our continent. This Pact, once concluded, could be extended to the other nations of the Americas. It would contribute without any doubt not only to the assurance of a continuity of the humane Policy of the Good Neighbor, inaugurated and pursued by President Roosevelt, but also it would definitely establish that common security in the shadow of which our country, as well as the countries closest to the United States, will discover the only '*climat*' in which they could favorably find their evolution in peace and in prosperity".

As President Vincent indicates in the closing paragraph of the above quotation, he and his Minister of Foreign Affairs have dis-

⁷ See *Report of the Delegation of the United States of America to the Inter-American Conference for the Maintenance of Peace, Buenos Aires, Argentina, December 1-23, 1936* (Washington, Government Printing Office, 1937).

⁸ 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).

cussed this matter of a Mutual Assistance Pact both with Mr. Duggan, the Chief of the Division of American Republics, during his visit here last February and with myself on several occasions. President Vincent brought the matter up again only a week ago. Indeed, M. Laleau has several times stated to me that President Vincent desires not only such a Mutual Assistance Pact, but, in order to make it "concrete" and to the best advantage for all concerned, he envisages the establishment in Haiti of an United States military base, either on the island of Gonave or on the mainland, under American Navy or Army control, or both;—in fact, wherever and whatever we desire. In pursuing this whole question with me yesterday at our Fourth of July Reception I gathered from Laleau that President Vincent wishes this "concrete" accompaniment of a Mutual Assistance Pact in whatever form we would consider most practicable.

I beg to refer at this point to my telegrams No. 37 and No. 38 of March 23rd and 24th, 1939, and the Department's reply No. 28 of March 30th.

Following out the Department's instructions, I have in the past discouraged President Vincent and the Minister of Foreign Affairs with respect to a Mutual Assistance Pact, etc. I have indicated that, with the large scale fortifications planned for Puerto Rico, Haiti's immediate defense problems would seem to be automatically provided for and that, furthermore, in such circumstances there would seem to be no necessity for any military works on this island. As to the Pact itself, I have indicated to President Vincent the possible embarrassment with respect to the Policy of Pan Americanism. Despite these discouragements on my part, the idea of a Mutual Assistance Pact and the establishment of some form of American military base in Haiti has continued to occupy President Vincent's mind, until I rather feel that it is now an *idée fixe*. In proof of this we now have the public declaration, as reported in this despatch.

While there is every reason to believe that these are President Vincent's considered wishes, I took occasion in a recent conversation with the Minister of Foreign Affairs, when this subject was broached, to ask him to ascertain exactly what President Vincent's desires may be in the premises. M. Laleau said that he would be seeing the President at Kenscoff within the next day or two and would report to me the result of his conversation. I shall, therefore, hope to communicate further with the Department on this subject at an early date.

Respectfully yours,

FERDINAND L. MAYER

711.38/308 : Telegram

The Minister in Haiti (Mayer) to the Secretary of State

PORT-AU-PRINCE, July 12, 1939—11 a. m.

[Received 1:29 p. m.]

95. Reference my despatches 564 and 566 of July 5th and July 8th.⁹ Press continues to publish almost daily articles and editorials in line with the statements in President Vincent's new book published in the press of July 4. Eulogy of the United States and pro-American-phrased articles are appearing not only in Vincent's own newspaper, the *Haiti Journal*, but also in *Le Matin* and the *Nowvelliste*, both of which have been anything but pro-American, especially the *Nowvelliste*. These articles give every evidence of being part of a press campaign. They are undoubtedly inspired if not prepared in collaboration with President Vincent. They are increasingly frank as to the "geographical realities" in the Caribbean, the necessity for a mutual assistance pact and its concrete defensive consequence.

MAYER

711.38/306 : Telegram

The Secretary of State to the Minister in Haiti (Mayer)

WASHINGTON, July 14, 1939—5 p. m.

71. Personal for the Minister from the Under Secretary. Your 94, July 11, 10 a. m.¹⁰ and despatches 564, July 5 and 566, July 8.¹¹ For the reasons set forth below, you should call immediately upon President Vincent and express the following views:

Please inform him that the Government fully appreciates the motives which have led him once again to advance a concept for a mutual assistance pact in the Caribbean. This Government is deeply gratified to have this renewed assurance of M. Vincent's support of the doctrine of continental solidarity, and this further evidence of his friendship, and that of his country, for the United States.

You should tell him that the President and this Government are working day and night to avoid the holocaust of war. At the same time, and in order to be prepared for any emergency, prudence naturally dictates that all possible measures shall be taken for the defense of this hemisphere. With this in view, suggestions for mutual assistance pacts have been put forward from time to time. President Vincent has again put forward this suggestion.

As the result of the careful consideration that has been given to these projects, the statement of policy was developed as set forth in the Department's telegram no. 28 of March 30, 3 p. m. In as much as Presi-

⁹ No. 566, July 8, not printed.¹⁰ Not printed.¹¹ Latter not printed.

dent Vincent has once again raised his suggestion despite your best efforts, I believe the time has come for you to make it unmistakably clear to him that since the earliest days of this Republic, it has been and still is a basic principle of policy to decline, irrespective of circumstances, to enter into any offensive or defensive alliance. This cardinal principle of policy has invariably received the fullest support of the American people. Please, therefore, state unequivocally that the United States cannot consider participating in any pact or alliance for mutual assistance even with its nearest neighbors.

The present policy of this Government with respect to consultation, collaboration and cooperation for the defense of this hemisphere in case of any threat to peace is clearly stated in the Declaration of Lima. Exchanges of views with the President of Haiti and with other Haitian officials on this subject will always be welcome but this Government cannot enter into commitments of the sort contemplated.

You should, of course, reiterate this Government's high appreciation of the sentiments which have motivated President Vincent in this matter and assure him that due note has been taken of his laudable interest in making available facilities for the common defense of this hemisphere, an interest which this Government hopes will continue unabated.

For your strictly confidential information, I realize that despite your best efforts the recent announcement of President Vincent was unexpected and possibly unavoidable. It would be most unfortunate were he to proceed further with this project by endeavoring to enlist the participation of neighboring countries. I feel sure that you will be able to convince President Vincent to abandon his proposal thereby avoiding embarrassment both to the Haitian Government and to the United States. [Welles.]

HULL

711.38/310 : Telegram

The Secretary of State to the Minister in Haiti (Mayer)

WASHINGTON, July 17, 1939—8 p. m.

73. Your telegram 95 [97], July 15, 2 p. m.¹² Although every consideration has been given to your views, the Department does not believe that they raise any new aspects of the situation and accordingly desires you to proceed as instructed.

If you desire you may refer again to the Department's telegram no. 28 of March 30, 3 p. m., which it is felt amply covers the second part of President Vincent's program. With respect to the penultimate paragraph of that telegram, in case the Haitian Government should desire to make a declaration such as that envisaged, you are instructed

¹² Not printed.

to make it unmistakably clear in advance that this Government cannot conceive of any reason at the present time which might render it necessary and advisable to establish defensive military or naval works, an emergency air base or any military or naval station of any kind in any foreign country or possession in the Caribbean except in countries with which this Government already has treaty permission. Forewarned by a knowledge of these intentions of this Government, President Vincent might prefer not to make any declaration.

In conclusion, the Department is mystified by the apparently continuous feeling of insecurity with respect to external aggression which you state exists in Haiti. Despite occasional alarmist reports, there appears to be no deep-seated similar feeling in Cuba, the Dominican Republic, Puerto Rico, or any other part of this hemisphere. While of course this Government cannot undertake to give any guarantees, it should be obvious from the geographical location of Haiti that the Government of the United States would never willingly permit any non-American power to establish a dangerous foothold in Haiti, and would be prepared in last analysis to use its military and naval forces to preclude such a possibility. The feeling of insecurity, the Department suspects, derives more from a fear of the Dominican Republic, rather than of non-American powers. To avoid complications, it is clear that the Haitian Government should conduct itself in a peaceful and correct attitude toward the neighboring republic. If despite such a policy, difficulties arise, the disposition of this Government to be helpful is apparent from its efforts at the time of the Haitian-Dominican boundary controversy.¹³

HULL

711.38/316

The Chargé in Haiti (Bacon) to the Secretary of State

No. 629

PORT-AU-PRINCE, September 3, 1939.

[Received September 8.]

SIR: I have the honor to inform the Department that President Vincent told me yesterday that the position of the Haitian Government, now that war has broken out in Europe, is exactly as he outlined it in chapter five of his book, *Imposant les Jalons*. A copy of this entire chapter, with translation and comments, was submitted to the Department by this Legation with despatch No. 564, dated July 5, 1939.

President Vincent went on further to say that although he realized that the question of a Mutual Assistance Pact with the United States was closed for the time being, he still hoped, under the present circum-

¹³ See *Foreign Relations*, 1938, vol. v, pp. 178 ff.

stances, that the United States Government would find it possible to establish a small air base in Haiti which might be used as a stopover point for planes flying between the United States and Puerto Rico. I replied to the President that I thought this matter had been completely discussed and dropped for the time being, but I would be glad to convey his views to the Department in view of the European developments at this time.

President Vincent also reiterated his desire to cooperate in any way possible with the United States Government in any eventuality.

Respectfully yours,

J. KENLY BACON

SUPPLEMENTARY AGREEMENT BETWEEN THE UNITED STATES AND HAITI PROVIDING FOR AN EXTENSION OF THE PARTIAL MORATORIUM OF JULY 1, 1938, SIGNED JULY 8, 1939¹⁴

838.51/3803

The Minister in Haiti (Mayer) to the Secretary of State

No. 548

PORT-AU-PRINCE, June 12, 1939.

[Received June 15.]

SIR: I have the honor to refer to the Department's cablegram No. 56, dated June 7, 7 p. m., 1939,¹⁵ suggesting certain alterations in the draft note of the Haitian Minister for Foreign Affairs relating to an extension of the moratorium.¹⁶

A note dated June 12, 1939, has just been received from the Haitian Foreign Office requesting the extension for one year of the moratorium which resulted from the Accord of July 1, 1938.¹⁷ This note with translation is enclosed.

The Department's suggestion to insert "and such amounts as may be deemed necessary by the Fiscal Representative, etc." in the body of the note has been slightly altered in the note so as to read "and such amounts as may be deemed necessary by the Secretary of State for Finance in accord with the Fiscal Representative, etc."

As soon as Mr. de la Rue¹⁸ has had an opportunity to carry through the negotiations with the Foreign Bondholders' Protective Council, I would appreciate receiving authorization to sign a supplemental

¹⁴ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 573 ff.

¹⁵ Not printed.

¹⁶ Loan contract of October 6, 1922, between the Republic of Haiti and the National City Company and the National City Bank, both of New York; for text, see *Le Moniteur, Journal Officiel de la République d'Haiti*, October 30, 1922; for correspondence relating to the loan, see *Foreign Relations*, 1922, vol. II, pp. 472 ff.

¹⁷ Department of State Executive Agreement Series No. 128, or 53 Stat. 1923.

¹⁸ Sidney de la Rue, Fiscal Representative of the Haitian Government.

executive agreement extending the Accord of July 1, 1938, for one additional year.

Respectfully yours,

FERDINAND L. MAYER

[Enclosure—Translation]

The Haitian Minister for Foreign Affairs (Laleau) to the American Minister (Mayer)

PORT-AU-PRINCE, June 12, 1939.

MR. MINISTER: Since the letter of June 14, 1938,¹⁹ from my Department, the situation in the Republic of Haiti has not changed materially, and I am therefore obliged to request your Government to accept prolongation of the Accord of July 1, 1938, for another year.

Haiti is obtaining a better comparative price for her coffee, but the size of the crop seems to have suffered a permanent reduction. The cause is not known, but it is generally ascribed to over aged trees. The five-year average of exports of coffee has fallen from 31,919,197 kilos at the end of the fiscal year 1933-1934 to 27,803,960 kilos at the end of the fiscal year 1937-1938. On the other hand, banana production is increasing, and exports will probably reach 2,200,000 stems this year, or an increase of 837,000 stems in comparison with the exports of last year. Sugar prices have improved somewhat, but an export quota has been fixed which precludes much help from that source of revenue. Cotton is still subject to attack from the Mexican boll weevil, and unless this year brings another drought, which is unfavorable to the boll weevil, increased damage to our cotton is expected. Furthermore, both cotton and sisal are quoted at depressed prices.

At the end of April revenues had failed to meet estimates by Gdes. 842,559.06. If a further reduction in an already inadequate budget is to be avoided, revenue trends must change from those existing from October through April, 1939; inasmuch as the treasury balance is inadequate to meet such a deficit, continuing unsatisfactory revenues will require a reduction in expenditures approximating the amount of the deficit in the budget of ways and means.

The May receipts have been raised in an abnormal fashion exceeding the average, with reference to this month, of better years. This is perhaps due to certain unexpected and extraordinary factors. For example, a large importation of gasoline, a large importation of material for the J. G. White Company²⁰ and exportations of coffee bought

¹⁹ *Foreign Relations*, 1938, vol. v, p. 596.

²⁰ This company, with headquarters in New York City, had a contract with the Government of Haiti for the execution of a program of public works. For text of contract, see *Le Moniteur, Journal Officiel de la République d'Haiti*, July 7, 1938.

during the past few months but held for preparation over and above the ordinary time for expedition.

I cannot therefore hope that this exceptional situation of the month of May may continue, nor that it might be the proof of a permanent state of Haitian Government receipts. It is why at the present moment our firmest desire is to be in a position to adopt a budget for the fiscal year, 1939-1940, which will not require any further reductions in our reduced appropriations for the essential public services.

As a result, however, of the friendly attitude that the holders of the bonds of the 1922 loan have always shown towards the Haitian Government and of their desire to maintain its credit at the highest point, I can assure your Government that all additional receipts which we will collect during the fiscal year 1939-1940 over and above the amount carried in the budget 1938-1939 and all other amounts which may be deemed necessary by the Secretary of State for Finance, in accord with the Fiscal Representative, to be expended as extraordinary appropriations to meet serious emergencies, will be employed for the amortization of the 1922 [loan?].

In requesting your Government to agree to prolong the Accord of July 1, 1938, for a duration of one year, the Haitian Government confirms its willingness to continue to execute during the period of prolongation, all the obligations contained in the letter from my Department of January 11, 1938.²¹

I take [etc.]

LEON LALEAU

838.51/3804: Telegram

The Secretary of State to the Minister in Haiti (Mayer)

WASHINGTON, June 23, 1939—7 p. m.

64. Your 84, June 12, 9 a. m. and 88, June 16, 9 a. m.²² Mr. Francis White of the Foreign Bondholders Protective Council informed the Department that the Council had discussed the Haitian note requesting a moratorium communicated to him by de la Rue and agreed that the Haitian request was reasonable. The Council expressed appreciation of the offer of the Haitian Government to devote any budgetary surplus as might result from the fiscal year 1939-1940 with the exception of such extraordinary appropriations as might be authorized by the Fiscal Representative, to the amortization of the 1922 Loan.

You are requested at your discretion to acknowledge the receipt of the note of June 12 from the Haitian Minister of Foreign Affairs and to state that you are authorized, and authorization is hereby given you, to sign a supplemental executive agreement extending the Accord

²¹ *Foreign Relations*, 1938, vol. v, p. 582.

²² Neither printed.

of July 1, 1938 for one additional year from September 30, 1939. In your note of acknowledgment you should of course refer to the undertaking of the Haitian Government referred to in the last sentence of the paragraph next above.

HULL

838.51/3811

The Minister in Haiti (Mayer) to the Secretary of State

No. 568

PORT-AU-PRINCE, July 8, 1939.

[Received July 11.]

SIR: I have the honor to refer to the Department's telegram No. 64 of June 23rd, 7:00 P. M., authorizing me to sign a Supplemental Executive Agreement extending the Accord of July 1, 1938, for one additional year from September 30, 1939.

I submit herewith an original copy of the Supplemental Executive Agreement which was signed this morning by me and the Minister of Foreign Affairs.

Respectfully yours,

FERDINAND L. MAYER

[For the text of the supplementary agreement between the United States and Haiti, signed July 8, 1939, see Department of State Executive Agreement Series No. 150, or 53 Stat. 2402.]

HONDURAS

ATTITUDE OF THE UNITED STATES TOWARD THE QUESTION OF SOVEREIGNTY OVER THE SWAN ISLANDS¹

811.0141SW2/183

Memorandum of Conversation, by Mr. Gerald A. Drew of the Division of the American Republics

[WASHINGTON,] July 27, 1939.

Participants: Julián R. Cáceres²
Laurence Duggan³
Gerald A. Drew

Mr. Duggan referred to a recent inquiry from Dr. Cáceres with regard to a newspaper report in Habana that American officials had proceeded to Swan Island in connection with the establishment of a meteorological station. Mr. Duggan said that this was correct and explained that the station had been established this year on the same basis as in 1938. He said that the purpose of the station was to give warnings of the approach of hurricanes which was of vital interest to the Governments of this country, Cuba and others in the Caribbean area. He assured Dr. Cáceres that this action does not imply any intention on the part of this Government to modify the situation with respect to the sovereignty over Swan Islands. . . .

Dr. Cáceres asked if it would not be possible for the Department to address a note to his Government giving assurances that the establishment of the meteorological station was not intended to affect the respective claims of the two Governments to the Island. Mr. Duggan expressed the view that this would not be necessary and referred in that connection to the action of the Honduran Government in 1938 in appointing a fiscal agent on Swan Island. He pointed out that this Government had refrained from registering any protest against this action in a desire to avoid introducing any complications into the question. It was intimated that it would be desirable for the Honduran Government to adopt a similar attitude toward the establishment of the observation station.

At Dr. Cáceres' request, Mr. Duggan agreed that he could inform his Government that it had been agreed that the steps referred to

¹ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 650 ff.

² Honduran Chargé.

³ Chief of the Division of the American Republics.

would not be made the subject of correspondence between the two Governments and would not be considered as in any way affecting the respective contentions of the parties.

Dr. Cáceres expressed his satisfaction with the understanding reached in the conversation.

811.0141SW2/189

The Under Secretary of State (Welles) to President Roosevelt

WASHINGTON, September 8, 1939.

MY DEAR MR. PRESIDENT: The Government of Honduras has on a number of occasions addressed communications to this Government asserting a claim to sovereignty over the Swan Islands. The Swan Islands were occupied in 1857 by American citizens for the purpose of extracting guano and on February 11, 1863 a guano certificate was issued by Secretary of State Seward under the Act of August 18, 1856.⁴ This certification had the effect of making the islands appertain to the United States, which has since that time maintained effective occupation and has continuously asserted sovereignty over the islands.

The Swan Islands (17°25' No., 83°56' W., H. O. Chart 5170) are situated ninety-seven miles from the eastern coast of Honduras. The Honduran claim to the islands rests almost entirely on the fact of their discovery by Spanish navigators. However, no evidence has been advanced that Honduras has ever occupied the islands or exercised sovereignty over them. At the present time the islands are uninhabited except for a lighthouse tender employed by the United Fruit Company. For the past two years a meteorological station has been operated on the islands during the hurricane season by the United States Weather Bureau with the aid of United States Navy personnel.

In view of the active interest of this Government in the amicable settlement of territorial disputes in this hemisphere I feel that it is highly desirable for us to endeavor to reach a solution of the controversy with the Government of Honduras over the sovereignty to the Swan Islands. The opinion is held in the Department of State that the most desirable method of procedure would be to endeavor by direct negotiation to effect an amicable settlement of the question, and if this effort is not successful, to propose to the Government of Honduras the conclusion of a treaty to provide for submission of the dispute to arbitration. It is believed that for reasons of broad policy this Government should extend full support to the principle of resort to arbitration wherever usual diplomatic negotiations have not succeeded in resolving controversies between the governments in this hemisphere.

⁴ 11 Stat. 119.

Furthermore, this Government and the Government of Honduras are parties to the Treaty of Inter-American Arbitration signed at Washington on January 5, 1929,⁵ which provides that:

"The High Contracting Parties bind themselves to submit to arbitration all differences of an international character which have arisen or may arise between them by virtue of a claim of right made by one against the other under treaty or otherwise, which it has not been possible to adjust by diplomacy and which are juridical in their nature by reason of being susceptible of decision by the application of the principles of law.

"There shall be considered as included among the questions of juridical character:

- "(a) The interpretation of a treaty;
 - "(b) Any question of international law;"
- Et cetera, et cetera.

This treaty was ratified on the part of the United States with the understanding, made a part of such ratification, "that the special agreement in each case shall be made only by the President, and then only by and with the advice and consent of the Senate, provided two-thirds of the Senators present concur". Your authorization is therefore respectfully requested to propose, if necessary, to the Government of Honduras, that the Swan Islands controversy be submitted to arbitration.

If there is any additional information with relation to this question which you desire to have, I should be pleased to present it to you.

Faithfully yours,

SUMNER WELLES

811.0141SW2/190

President Roosevelt to the Under Secretary of State (Welles)

MEMORANDUM

WASHINGTON, September 11, 1939.

In relation to your letter of September eighth regarding disputed sovereignty over the Swan Islands off the coast of Honduras, I approve seeking to settle the matter by negotiation and if such cannot be done, then by submission to arbitration.

At the same time it seems to me that this dispute is in effect making a mountain out of a mole hill. The Islands have practically no commercial value whatsoever, are to all intents and purposes uninhabited, and, as I understand it, are used only occasionally by Honduran fishing boats. I cannot see, therefore, that there is any reason for the raising of a nebulous ultimate sovereignty question.

⁵ *Foreign Relations*, 1929, vol. I, p. 661.

On the other side of the picture, a lighthouse is maintained by an American company without expense to either the United States Government or the Honduran Government.

From the point of view, therefore, of peaceful uses, the problem of sovereignty ought not to raise it.

In the event of a war affecting the Caribbean area, these Islands may have some possible value—not to Honduras but to the United States Navy in their task of maintaining continental defenses. There is little or no contribution which Honduras could make to this defense for the very good reason that the use of the Islands would, in all probability, be confined to aircraft scouting and patrolling. In such a case the patrol would be based not on the Islands themselves but on a ship which would use the Islands as a lee. It is my belief that in the event of any such war Honduras should receive such protection from American Navy as the Islands would afford—in other words, an off-shore patrol which Honduras itself is not able to undertake because of the size and cost of the equipment.

For all these reasons, and for the additional reason that Honduras does not seem to have much of a case for sovereignty, it might be suggested that Honduras relinquish her claim to sovereignty with the understanding that she does so in the interest of navigation in time of peace and continental defense in the event of war.

F[RANKLIN] D. R[OOSEVELT]

MEXICO

REPRESENTATIONS AGAINST FURTHER EXPROPRIATIONS BY THE MEXICAN GOVERNMENT OF LANDS OWNED BY AMERICAN CITIZENS UNTIL AUTHORIZATION FOR PAYMENT BE MADE¹

812.52—Agrarian Commission/274

The Chargé in Mexico (Boal) to the Secretary of State

No. 7858

MEXICO, December 24, 1938.

[Received December 28.]

SIR: I have the honor to refer to my telegram 462 of December 24, 2 p. m., 1938,² and to enclose a copy and a free translation of the DAPP³ release of a message sent by President Cárdenas to the Mexican Senate requesting ratification of the recent agreement between the United States and Mexico with respect to agrarian compensation.⁴

Respectfully yours,

PIERRE DE L. BOAL

[Enclosure—Translation—Extract]

DAPP Release Dated December 23, 1938

As the Senate can see, the arrangement which our Government has reached with that of the United States as contained in the above notes does not submit to arbitration the conduct of the Government of Mexico and Mexican legislation. The arrangement bears exclusively on the amount of American claims, and not upon questions of principle.

Attention should be called to the fact that the Government of the United States agrees that payment for agrarian expropriations need not be made previously nor even immediately, as it had at first claimed, but will be made subsequent to said expropriations, and in annual installments. I also wish to call the attention of the Senate to the fact that, despite the request which the United States has continued to make, Mexico does not commit herself to the suspension of her agrarian policy, not even for the duration of the negotiations.

¹ Continued from *Foreign Relations*, 1938, vol. v, pp. 657 ff.

² Not printed.

³ Departamento Autónomo de Prensa y Publicidad.

⁴ Exchange of notes dated November 9 and 12, 1938, *Foreign Relations*, 1938, vol. v, pp. 714 and 717.

Pursuant to this line of conduct, the Government has continued to handle agrarian cases affecting the properties of foreigners, such as the dotations made in Los Mochis, State of Sinaloa, on the 9th and 11th of this month, affecting a total area of 228,343.40 hectares; and from Las Rusias and La Mariposa, Municipality of Muzquiz, State of Coahuila, which were made on November 20 and December 13th of the present year, affecting a total area of 13,270.68 hectares.

The above agreement between Mexico and the United States, although contained in a simple exchange of notes, constitutes a Convention according to the practices of Chancery and the authorized opinion of the most distinguished commentators on International Law (Hall's *International Law*, eighth edition, pp. 383-384, and the authorities therein cited), to which authorities we must have recourse since the Constitution of the Republic does not prescribe any definite form for treaties, requiring only that once these have been negotiated by the Executive they shall be submitted for approval and ratification to the Senate; in compliance, therefore, with this provision of the Constitution, I submit to the Senate, for its consideration and for ratification should it be deemed advisable, the agreement contained in the notes quoted above.

Lastly, I take pleasure in informing you that, as provided by the Constitution, I am addressing to the Chamber of Deputies a proposal that they authorize a special appropriation for the coming Fiscal Year, so that the Government may be in a position to pay the indemnities due the owners of lands expropriated under the agrarian laws, with the understanding that—pursuant to the thesis which the Federal Executive has firmly upheld to the Government of the United States—the appropriation will be used to indemnify both foreign and national landowners, so that there will be no discrimination against the national dignity and the principles of Law.

I renew [etc.]

LÁZARO CÁRDENAS

812.52—Agrarian Commission/274

The Secretary of State to the Chargé in Mexico (Boal)

No. 2335

WASHINGTON, January 14, 1939.

SIR: Reference is made to your despatch 7858, December 24, 1938, particularly the second paragraph⁵ following the text of the notes dated November 9-12, 1938 in the DAPP release.

The Department assumes that the statement and release in question were intended to allay possible domestic opposition to the arrangement but possibly also with a view to the effects in other countries. In any event, the Department does not feel that it may properly ignore this

⁵ Second paragraph of extract printed *supra*.

public official statement that this Government has receded from its position in the matter of the principle concerning prompt and effective compensation since silence on this Government's part might be held to denote acquiescence. Attempt might be made later to invoke this situation as a precedent sanctioning expropriation without prompt compensation.

Accordingly you are instructed to deliver a note to the Foreign Office as follows:

My Government has noted statements attributed to the President of Mexico, in a DAPP release dated December 23, 1938, to the effect that the Government of the United States agrees that payment for agrarian expropriations need not be made previously nor even immediately, as it had been contending.

With a view to preventing any possibility of misunderstanding of the position of this Government, I have been instructed to remind Your Excellency that in reaching an arrangement with the Mexican Government for the settlement of agrarian claims my Government specifically stated, in its note of November 9, 1938,⁶ that it had not modified the position set forth at length in its notes of July 21, 1938⁷ and August 22, 1938⁸ and that it must insist that the recognized rules of law and equity require the prompt payment of just compensation for property that may be expropriated.

You are requested to deliver the note personally and to state that while your Government has no desire to be contentious, it feels that for the purposes of the record it is obliged in the most amicable spirit to call attention to this matter.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

812.52—Agrarian Commission/277

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 8007

MEXICO, January 26, 1939.

[Received January 31.]

SIR: I have the honor to refer to the Department's instruction no. 2335 of January 14, 1939, directing the transmission to the Foreign Office of a note regarding statements attributed to President Cárdenas, concerning agrarian affectations⁹ and compensation therefor.

In compliance with the Department's instructions, a note was sent to the Foreign Office under date of January 16, 1939. This note was delivered personally by Mr. Boal, at that time Chargé d'Affaires ad

⁶ *Foreign Relations*, 1938, vol. v, p. 714.

⁷ *Ibid.*, p. 674.

⁸ *Ibid.*, p. 685.

⁹ Expropriations.

interim, who made the remarks requested by the Department in its instruction under reference. A copy of this Note is enclosed.¹⁰

The Embassy is now in receipt of a note from the Foreign Office, dated January 19, 1939, a copy and translation of which are enclosed,¹⁰ in reply. The Embassy has made no acknowledgment of the note, pending the receipt of further instructions from the Department.

Respectfully yours,

JOSEPHUS DANIELS

812.52—Agrarian Commission/27‡

*Memorandum by Mr. Joseph R. Baker, Assistant to the Legal Adviser
(Hackworth)*

[WASHINGTON,] February 4, 1939.

Technically and provided that it is understood that the statement is intended to relate alone to the cases covered by the arrangement of November 9–12 1938, there is some basis for President Cárdenas' statement in his Message to the Mexican Senate, that the United States "accepts the fact" that with respect to agrarian expropriations payments "will not be . . . immediate to, but subsequent to the expropriatory actions".

With regard to the cases covered by the arrangement in question, that arrangement does not provide for "immediate" payment but for payment after the claims have been submitted to and passed on as to the amounts which should be paid by a Commission. Therefore, it may be said, strictly speaking, that the United States "accepts the fact" that with regard to such claims payment will be "subsequent to the expropriatory actions."

It will be observed that the President's statement related to the arrangement in question which he was requesting the Mexican Senate to ratify and that he referred not to a yielding on the part of the United States respecting the rules and principles of international law but to a "fact" with regard to payment of the particular claims covered by the arrangement.

On the other hand and "with a view to preventing any possibility of misunderstanding of the position of this Government" the Department's instruction of January 14, 1939 to the American Embassy at Mexico City carried out by note to the Foreign Office of January 16, 1939 was to the effect that the United States had not modified the position taken in previous notes that "the recognized rules of law and equity require the prompt payment of full compensation for the property that may be expropriated". As reported by the Embassy in

¹⁰ Not printed.

its despatch of January 26, 1939, the Foreign Office has replied by stating that the President's pronouncement "should be understood in its relation to the entire text of the document which contains it" and that "it is clear that" he "referred exclusively and specifically to the arrangement recently concluded between the two countries in the matter of agrarian claims."

In brief, it follows that this Government is on record with the Mexican Government on the general principle involved and that the Mexican Government has in its reply taken note of such action by this Government and stated that the President's pronouncement referred "exclusively" to the existing arrangement between the two countries.

It would appear that there is nothing in the correspondence which has occurred or in the existing situation which would embarrass the United States in maintaining its position with respect to the payment which should be made for future expropriations.

In view of the foregoing it would not seem essential to continue the correspondence with the Mexican Government.

JOSEPH R. BAKER

812.52—Agrarian Commission/274

The Secretary of State to the Ambassador in Mexico (Daniels)

No. 2376

WASHINGTON, February 16, 1939.

SIR: The Department has received your despatch no. 8007 of January 26, 1939 enclosing a copy and translation of the Mexican Government's note of January 19, 1939 stating that President Cárdenas, in commenting on the attitude of the United States Government towards the payment of compensation for agrarian affectations, had reference only to the arrangement effected by this Government's note of November 9, 1938,¹² and the Mexican Government's reply of November 12, 1938.¹³

There is enclosed a copy of a memorandum on this matter prepared in the office of the Legal Adviser.¹⁴ The statements in the memorandum may be considered an expression of the Department's views in this matter. You are accordingly requested to address a note to the Mexican Foreign Office, acknowledging without comment the receipt of its note dated January 19, 1939.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

¹² *Foreign Relations*, 1938, vol. v, p. 714.

¹³ *Ibid.*, p. 717.

¹⁴ Memorandum of February 4, *supra*.

812.52—Agrarian Commission/43 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, May 31, 1939—1 p. m.

[Received 5 p. m.]

149. General Hay ¹⁵ this morning handed me a check for \$1,000,000 on the Bank of Mexico as the first payment due May 31, 1939 under the agrarian claims agreement.

This check is made out to me as Ambassador and I have endorsed it and am sending it to the Department in today's pouch together with a copy and translation of the receipt witnessed by General Hay which I signed.

DANIELS

812.52—Agrarian Commission/100a

The Department of State to the Mexican Embassy

AIDE-MÉMOIRE

The atmosphere in which the notes of November 9-12, 1938, providing for the adjustment of the claims of American citizens whose lands in Mexico have been expropriated since August 30, 1927, were agreed upon was one of seeking to avoid protracted discussions over technical or legalistic matters and of determining in an equitable and friendly manner to solve the problem confronting the two governments of bringing about a prompt and effective solution of the claims in question.

It is most unfortunate that any question of the interpretation of these notes has arisen for the Department of State understood that the solution agreed upon in the conversations and in the notes mentioned was the following:

The Mexican Government undertook to make fair compensation to American owners whose lands have been expropriated. The only questions for determination by the Agrarian Claims Commission were (1) that American citizens had in fact suffered losses through expropriation; (2) the amount of such losses.

It was not anticipated that any arguments would be raised seeking to differentiate against any group of American owners. Moreover, it was contemplated that the Mexican Government would make appropriate compensation for the damages that American citizens had sustained, covering the value of the lands taken, plus improvements, and other losses.

It is strongly felt that the technicalities which have interfered with proceedings relating to the agrarian claims should be promptly eliminated. The Mexican Commission could study the claims with a view

¹⁵ Eduardo Hay, Mexican Minister for Foreign Affairs.

to determining their reasonableness. Should it be more convenient for the Mexican Government to do this, arrangements could be made to settle on the basis of the total amount of the damages to American citizens through agrarian expropriations rather than to have the Commissioners jointly state the value of each claim. A procedure of this kind for facilitating expeditious valuation of the claims would, of course, be predicated upon strict adherence to the spirit, as above described, of the conversations leading up to the Agreement of November 9-12, 1938 and the notes of those dates.

The United States Government could not accede to any scaling down of the just value of these agrarian claims or to any discrimination against any group of American claimants.

WASHINGTON, November 24, 1939.

812.6363/6333

Memorandum by the Under Secretary of State (Welles) of a Conversation With the Mexican Ambassador (Castillo Nájera)

[Extract ²⁶]

[WASHINGTON,] November 24, 1939.

I then handed the Ambassador an *aide-mémoire* on the question of the work of the Agrarian Commission of which the following is the text: [Here follows text printed *supra*.]

I emphasized to the Ambassador my very great dissatisfaction with the way in which the work of the Commission had been progressing due to the fact that the Mexican Government had been so utterly unwilling to agree upon the basic principles involved in the work of the two members of the Joint Commission in determining the fair amount of the claims. I said that if this delay continued until after the first of January the Mexican Government might be sure that the question would be discussed at very considerable length in the Congress of the United States and that the just complaints of the claimants would be unanimously supported by public opinion in this country. I said that it was over a year now since the agreements constituting the Agrarian Commission had been signed and that up to the present time the two Governments had not agreed upon the valuation of one single claim. I concluded by saying that in view of the spirit which animated the two Governments when these agreements were signed, it seemed to me imperative that the two Governments now agree without further procrastination upon the way in which the claims were to be evaluated.

²⁶ For the portions of this memorandum dealing with the oil question, see p. 710.

The Ambassador said that of course the primary difficulty was the question of determining whether stock held by American citizens in Mexican corporations should be included in the claims to be paid and to be evaluated under the agreements constituting the Agrarian Commission. He said that he had just received a telephone call from the Mexican Under Secretary of Foreign Affairs saying that the Mexican Government believed the total value of claims presented would amount to some \$36,000,000 of which \$21,000,000 represented the properties of five Mexican corporations. Señor Beteta had implied, the Ambassador said, that this \$21,000,000 should not be regarded as subject to the jurisdiction of the Agrarian Claims Commission. I replied that I could not possibly agree to any such contention as this and that my point of view on this aspect of the problem had been made clear in the *aide-mémoire* already handed the Ambassador.

The Ambassador said that he agreed that no legitimate distinction could be made between the property of American nationals in one category or in the other, but that his own task had been made infinitely more difficult by the insistence of Ambassador Daniels in all of his conversations at the Mexican Foreign Office that this Government was solely interested in the claims of the small American landholders and that the larger landholders, notably those who had incorporated their properties in Mexico, had no legitimate claim for payment. The Ambassador said that every time that he got to the point of getting his Government to find some way out of the difficulty presented, Mr. Daniels convinced the Mexican Government that there was no need to find a way out of the difficulty. The Ambassador nevertheless said he would take the matter up again with his Government and urge that he be instructed and authorized to agree upon a global method of payment which would avoid the need of divorcing claims arising from ownership in corporations from the claims arising through the expropriation of properties held by Americans. I replied that I would agree in principle to this procedure but with the clear and specific understanding, as stated in the *aide-mémoire*, that this Government could not agree to a procedure which would result in the scaling down of the just and legitimate claims of American nationals whose properties had been expropriated during the past twelve years.

812.52—Agrarian Commission/104a : Telegram

The Acting Secretary of State to the Ambassador in Mexico (Daniels)

WASHINGTON, December 5, 1939—7 p. m.

286. Embassy's telegrams 386, December 1, 8 p. m. and 290 of September 29, 4 p. m. and despatch 9249 October 5, 1939.¹⁷

¹⁷ None printed.

With a view to forestalling further precipitate action in agrarian cases, you are instructed to inform the Foreign Office ¹⁸ that this Government is greatly disturbed by the disregard by the Mexican Government of its explicit assurance given the Secretary by the Mexican Ambassador on November 10, 1938 ¹⁹ that if further dotations of agrarian lands were made the Mexican Government would compensate the owners through prompt, effective and adequate payment. No explanation has even been offered for such action as that in the Dickson case where the lands were seized with the Mexican Government's approval but without assurances of prompt compensation after this Government had pointed out that such compensation was expected.

When this Government exchanged notes with the Mexican Government on November 9-12, 1938, it was in the belief that the troublesome agrarian problem was at last solved. Not only did the agreement establish a procedure for determining the value of agrarian lands seized since August 30, 1927 and for paying compensation for those lands, but the assurance given the Secretary on November 10, 1938 by the Mexican Ambassador stated that no more agrarian seizures would be made without compensation. The Mexican Government has raised legalistic obstacles to the rapid settlement of the agrarian troubles which we all so earnestly hoped for a year ago and now appears not desirous of maintaining good faith regarding the assurances of November 10. We have no desire to reopen for discussion the merits of the controversy over agrarian seizures but expect the Mexican Government forthwith to observe the assurances given on November 10, 1938 with respect to all cases arising thereafter which are not before the Agrarian Claims Commission. The Department expects the Embassy to lose no opportunity to keep before the Mexican Government this Government's position.

The Department has neither contemplated nor agreed to any waiver of the assurances of November 10 above mentioned. Moreover the assurances did not exclude American-owned Mexican corporations from their benefits. It is accordingly most important that there should be no further expropriations in the absence of simultaneous arrangement for the payment of prompt, adequate and effective compensation.

WELLES

¹⁸ The Ambassador carried out this instruction in his note No. 4051, December 6, to the Mexican Minister for Foreign Affairs.

¹⁹ Memorandum by the Under Secretary of State, November 10, 1938, not printed.

812.5200 Compañía Terrenos Y Ganados Rodrigo/26 : Telegram

The Secretary of State to the Ambassador in Mexico (Daniels)

WASHINGTON, December 7, 1939—5 p. m.

287. Personal for the Ambassador. Department's telegram 286, December 5, 7 p. m. Please telegraph immediately prospects for cancellation of dotation of Dickson's lands. Please indicate also present status of the efforts you are making to have the property protected as "cattle lands".

The following will serve as your instructions only in the event that it is necessary because of the time element to follow them. If prospects of cancellation are not favorable please state whether it may not be practicable immediately to obtain the courtesy of an extension for 30 days of the period allowed for fencing since the fifteen day period allowed (which expires morning of December 12) is said to be insufficient by at least 1 month. Meanwhile representations could be further pressed for cancellation. Under present time limit the Department understands it is not possible to complete fencing; the result of insistence upon present orders of agrarian authorities would probably be that many pure bred animals would escape into lands of agrarians, causing serious financial losses to Dickson and associates.

Should the Mexican Government, in the face of representations which you were instructed by the Department's 286 to make, persist in the dotation it is hoped that at least the Government will arrange to make the dotation from the equivalent or better lands in the southeast corner of the property. While the theoretical value of the company's lands per hectare may not be high the damages from either dotation would be considerable but somewhat less in the event the change to the southeast corner were made. This Government will strongly and immediately support a claim of the owners for losses and damages if any of the lands are expropriated and will expect prompt, adequate and effective compensation for the owners in fulfillment of the assurances referred to in the telegram.

The Department is in receipt of a further request from Senator Connally²⁰ that all possible assistance be extended in this case.

HULL

812.5200 Compañía Terrenos Y Ganados San Rodrigo/27 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, December 9, 1939—4 p. m.

[Received 7:30 p. m.]

397. Your 287, December 7, 5 p. m. and 290, December 9, 11 a. m.²¹ I talked to Beteta yesterday and Carrigan to Mena today, as it was

²⁰ Senator Tom Connally of Texas.

²¹ Letter not printed.

not possible to see Beteta today. Beteta wrote President about case last night according to Mena and it will be necessary to await his decision. As prospects for cancellation are still obscure and in view of time element, Carrigan asked Mena about 30 day extension. Mena is taking this up with Beteta and stated it appeared "reasonable request". I shall see Beteta Monday on this.

Regarding protection as cattle land I have left memorandum reciting quantity land and cattle. This of course is contingent on final award regarding dotation since such inaffectability is obtainable only upon formal request by owners and should have been made before dotation.

Carrigan pointed out to Mena that had company desired to make such request it would have withheld its action pending reply from Foreign Office and since reply was not received prior to dotation it had naturally not made this request. I shall also bring this up on Monday.

DANIELS

812.5200 *Compañía Terrenos Y Ganados San Rodrigo/29*: Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, December 11, 1939—9 p. m.

[Received 11:35 p. m.]

399. Referring to the Department's telegram No. 244, December 11, 5 p. m.,²² Lic. Mena, Chief of the Diplomatic Section, informed Gibson²³ that possession would not be given December 12th and that the 30-day period for fencing had been granted. American Consul at Piedras Negras informed.

DANIELS

812.6363/6354/1

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

[Extract]

[WASHINGTON,] December 11, 1939.

The Mexican Ambassador called to see me this evening at my request since it was my intention to talk with him concerning the message which Mr. Richberg²⁴ had given me on the telephone yesterday to the effect that in a conversation which Mr. Richberg had had with

²² Not printed.

²³ Raleigh Augustus Gibson, Second Secretary of Embassy.

²⁴ Donald Richberg, representing the oil companies whose properties were expropriated.

the Ambassador on Saturday they had both reached the conclusion that negotiations between the oil companies and the Mexican Government for an adjustment of the situation arising from the expropriation of the oil properties were now impossible.

Before I could start the discussion of this topic the Ambassador, who seemed to be very much exercised, took out of his pocket a communication from his Foreign Minister which enclosed a copy of a note he had received from Ambassador Daniels. The Ambassador gave me the copy of the note to read but not the communication from his Foreign Minister. The note from Ambassador Daniels was written in compliance with the Department's telegraphic instruction of December 5²⁵ and had to do with the failure of the Mexican Government to comply with the assurances given the Secretary of State by the Mexican Ambassador on November 10, 1938. The Mexican Ambassador said that General Hay was very much upset by the note from Ambassador Daniels, and the Ambassador then went on to express the opinion that no such assurances had ever been given by him to the Secretary of State as those referred to in Mr. Daniels' communication. I read Mr. Daniels' communication again and then remarked to the Ambassador that I thought he and I must be talking about different matters since the assurances referred to in Mr. Daniels' communication were exactly those which he had officially given to the Secretary of State on the date mentioned. The Ambassador said that the assurances he had given did not imply that, in any cases of expropriation by Mexico of properties not already in course of condemnation and owned by American citizens, compensation would be paid by the Mexican Government. I asked the Ambassador to wait a minute and sent to my files for the copy of the conversation which the Ambassador had had with the Secretary of State and myself on November 10, 1938, and which contained the textual transcript of the Ambassador's assurances. . . . I then stated that the text of these assurances had been discussed between him and myself for some days prior to November 10 and that our discussions had then been reduced to writing; that according to what he had told me at the time, he had read the assurances to President Cardenas personally and had received the explicit authorization of President Cardenas to make these assurances in the name of his Government. The Ambassador said that he remembered the circumstances very well and that the text was exactly as he had read it to the Secretary of State and to myself. . . .

The Ambassador then explained to me what his difficulty was which until then had been inexplicable to me. He said that the authorization which he had received to convey these assurances to the Secretary

²⁵ Telegram No. 286, December 5, 7 p. m., p. 661.

of State had been received personally from President Cardenas and had never passed through the Mexican Foreign Office and that consequently neither General Hay nor Under Secretary of State Beteta had any knowledge that these assurances had been conveyed. . . . The Ambassador said that he would telephone General Hay and tell him that he had spoken with me with regard to Ambassador Daniels' note and that the questions contained therein were questions which he, the Ambassador, desired to discuss personally with President Cardenas before any action was taken by the Mexican Foreign Office.

I then reminded the Ambassador that ten days had passed since I had handed him a memorandum with regard to the work of the Agrarian Commission and that I had received no reply and that from what the Ambassador had just told me, I assumed that he would give me no reply until he could communicate with President Cardenas on the telephone. I went on to say that the situation with regard to the agrarian expropriations was becoming altogether intolerable. I said not only had an entire year passed without a single claim being adjudicated, but new expropriations were being undertaken completely counter to the assurances given to this Government by the Ambassador on November 10, 1938, and that I was very much afraid that the situation in this country, insofar as our own public opinion was concerned, had almost reached the point where an explosion of public indignation on the part of United States citizens was at hand. The Ambassador then said that he could assure me that he had every reason to believe that this whole agrarian question could be settled in a manner satisfactory to us in the near future, and that he was confident that the question raised in my memorandum, namely, recognition of the rights of American shareholders in corporations set up in Mexico owning agrarian properties which had been expropriated, was not going to create any insurmountable difficulty. He also said that he was confident that his Government would prevent any further new expropriations of American-owned agrarian properties and that the assurances conveyed by him on November 10, 1938, would be respected. I said that I was happy to know that the Ambassador felt optimistic in this regard, but that I for one was beginning to lose my own innate optimism insofar as this problem was concerned. I said that I could not over-emphasize the seriousness with which I regarded a continuation of the present situation and that it seemed to me that the Ambassador must make every possible effort to impress upon his Government the gravity with which this Government viewed the situation.

[For the remainder of this memorandum dealing with the oil question, see page 714.]

S[UMNER] W[ELLES]

812.5200 Compañía Terrenos Y Ganados San Rodrigo/27: Telegram

The Secretary of State to the Ambassador in Mexico (Daniels)

WASHINGTON, December 14, 1939—6 p. m.

299. Your 399, December 11, 9 p. m. and Department's 287, December 7, 5 p. m. Please express to the Foreign Office the Department's and owners' appreciation of the granting of the 30-day extension which afforded an opportunity for the two Governments to give further consideration to this matter.

After study of Article 52 bis of the Agrarian Code and its regulations, the company and its attorneys have about reached the conclusion that it will not be to their advantage to apply for inaffectability thereunder.

The Department is greatly interested in this case on its merits and as a test case, and considers it would be very unfortunate were the dotation to be carried out. It is confident that you will continue your earnest efforts, so far successful, to extend all proper protection with a view to prompt solution. Only as a last resort should there be agreement to dotation, in which event the *permuta* should be arranged; immediate full compensation will be expected if any of the lands are taken.

Please keep Department promptly informed by telegraph of developments.

HULL

SUPPORT BY THE DEPARTMENT OF STATE OF EFFORTS OF AMERICAN OIL COMPANIES TO REACH AN AGREEMENT WITH THE MEXICAN GOVERNMENT REGARDING THEIR EXPROPRIATED PROPERTIES²⁸

812.248/262

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

[WASHINGTON,] February 18, 1939.

The Mexican Ambassador called to see me this afternoon. He told me in the first place, with reference to our conversation on the telephone of last night, that he had succeeded in speaking with President Cárdenas on the telephone this morning. President Cárdenas had authorized him to say to me that the Davis proposal had been submitted to him on the evening of February 16 through Secretary of the Treasury Suarez and that the President had immediately rejected it and said that he would not even discuss it. President Cárdenas further wanted me to know that the Davis proposal was not as alleged

²⁸ For previous correspondence; see *Foreign Relations*, 1938, vol. v, pp. 720 ff.

by Davis to the American Embassy, but contemplated the barter of 70 German planes instead of 30 for Mexican oil to be repaid over a ten-year period. The proposal also envisaged the sending to Mexico of a very considerable number of German military and technical people. President Cárdenas further wanted us to know that the Mexican Government possessed only American aircraft and had no desire to obtain other than American aircraft and that it would continue to deal with the United States in all aviation matters. He had further authorized the Mexican Ambassador here to deny to the press the truth of the report published this morning that the Mexican Government was considering such a proposal and to state categorically that the Mexican Government had rejected the proposal and would not agree to it under any circumstances.

I told the Ambassador that I was very much gratified by this information and I asked him to express to President Cárdenas the appreciation of this Government for this courtesy in informing us thus fully of the decisions he had reached.

The Ambassador then went on to discuss the oil situation. He said that he would have come in to see me earlier about this but he had been laid up with grippe for a week and he now wanted to tell me that with regard to the four points comprising the basis of the proposal Mr. Richberg²⁷ was to make to President Cárdenas, the first point, namely, complete operation of the properties by the companies, could not be accepted *in toto* by the Mexican Government but that President Cárdenas believed some form of agreement on this point could be found; with regard to the second point, binding long-term contracts, the Mexican Government was perfectly prepared to agree and would even agree to a 50-year basis for such contracts; but point three, compensation to the companies for the losses suffered while the Government was in possession of the properties, could not be agreed to upon the basis proposed, although the difficulty might be evaded by stepping up the percentage of profits to be obtained by the companies through the contracts or by extending the term of the contracts beyond the period which would otherwise be agreed upon; finally, with regard to point four, namely, the inclusion of the contract in some official agreement between the Government of Mexico and the Government of the United States such as a commercial agreement, President Cárdenas had stated that he would first have to know the wishes of the Government of the United States in this regard but that he saw in principle no objection to this point.

President Cárdenas had insistently urged that Mr. Richberg come to Mexico City before March 1st because he himself was taking one of his periodical trips around the country starting March 6th. He had

²⁷ Danold Richberg, representing the oil companies whose properties were expropriated.

asked the Ambassador to come to Mexico a few days before Mr. Richberg was due to arrive and suggested that the meeting place between the three of them might be at Monterrey.

The Ambassador then said that he had had two or three talks on the telephone in the past few days with Mr. Hurley²⁸ and that he now understood that while Mr. Hurley would be in Mexico at the same time as Mr. Richberg, the latter did not desire to negotiate conjointly with Mr. Hurley but rather separately. Mr. Hurley had told the Ambassador that while his proposal was along the same lines as that of Mr. Richberg, it also comprised a suggestion that the companies lend the Government of Mexico \$100,000,000 of which seventy or eighty million dollars would go into immediate improvements of the oil properties and into the further exploitation of new properties and the remainder would be utilized by the Government of Mexico in its public works program.

S[UMNER] W[ELLES]

812.6363/5543

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 8165

MEXICO, March 3, 1939.

[Received March 8.]

SIR: I have the honor to report that at my weekly call on Thursday at the Foreign Office I informed Minister Hay²⁹ that Mr. Donald Richberg, representing the companies whose oil properties were expropriated in March 1938, had reached Mexico to open negotiations with the Mexican authorities looking to some mutually satisfactory agreement. I took occasion to say that my Government sincerely hoped that an adjustment between the oil companies and the Mexican Government could be reached. General Hay said that was also his earnest hope. He added that delay in negotiations did not lie at the door of the Mexican Government, for immediately after the expropriation he had told me that the Mexican Government wished to confer with the representatives of the oil companies and was determined to pay for the properties expropriated, and that President Cárdenas had publicly and in all ways invited the companies to name representatives with whom he could confer. He said he was glad that the negotiations were to take place and he hoped for the best results. He indicated that the conferences would take place at the Department of Hacienda. The President from the beginning has acted through the Minister of Hacienda³⁰ in all oil matters.

²⁸ Patrick J. Hurley, representing the Sinclair Oil Company.

²⁹ Eduardo Hay, Mexican Minister for Foreign Affairs.

³⁰ Eduardo Suárez.

As President Cárdenas will be absent from the city until the latter part of the week, he will not engage in any conferences until next week.

The Department will be kept advised.

Respectfully yours,

JOSEPHUS DANIELS

812.6363/5586 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, March 19, 1939—8 p. m.
[Received March 20—12:30 a. m.]

78. President Cárdenas issued statement March 18th, in summary it was that the Government of Mexico stated at the time of expropriation its intention to indemnify justly said companies and later to endeavor to find a way to satisfy interests of companies. That Richberg proposed a plan of collaboration for the development of the industry the companies contributing toward such association the amount of the indemnification for their properties and also the new amount which they are disposed to invest. The Government will direct the directive and administrative functions conceding representation to the companies in proportion to their investments which will be on a lesser scale than the investments of the Government. The Government is in possession of data to fix the valuation of the expropriated properties. The duration of the plan of collaboration et cetera will be "once the companies accept the principles and bases proposed by the Mexican Government".

Associated Press wired full statement night of March 18.

President Cárdenas spoke today before some 40,000 people, a smaller crowd than was expected. He spoke of the fundamental laws Mexico and touched upon the reason for disappropriation of the oil companies and spoke of the precedent they established in taking their fight to foreign courts. He stated that the companies had recently assumed an entirely different attitude. Spoke of the attacks upon the Government by its enemies saying that he was endeavoring to save Mexico from the clutches of imperialism and to grant freedom to Mexico's workers. Referred to his statement of March 18 saying that the companies had proposed a plan of collaboration and briefly outlined it. There was no applause from the crowd during this period of the speech.

DANIELS

812.6363/5612

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 8262

MEXICO, March 23, 1939.

[Received March 25.]

SIR: I have the honor to report that after a stay of two weeks, in which he had a number of conferences with President Cárdenas seeking an agreement with reference to the expropriated petroleum properties, Mr. Donald Richberg returns to Washington today. The period of his stay here was not conducive to success in the negotiations, for it was during the week when the schools and the petroleum syndicates, the Mexican Revolutionary Party, and others staged a celebration commemorating the expropriation. In these celebrations, while President Cárdenas was moderate in his utterances as compared with the declarations of other speakers, they all stated that no step backward would be taken and that the properties would not be returned. President Cárdenas made a statement which the press interpreted as conveying the impression that an agreement was in sight by which the petroleum fields would be operated under the direction of the Mexican Government. Immediately Mr. Richberg made a statement correcting the impression created by saying that no agreement had been reached in the conferences. (See my despatch 8256 of March 22, 1939.²¹)

Mr. Richberg called to see me yesterday afternoon and gave me the substance of the above and related at length his various conferences with President Cárdenas. Without any optimism he expressed gratification at certain advances in the negotiations. He stressed that, instead of discussing the value of the properties expropriated, about which agreement was out of the question, he had succeeded in turning the discussion to methods and plans for operation, a certain percentage of the profits to go to the companies and a certain proportion to the Mexican Government. He hopes the management will be solely in the hands of the oil companies, whereas the Mexicans think they should manage. If a solution is reached Mr. Richberg, I think, expects both sides must make some concessions. In case of agreement as to operation, the question of percentage of profits will be next up for discussion. He said he had not suggested any particular division, believing it most important to secure an agreement on principle. If that is reached, both sides might give such consideration to a just division as would lead to an agreement.

President Cárdenas suggested that in case an accord could be reached the oil companies ought to unite so that it could be possible to settle

²¹ Not printed.

everything between only two parties. He thought the fact that there are now sixteen oil companies under different management would militate against the success of the best carrying out of the operations suggested by Mr. Richberg. The answer of Mr. Richberg was that to amalgamate all the sixteen companies would be involved with many difficulties and he would like to discuss the proposal with the representatives of the oil companies. He said that when he first made the suggestion they "went up in the air" and said it was utterly impossible. However, a few days later they softened and he told President Cárdenas it would involve many difficulties but he believed it might be possible to include them in only four companies for the purpose of acting with the Mexican authorities. He pointed out to me that the companies concerned here were competitors and some of them might prefer competitive instead of cooperative action.

"I am pleased", said Mr. Richberg, "at the friendly spirit in the negotiations and the evident desire of President Cárdenas to find a solution. However, I am giving out rather pessimistic statements because the early optimistic reports conveyed the impression that agreement was near, which the situation did not justify. Also, if I spoke optimistically, the Mexican Government might suppose I was ready to make concessions and not feel it necessary to recede from some of its positions. If I speak pessimistically, they will feel that concord is possible only by mutual concessions." He said that the very optimistic statements in the press here had conveyed the impression, not justified, that agreement was certainly in the offing, whereas there are more hurdles ahead.

The fact that he is leaving Thursday has been variously interpreted. Some of the American correspondents believe it signifies that the negotiations have failed and that is why Mr. Richberg is going home now. I told them that on the first day of his arrival, before he had even seen the President, Mr. Richberg informed me that he was compelled to be in Washington on the 26th or 27th of March to argue an important case. He told me in his latest conversation that it would be necessary for him to see officials of the oil companies in New York and to suggest some reconsideration of matters that would aid in successful negotiations, and that he could return here toward the end of April for further discussions. He believes an agreement is not impossible and that the groundwork has been laid which may end the impasse; but he appreciates that it is not wise to be either too optimistic or too pessimistic.

Respectfully yours,

JOSEPHUS DANIELS

812.6363/5636 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, March 30, 1939—8 p. m.

[Received 10 p. m.]

88. Second District Court today denied petroleum companies *amparo*³² so far as it refers to the refusal of the administrative petition for revocation and dismissing it on all other points on the ground that the acts complained of had been the subject matter of prior Supreme Court decisions.

Following statement given by companies to the press :

"Local representatives of oil companies emphatically deny that there has been a prior decision on the merits of their *amparo* against expropriation and say that the prior decision referred to was the Supreme Court decision of October 8, 1938,³³ which merely dismissed the case because the companies' petition for administrative revocation of the expropriation decree was at that time still pending decision before the Department of National Economy and the Supreme Court decision of October 8 expressly left the door open for future *amparo* action. Companies will appeal decision.["]

DANIELS

812.6363/57723

Memorandum by the Chief of the Division of the American Republics (Duggan) to the Under Secretary of State (Welles)

[WASHINGTON,] May 16, 1939.

MR. WELLES: Mr. Richberg called today and informed Mr. Bursley and me at length concerning his recent negotiations in Mexico.

As he left, he said he would furnish the Department, for its strictly confidential information, a copy of the draft of his memorandum of his understanding of the points on which he reached agreement with President Cárdenas. A copy of this memo was presented to President Cárdenas for his approval.

All the companies have agreed that the formula embodied in the memo to President Cárdenas is a satisfactory basis for the detailed discussions. Although some changes have been suggested, Mr. Richberg has been able to keep the companies in line by holding out the possibility of securing President Cárdenas' word that he also is prepared to go ahead without changes. The longer time goes on with no word from Mexico, the more difficult it will be to prevent the companies, which are continuing to mull over the memo, from sug-

³² Suit for injunction.

³³ *Cía. Mexicana de Petróleo, "El Águila", S. A. y coags., Mexico, Semanario Judicial de la Federación*, vol. LVIII, No. 2, October 6-13, 1938, pp. 354-364.

gesting modifications. He thought that he would have difficulty in holding the companies in line for more than a week longer.

He said that it would be very helpful if some intimation could reach President Cárdenas of his difficulty in keeping the companies toeing the mark as well as if the suggestion could be made that it would be highly desirable were President Cárdenas within the next few days to inform him that the basis of agreement as set forth in the memorandum had been accepted by Mexico. With this information he would decline to receive any suggested changes in the bases from the companies. Mr. Richberg said he had understood that President Cárdenas was to have conveyed such an acceptance some days ago and that he now thought the Mexicans were holding off waiting to see whether the companies would take the next step.

I told Mr. Richberg that I thought you would be willing to have a personal chat with Ambassador Castillo Nájera about this.

Mr. Richberg also stated that the Mexican Government desired to have the settlement, if reached, embodied in a treaty. He expressed the opinion that such a treaty would not encounter serious opposition in the United States Senate. There is attached for convenient reference a copy of the memorandum³⁵ of my conversation on April 29, 1939, with the Counselor of the British Embassy on this aspect of the matter. This recites briefly the possible advantages and disadvantages of the treaty method. One of the principal difficulties foreseen was that the Mexican Government would not agree. In the light of Mr. Richberg's statement this might not be the case.

LAURENCE DUGGAN

812.6363/56358

Mr. Donald Richberg to the Chief of the Division of the American Republics (Duggan)

WASHINGTON, May 18, 1939.

DEAR MR. DUGGAN: After our conversation Tuesday Mr. Bursley stated that you would like very much to have a copy of the Memorandum³⁵ to which I referred, which was prepared during the recent conferences with President Cárdenas.

We have been very careful to keep this material confidential, because of the possibility that it might be published, which would embarrass the negotiations, and particularly because it might be publicized as a proposition from one party to another, or as a practical agreement, when, in fact, all concerned have reserved judgment and avoided any definite commitment; although the document expresses

³⁵ Not printed.

many propositions as to which there is apparently substantial agreement.

As I stated to you, if both sides can avoid insistence on troublesome modifications of language, or any radical change in the underlying ideas, the basis for detailed negotiations may be quickly found. I am fearful that delay and further discussions will simply provide an opportunity for obstructionists to increase the obstacles to agreement.

In view of the fact that the Under Secretary may have a conference on this matter tomorrow, I thought he should have an opportunity to familiarize himself with this Memorandum; although he may or may not think it advisable to give evidence of having such knowledge.

Sincerely yours,

DONALD RICHBERG

812.6363/5792

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

[WASHINGTON,] May 19, 1939.

The Mexican Ambassador called to see me this morning.

I said to the Ambassador that I had understood from my last conversation with him that President Cárdenas did not intend to consult with other members of his Government with regard to the basis for agreement proposed by Mr. Richberg at Saltillo and that the Ambassador was waiting to hear from Mr. Richberg what the attitude of the companies might be. I told the Ambassador that I did not know whether Mr. Richberg had as yet anything to say to him in that regard, but that I had gathered from Mr. Richberg that he understood that the Ambassador was to inform him what the attitude of President Cárdenas might be. I said that if any misunderstanding existed, I wanted to be as helpful as possible in clearing it up and that it seemed to me very desirable that the very useful and agreeable contact which had existed between the Ambassador and Mr. Richberg should neither be broken nor suspended. I said it seemed to me that if any delay of an inordinate character now took place, those in Mexico opposed to the reaching of an agreement would be given time in which to try and stir up public opinion against a reasonable agreement, and in the same way such individuals within the oil companies as might be disposed to take a view of complete intransigence in the negotiation of a settlement might be given additional time in which to make their views prevail. Furthermore, I added, if the press and public opinion in this country were given to understand that the Ambassador and Mr. Richberg were not even talking with one another, we would probably soon see stories published alleging that negotiations had broken down, and I told the Ambassador, as I had said so often before, that public opinion in the United States was getting

very much aroused about this problem and I felt any indication of this character would probably be sufficient to call forth a series of articles once more attacking the Mexican Government and creating an atmosphere in which friendly and reasonable negotiations might be difficult.

The Ambassador told me that he confirmed what he had previously said, namely, that President Cárdenas did not intend to discuss the basis proposed with any one else, but would make up his own mind with regard thereto. He said that General Cárdenas had telegraphed him a couple of days ago saying that during the next few days he would be travelling in the desert regions in the states of Chihuahua and Sonora where there were no telephonic or telegraphic communications and that it would not be until May 24 that he would reach Hermosillo from which place he would write to the Ambassador his definite conclusions. In the meantime, the Ambassador said he would be very pleased to have the opportunity of talking over the situation with Mr. Richberg and he agreed with me that conversations would be useful and desirable. The Ambassador said that some new ideas as to handling some of the points had occurred to him and he expressed the very definite considered opinion that none of the points in the basis as proposed by Mr. Richberg would present any obstacle other than the point covering management. He said that public opinion in Mexico, when the basis had recently been made public, had almost unanimously protested against the plan for management, alleging that this was merely a device for returning to the companies the complete and exclusive control of the properties. He said that he did not think President Cárdenas could stand up against this hostility.

I insisted, however, that in my own judgment the basis provided a reasonable, equitable, and fair means of adjustment and that it seemed to me that all that was now required was ingenuity and good will in developing formulas. I told the Ambassador I would be glad to communicate to Mr. Richberg the message he had given me.

S[UMNER] W[ELLES]

812.6363/57873

Memorandum of Conversation, by the Assistant Chief of the Division of the American Republics (Bursley) ⁵⁷

[WASHINGTON,] May 22, 1939.

Mr. Mallet, Counselor of the British Embassy, called this afternoon and referred to previous conversations he has had in the Department with regard to the possibility of confirmation by a treaty (or exchange

⁵⁷ Addressed to the Chief of the Division of the American Republics and to the Under Secretary of State.

of notes) of any arrangement effected between the Mexican Government and the oil companies for a settlement of the present controversy.

Mr. Mallet said that the British companies had furnished the Foreign Office with a copy of the memorandum Mr. Richberg had left with President Cárdenas early this month and that, according to the fourth section of that memorandum, Mr. Richberg had suggested the possibility of such an agreement between the countries and had definitely referred to the possible negotiation of a commercial treaty between Mexico and the United States which would enable mutual protection for the nationals of each country and their properties in the other, and give assurances of continuing improved relations between each Government and citizens of the other.

Mr. Mallet said that if the Department could do so, he would appreciate it if the Department would inform him whether it would be disposed to sign a treaty or exchange notes with Mexico giving recognition to any solution which may be reached of the oil controversy and whether this Government would be inclined also to negotiate a treaty with Mexico looking to the mutual protection of the citizens and property of one in the territory of the other. He said that he thought his Government would desire to take a similar course to ours.

I told Mr. Mallet that I did not know whether the Department had taken a decision with respect to these matters, but that with regard to the question of a treaty or exchange of notes to give greater force to a solution of the oil controversy, it was my personal assumption that it had not been considered particularly likely Mexico would agree to such an arrangement and for this reason other aspects of the matter had not been fully explored.

Mr. Mallet said he was leaving Washington and would return on Thursday, at which time he would inquire whether there was any information I could furnish him regarding these matters.

In view of the pledge of secrecy with which Mr. Richberg furnished us a copy of his memorandum, I did not give any indication that we had a copy of it. With reference to the Mexican attitude towards a possible treaty or exchange of notes to implement the oil agreement, if reached, I refer to the last paragraph on page 2 of RA's memorandum of May 16, 1939, stating:

[Here follows the last paragraph of memorandum printed on page 673.]

I should appreciate instructions as to whether the Department desires me to convey any expression of views to Mr. Mallet.

I may add that it would seem likely, in the event an agreement for the mutual protection of citizens and property is agreed to by Mexico, that Mexico also would want a trade agreement granting reduced import duties on vegetables, petroleum products, and perhaps other products.

812.6363/58034

*Memorandum by the Chief of the Division of the American Republics
(Duggan)*²⁸

[WASHINGTON,] May 24, 1939.

Your consideration is called to the attached memorandum²⁹ of conversation with Mr. Mallet, Counselor of the British Embassy, regarding the confirmation by treaty or exchange of notes of any agreement effected between the Mexican Government and the oil companies for a settlement of the present controversy.

The embodiment of any eventual agreement in a treaty has both advantages and disadvantages. It would undoubtedly give the agreement more prestige and stability. It would, however, result in this Government being inevitably drawn into numerous conflicts which are bound to arise even with the best faith on both sides. Whenever the companies thought that the Mexican Government did not comply with the agreement they would appeal to this Government that the treaty had been violated, with the result that this Department would be placed in an extremely difficult position. Were it to give ear to these complaints it would have to establish a special section of experts to investigate in order to determine whether the complaints of the companies were justifiable.

The situation that might obtain between the Mexican Government and the petroleum companies in Mexico, which are privately owned, is entirely different from that existing between the Iranian Government and the Anglo-Persian Company, which I understand is controlled by the British Government.

In private conversation Mr. Richberg has mentioned as the period of the agreement between the companies and the Mexican Government fifty years, so that were the arrangement to be confirmed in a treaty this Department would be concerned for fifty years with the observance of the terms of that treaty.

In considering the desirability of confirming the arrangement by a treaty the suggestion is made that there be considered at the same time the possibility of the Mexican Government exchanging notes with this Government, and possibly the British and Dutch Governments, in which the two Governments would take cognizance of the arrangement arrived at and expressing satisfaction thereof. In this way the several governments would take recognition of the agreement but would not become involved in its observance in every detail by becoming parties to a treaty or treaties.

It is my suggestion that Mr. Mallet be informed when he calls on

²⁸ Addressed to the Secretary of State and the Under Secretary of State.

²⁹ *Supra*.

Thursday that the Department is giving consideration to the matter but has arrived at no conclusion.

L[AURENCE] D[UGGAN]

812.6363/5808

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

[WASHINGTON,] May 29, 1939.

The Mexican Ambassador called this morning at my request. After taking up with the Ambassador the Compañía Hidroeléctrica Potosina case, I asked the Ambassador to tell me what the latest developments might be with regard to the oil controversy.

The Ambassador said that Mr. Richberg had come in to see him very hurriedly a few days ago but without any communication to make to him other than to suggest that the Ambassador and he issue a joint statement declaring that the general bases for agreement had now been agreed upon by the President of Mexico and by the companies and that in consequence thereof the formulation of detailed plans as to the method of carrying out this agreement was to be placed immediately in the hands of experts selected by both sides. The Ambassador told me that he had replied that while he was willing to draft such a statement for the consideration of President Cárdenas, he thought that in as much as President Cárdenas had not yet given his consent to the plan for agreement proposed it would only complicate matters to send President Cárdenas such a draft statement. He said that President Cárdenas had telegraphed him today that he was communicating his decisions to the Ambassador by mail and the Ambassador said the letter containing these instructions would probably not reach him before the end of the present week. The Ambassador said that he was worried by the delay, and regarded as a bad sign the fact that there had now joined President Cárdenas at Hermosillo not only Beteta⁴⁰ and one or two oil experts of the Mexican Government, but also the Mexican Secretary of the Treasury, Señor Suárez. The Ambassador seemed to be pessimistic as to the outlook.

I told the Ambassador that I trusted Señor Beteta would repeat to President Cárdenas what I had said to him, namely, that President Roosevelt and this Government believed the bases for settlement proposed were entirely equitable and fair to both sides and that it seemed to me imperative that an agreement be reached at the earliest possible moment in order to prevent further delay giving aid and com-

⁴⁰ Ramón Beteta, Mexican Under Secretary for Foreign Affairs.

fort to those in both countries opposed to the reaching of any agreement.

The Ambassador said he also hoped that Beteta had repeated this to President Cárdenas, but that all that Beteta had said to him of his conversation with me was that I had urged a rapid agreement.

The Ambassador also talked at some length with regard to the visit he had had recently in New York from Mr. Patrick J. Hurley. He said that Mr. Hurley had given him to understand that his company had been informed by Mr. Richberg that President Cárdenas had already given his full agreement to the bases of settlement proposed. The Ambassador told him that this was not the fact and that while he personally believed all of the bases proposed would be satisfactory to President Cárdenas with the exception of that portion of the agreement providing for administration of the properties, he had no reason to think that President Cárdenas would agree to this particular provision. The Ambassador said that Mr. Hurley had then again brought up the question of the Sinclair group making a direct agreement with the Mexican Government even if the other companies did not fall in line. The Ambassador said that he had again thrown cold water on this suggestion and had emphatically stated to Mr. Hurley that he believed it to be in the interest of both sides that all of the companies reach agreement conjointly and not separately. The Ambassador told me he had gained the impression that Mr. Hurley was completely in the dark as to what the situation might be and was merely trying to find out from the Ambassador what the actual facts might be.

S[UMNER] W[ELLES]

812.6363/3862

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] June 19, 1939.

After luncheon at the Mexican Embassy on Saturday I had the opportunity of a few moments conversation with Señor Beteta.

I told Sr. Beteta that he knew of the very great importance which this Government attached to the settlement of the petroleum controversy and inquired whether there was anything that he could tell me regarding the recent developments.

Señor Beteta stated that the negotiations were not making progress because the petroleum companies were taking too rigid and resilient a position. He went on to explain that in his opinion there were two principal obstacles. The first of these had to do with the relationship between the Government and the companies in the management of

the properties under the proposal suggested by Mr. Richberg; the second had to do with the evaluation of the properties which was necessary to determine the share which the companies should receive from the profits of operation.

Concerning the first of these difficulties, he stated that it was politically impossible for the Mexican Government to agree that a foreigner should be the head of the administrative agency or that foreigners should have a majority on the board of representation of the agency. He stated that the Government was willing to give them minority participation and a substantial degree of technical supervision, but that it was not willing to give control of the management to the companies.

Without undertaking to argue the point I asked Mr. Beteta whether he thought that under these conditions the companies would invest the new capital necessary not only to keep the present properties in shape, but to develop the petroleum industry as the Mexican Government desired. Sr. Beteta said that from the companies' point of view he could see objection to the management formula suggested by the Government, but reiterated that it was a political impossibility for the Government to return control of management to the companies.

With regard to the second difficulty, the appraisal of the value of the expropriated property, Sr. Beteta said that in his opinion this was a greater obstacle than the first, although there had been no discussion of it. He said that he did not understand how there could be any division of the net income of the proposed new company between the present companies and the Government if there was not some determination in advance of the amount of contribution of each to the new company. He thought that the appraisal of the value of the machinery, et cetera, would not present any great obstacle but that the difficulty would come in connection with the sub-soil resources. In this connection he mentioned that the Constitution of 1917 provided that the sub-soil resources vested in the Government. I reminded him that while this was correct it was my understanding that the Mexican Government had recognized that this provision of the Mexican Constitution was not applicable to concessions granted prior to 1917 and that most of the concessions which had been expropriated under the decree of March 18, 1938 were those entered into prior to 1917. Sr. Beteta stated that this had been the position of previous Mexican administrations but that it might not be the position maintained by the present administration should this aspect of the matter come to the forefront of the discussion.

Sr. Beteta then said he would like to tell me frankly that Mr. Richberg was making it appear that this Government considered his

proposal the only one susceptible of solving the petroleum controversy. I told Sr. Beteta that while I did not think that the President or the Secretary would wish to take the position that Mr. Richberg's proposal was the only one for settling the controversy, nevertheless it seemed to present the basis of an agreement which accounted for this Government's hope that the arrangement suggested be given the most careful consideration.

Sr. Beteta replied that his Government thought that there were alternative proposals and had so indicated in the memorandum handed to Mr. Richberg. At this point I told Sr. Beteta that if he had reference to the payment of cash compensation to the companies I felt sure that he would agree with me that this would only be possible in case Mexico could borrow the money in the United States. I said that I thought I should tell him in all frankness that that was a vain delusion if indeed it was entertained seriously by the Mexican Government since I knew of no responsible bank that would undertake to loan money for that purpose. I started to say that if the Mexican Government thought that it could secure the money from W. R. Davis, it would find itself sadly mistaken. . . .

Señor Beteta said that he had been sent up here by President Cárdenas to find out what the "atmosphere" in Washington was. He told me that he had gathered from the press that the "atmosphere" was very bad; and then asked me whether that was correct. I told Sr. Beteta that I thought the press in Washington, which was usually well-informed, had properly diagnosed the trend of thought. I said that the President and the Secretary were very concerned at the present status of the negotiations between Richberg and the Mexican Government; they had handled the oil situation from the day it occurred with the greatest deftness in an endeavor not to permit it to cast a blot over relations between the United States and Mexico; that they had assumed, on the basis of what President Cárdenas had publicly stated, that the Mexican Government intended to make good on the statements that it intended to make compensation; that they had been waiting for well over a year, but that it was only within the last few months that there had been any real effort to come to an agreement; that now that effort appeared on the verge of a breakdown so that naturally they were very much concerned. I stated that fortunately public opinion was not blazing forth in headlines against Mexico, but that there was a strong undercurrent of rising feeling against Mexico's failure to make a really constructive effort to come to an agreement. I said that I assumed that it was no news to him that the companies if unable to secure an agreement under this administration, would throw all their power, which was considerable, behind whatever presidential candidate in the 1940 elections they

thought would bring about a settlement. I told him that without attempting to forecast the result of elections in 1940, if an opposing administration were to come into office a different policy might be pursued by the United States. Sr. Beteta, after taking objection to my statement about Mexico's not having made a constructive effort to reach an agreement, went on to state that he recognized that the United States had within its power means of compelling Mexico to do whatever it wanted, even to the extent of requiring the return of the properties to the companies. I broke in here to state that this Government had, as he knew, never made any such request, but again, as he knew, had looked with some favor upon a cooperative management and sales plan under which the Mexican Government would retain the properties. Sr. Beteta continued that be that as it might, if the United States Government wanted Mexico to follow any particular line of action it could compel her to, but that this would mean the overthrow of the Cárdenas regime in Mexico, political and social chaos, probably continued civil strife, and very definite antagonism between the United States and Mexico; moreover, it would mean the end of the good neighbor policy, which would be completely unmasked as nothing more than crude imperialism. He added significantly that Mexico would take the steps to see that this was done.

Señor Beteta said that he regretted it had become known by the press that the United States Government was considering "taking strong action" against Mexico. I said that I did not think that the press had any idea of what measures the United States might be contemplating and that I wanted to make it clear to him that so far this Government had taken not a single means of pressure to bring Mexico to an agreement.

LAURENCE DUGGAN

812.6363/5872

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

[WASHINGTON,] June 20, 1939.

The Ambassador of Mexico called to see me this afternoon. He told me that his two conversations with Mr. Richberg of June 18 and June 19 had been on the whole satisfactory. He said that in his conversation with Mr. Richberg yesterday he had agreed to omit the question of valuation in the bases of agreement and that Mr. Richberg had agreed to suggestions that the Ambassador had made whereby the Mexican Government would have a majority on the

Board of Directors of the proposed new Mexican corporation to handle the oil properties, and that, without stating anything specific with regard to the nationality of the new manager, the selection of the new manager would be left to the determination of the Board of Directors. The Ambassador mentioned various other amendments which he had suggested with reference to the administration of the properties which had been accepted in principle by Mr. Richberg. The Ambassador believed that this memorandum would be supported by Béteta and would be accepted by President Cárdenas.

The Ambassador, however, was very much perturbed because in the covering letter which Mr. Richberg had sent him this afternoon conveying the final text of the memorandum which they had both agreed upon yesterday afternoon, Mr. Richberg had referred to the memorandum as the Ambassador's own proposal. The Ambassador said it was absolutely impossible for him to agree to this since in the first place his Government had not authorized him to make what was tantamount to a new proposal; and that he saw no reason why either he, or Mr. Richberg, or the companies, or the Mexican Government should assume the paternity of this proposal and that, in his judgment, the only solution was for the memorandum to be regarded as an exchange of views between Mr. Richberg and himself for submission to the Government and to the companies. I told the Ambassador that I was in entire accord with his point of view, and that it seemed to me that this question was one which could readily be solved.

I thereupon called up Mr. Richberg on the telephone and explained the matter to him, and Mr. Richberg said he was quite willing to withdraw his covering letter of today and to let the memorandum stand as it had been before. He said he would get in touch with the Mexican Ambassador. Subsequently the Ambassador called me on the telephone and told me he had spoken with Mr. Richberg and Mr. Richberg had told him that he was quite willing to leave the memorandum without any covering letter, and that if the bases contained in the memorandum were acceptable to the Mexican Government and the companies, both sides could then take joint responsibility for it.

The Ambassador said that consequently he would leave early tomorrow morning to join President Cárdenas in Lower California, and that he was now for the first time really optimistic that an agreement in principle had been found. I expressed to him my very great satisfaction and my more than earnest hope that there would be no further delays and that he could notify me within the next few days that the basis now proposed is acceptable to his Government.

S[UMNER] W[ELLES]

812.6363/5864

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 8675

MEXICO, June 20, 1939.

[Received June 26.]

SIR: I have the honor to refer to my despatch No. 8561 of May 20, 1939,⁴³ and previous despatches with regard to the matter of taking inventories of the properties of the petroleum companies.

In the despatch under reference it was pointed out that the taking of inventories had apparently been dropped. Somewhat previous to this time, on February 20, 1939, to be exact, attorneys for affiliates of the Standard of New Jersey which had not been named in the expropriation decree entered an *amparo* suit against the action of the Government: the grounds for the complaint that the Government had proceeded with taking the inventories and evaluating the properties of these non-expropriated, although seized, companies.

On June 13, 1939, a decision was rendered by the Second Section of the Supreme Court dismissing *amparo* proceedings. Copies of the decision of the Supreme Court, as well as translations thereof,⁴³ are transmitted herewith.

In commenting on the decision, the representatives of the Standard Oil affiliates stated the following: (this is confidential)

Your attention is particularly invited to portion of the decision appearing at the bottom of page 3 and the top of page 4 of the enclosures, in which it is stated that the companies have a defense by availing themselves of the petition for administrative revocation contained in article 5 of the Expropriation Law.⁴⁴ This portion of the decision is along the lines of the decisions in the Franco Española and Terrenos del Golfo cases, which have previously been commented upon.

Copy of the enclosure is going forward to New Haven.

With reference to the Franco Española and Terrenos del Golfo cases,⁴⁵ see the Embassy's despatches Nos. 8477 of April 29, 1939, and 8436 of April 24, 1939.⁴⁶

Respectfully yours,

JOSEPHUS DANIELS

⁴³ Not printed.

⁴⁴ Approved November 23, 1936, *Diario Oficial*, November 25, 1936.

⁴⁵ *Amparo* actions brought by the Cía. Petrolera Franco Española, an affiliate of the American Continental Oil Company, and the Cía. de Terrenos del Golfo, a member of the Dutch Shell group, were dismissed by decisions of the second section of the Supreme Court of April 4 and 18, 1939, respectively, on the ground that the companies had not had full recourse to administrative appeals. Texts and translations of the decisions were transmitted to the Department with despatches Nos. 8434, April 24, and 8471, April 28 from the Chargé in Mexico. (812.6363/5716, 5739).

⁴⁶ Neither printed.

812.7965/134

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

[Extract]

[WASHINGTON,] July 20, 1939.

I told Dr. Quintanilla ⁴⁷ that the second matter I wished to discuss with him was the very serious situation which I feared was now developing as the result of the last communication sent to Mr. Richberg by the Mexican Ambassador and by reason of a reply sent to the Ambassador by Mr. Richberg. Dr. Quintanilla said he was not informed of the nature of the reply sent by Mr. Richberg and that he had only seen the press references thereto. I explained to Dr. Quintanilla in some detail that Mr. Richberg and the companies by which he was retained had reached the very definite conclusion that the bases for settlement set forth in the Ambassador's last letter departed completely from the general bases agreed upon between the Ambassador and Mr. Richberg and likewise brought into the scope of the proposed agreement elements which would be totally unacceptable to the companies. I said that while I was in no position to discuss details of the negotiations nor at this stage to express any opinion as to the merits of the points insisted upon by the companies, I, nevertheless, after talking with Mr. Richberg, obtained the impression that the bases proposed in the Ambassador's last letter did in fact depart very materially from the point of view which had always been expressed to me by Mr. Richberg and which had been confirmed to me in our conversations by the Ambassador himself.

I said that I was sure Dr. Quintanilla would understand that if the present negotiations were now completely to break down, this Government could no longer remain out of the picture and that although we had over a period of 18 months hoped that negotiations between Mexico and the companies would prove successful and had time and again done everything we could to facilitate the course of these negotiations, it was quite impossible for the United States Government indefinitely to refrain from undertaking to interpose its support in behalf of what we regarded as the legitimate and well-founded complaint on the part of nationals of the United States that the Mexican Government had seized their properties, was utilizing

⁴⁷ Luis Quintanilla, Mexican Chargé.

the properties to Mexico's own benefit, and was making no effective effort whatever to offer fair and adequate compensation to the individuals whose properties had been confiscated. Furthermore, I said that I had been informed that the companies, believing that all hope of a successful conclusion of the negotiations must now be abandoned, were preparing to issue a public statement to the American public setting forth the complete history of the incident itself and of the negotiations which had subsequently taken place and of the reasons why they felt it impossible to continue these negotiations. I said that, of course, if this statement were issued a very serious situation would be presented which would be one which I was sure would be exceedingly unsatisfactory both to the Governments of Mexico and to the United States. I said that I thought this statement would not be published until it was ascertained by the companies what the nature of the attitude of the Mexican Government might be with regard to the points set forth in Mr. Richberg's last letter and that I felt quite confident that the publication of this statement would not be long withheld. I said, therefore, that it seemed to me that the situation is exceedingly urgent and that I trusted Dr. Quintanilla would communicate immediately with the Ambassador and apprise the latter of the very great concern which I felt, as well as of my most earnest hope that upon further consideration the Mexican Government would find it possible to attain an agreement with Mr. Richberg as to the general bases for negotiation, without which, he felt satisfied, no further negotiation would usefully be undertaken. I said that Dr. Quintanilla could not emphasize too strongly the very great disquiet which I felt.

Shortly after the termination of our interview Dr. Quintanilla called me on the telephone from the Embassy to inform me that he had tried to get in touch with Dr. Castillo Nájera in Mazatlan but he had learned that the Ambassador had already left the latter city, intending to arrive in Mexico City tomorrow. In order to save time Dr. Quintanilla called up his Foreign Minister on the telephone and had urged him to see that the letter which Mr. Richberg had mailed to the Ambassador in care of the Foreign Office and which should have reached the Foreign Office, be placed in the hands of the Ambassador at the first possible moment so that he might consider it and discuss it with President Cárdenas before they both reach Mexico City. Dr. Quintanilla told me that he would without fail telephone Dr. Castillo Nájera tomorrow and would communicate with me immediately thereafter.

S[UMNER] W[ELLES]

812.6363/6078

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

[WASHINGTON,] August 2, 1939.

After consultation with the President, and after receiving his approval, I had separate conversations with both the Mexican Ambassador and with Mr. Donald Richberg with regard to the oil negotiations.

I reiterated to the Ambassador the statements made to him at the White House yesterday by the President, particularly emphasizing the President's belief that if the Mexican Government did not now after this very long delay reach an equitable adjustment of the controversy with the American companies, public opinion in this country would be so incensed as to bring about a situation in which the Congress would undoubtedly enact legislation making it impossible for the Executive in the future to purchase Mexican silver. The Ambassador told me that he had already communicated in great detail to President Cárdenas the statements made by the President. I said that it seemed to me that the crux of the situation lay in point one of the counter proposals which Mr. Richberg was to receive from the Ambassador this afternoon, namely, the insistence of the Mexican Government that the boards of directors of the four corporations to be set up be composed in each instance in their majority of Mexican nationals appointed by the Mexican Government, and that the operation of the oil properties consequently be under the sole control and jurisdiction of the Mexican Government. I said it was clear that the companies could not and would not agree to this provision. I said I recognized fully from what the Mexican Government had stated to us that public opinion in Mexico and the official statements of the President of Mexico made it impossible for the Mexican Government to recede from the position it had taken and to return to the American companies the operation of the properties in question, either directly or in some disguised form. It appeared to me, I said, that the time had now come for a definite determination of whether a reasonable and fair solution of this problem could not be found, and in that spirit I was authorized by the President to make the following suggestion:

The formula proposed was for each of the four boards of directors to be composed of nine individuals, three to be appointed by the Mexican Government and three by the American companies; and the remaining three directors to be selected in the following manner: the Government of Mexico and the Government of the United States will agree upon a list of nine individuals to be nationals of neither Mexico, the United States, Great Britain, nor the Netherlands and all to be persons of demonstrated integrity and standing, and of experience

either in commerce, in finance, or in the oil industry; the six members of the boards of directors appointed as indicated above would be obligated to select from the list agreed upon by the two governments, within a period of thirty days after the handing to them of the list in question, three individuals who would constitute the three remaining members of the boards of directors. I stated that in proffering this suggestion it seemed to me that if accepted it would enable the Mexican Government to maintain the position it had taken, since the control and management of the properties would not be returned to the American companies, while at the same time it would remove the objection on the part of the companies as expressed to me that the Mexican proposal envisaged complete control by the Mexican Government of management and operation, to which the companies could not agree.

I said that I further suggested that should this proposal be regarded favorably by the Mexican Government and the companies it might be regarded as a solution of a temporary character, say for a two or three-year period, with the hope that once operations had commenced under the plan so proposed, the Mexican Government and the companies by common accord could agree upon a permanent solution.

The Ambassador said that at first glance he could see no reason why this should not be a way out of the difficulty and that he would at once submit it to his Government with the hope that they might accept it.

In my interview with Mr. Richberg I submitted the same formula to him and likewise stated to him that I did so by specific authorization from the President. Mr. Richberg went into the matter very fully, but seemed to me to be laboring very definitely under the belief that the American companies whom he represented felt that the time had come when negotiations with the Mexican Government would no longer be productive of any useful purpose and that the companies would favor the issuance of a statement to the public giving the entire history of the negotiations with the Mexican Government and stating that they had terminated because of the inability of the companies to agree with the Mexican Government upon any basis of settlement.

I said that it seemed to me that if this were the case the companies ought to recognize certain facts very clearly. I said that it was already rumored in Mexico in many quarters that the companies were unwilling to reach any agreement with the Cárdenas Government, hoping that General Almazán would be elected President of Mexico and that they could make a deal with him whereby control and management of their properties would be restored to them. I said that if the companies now publicly announced termination of the negotiations this belief in Mexico would be very generally strengthened and that

the whole oil controversy would become the foremost issue in the campaign and that it undoubtedly would be charged in many quarters that General Almazán had "sold out" to the companies and that the companies were mixing directly in Mexican political affairs. I said that the inauguration of the next president of Mexico was in any event still 18 months off, as the next president would not take office until January 1941, and that in the meantime the controversy which would arise during the political campaign would prejudice, in my judgment, not only every American interest in Mexico, but also very definitely relations between the two countries. I further said, what assurance could the companies have that the next president of Mexico would in fact be inclined to favor their point of view; and if some president of Mexico not favorable to their point of view took office after the very bitter campaign which would undoubtedly be engendered, the companies would in that event be as badly off, if not worse off, than they are now.

So far as the situation in this country was concerned, I said I felt Mr. Richberg was fully aware of the fact that this question might, of course, become a political issue in the United States as well as in Mexico. For all of these reasons I believed, therefore, that it was very desirable that the companies should exercise the utmost amount of patience in the present negotiations and should not close the doors until every effort had been made to try and find an equitable solution which would give them the guarantees they felt were indispensable but which at the same time might prevent the issue from becoming one of a violent, political nature in Mexico.

Mr. Richberg said that he would go to see the Mexican Ambassador immediately after leaving me and that he would then telephone his principals who are not in Washington. He also said he would probably have to attend a joint meeting of the heads of all of the companies in New York within the next two days and that he would see me again either this evening or tomorrow.

S[UMNER] W[ELLES]

812.6363/6001

*The President of the Standard Oil Company of New Jersey
(W. S. Farish) to the Secretary of State*

NEW YORK, August 10, 1939.

DEAR MR. SECRETARY: I am addressing you in behalf of American interests represented by Mr. Donald R. Richberg in recent negotiations with the Mexican Government.

Ever since the forcible seizure of foreign owned oil properties by the Mexican Government on March 18, 1938, the owners of these prop-

erties have protested the illegality of this seizure. The American, British and Dutch Governments have all made clear to the Mexican Government in separate but harmonious protests that such a taking of private property without making prompt, assured and adequate compensation to the owner is simply confiscation and cannot be justified as a legal expropriation, under established principles of international law, or indeed, even under Mexican law.

More than sixteen months have passed during which the Mexican Government has furnished ample and convincing evidence not only of its inability, but also of its unwillingness to make any genuine compensation for the properties taken. Even its intermittent assertions of an intention eventually to offer long deferred, inadequate and uncertain payments, have been coupled with qualifications and counterclaims so absurd as to make the assertions a mockery instead of a promise of justice.

The oil companies, on the other hand, have faced the realities of the situation and have recognized the political and economic difficulties embarrassing the Mexican Government. Without waiving their legal rights they have sought to find a method of amicable settlement through which the Mexican Government might achieve honorably its aims in regard to the oil industry and might advance the welfare of its people in the effective development of Mexican oil resources.

A practical program was developed late in the year 1938. The objectives of negotiations were stated, and were accepted by the companies and the Mexican Government, with the full knowledge and approval of the Department of State of the United States. The five stated objectives read as follows:

“An arrangement under which there will be:

(1) Provision through the medium of a long term contract for the operation by the respective companies of properties taken, in accordance with the terms of the contract free from restrictions, claims or obligations not embodied therein.

(2) A fixed schedule of rates definitely determining all taxes and similar payments to be made during the life of the contract.

(3) A reciprocal guarantee, for the life of the contract, of reasonable and workable labor conditions.

(4) An appropriate measure and means of reimbursement for losses sustained by the companies to date of contract by reason of seizure of properties on March 18, 1938.

(5) Upon expiration of the long term contract all claims and interests of companies in producing properties in Mexico to be released and transferred to the Mexican Government without payment of any further consideration.”

Through conferences between President Cárdenas and Donald R. Richberg, representing the companies, in Mexico City in March and in Saltillo in May, a thorough understanding was established regard-

ing the basic principles which must underlie the proposed long term contracts in conformity with the foregoing objectives. But when it appeared that a substantial agreement upon major principles had been reached tentatively in Saltillo on May 3, and that an expert negotiation of the detailed provisions of contracts would be next in order and should be undertaken at an early date, a sudden change took place in the attitude of the Mexican Government.

After a long and unexplained delay, and then a patient resumption of discussions with the Mexican Ambassador in Washington, a letter was received by Mr. Richberg on July 11 (dated July 5) setting forth the position of the Mexican Government in such a way as to nullify the results of the previous negotiations. Whereupon Mr. Richberg wrote to the Mexican Ambassador on July 17 stating his conclusion that since the efforts previously made to arrive at an understanding had been abandoned, further negotiations appeared to be useless. A copy of this letter, which is hereto attached, was transmitted promptly to the Department of State of the United States as an explanation of the breakdown of negotiations.

As the result of subsequent discussions between the State Department and the Mexican Ambassador Mr. Richberg was advised that the Mexican Government had under consideration a new proposition which the companies would be asked to consider in the near future. While courteously waiting this development the oil companies and Mr. Richberg have been surprised to read articles in the newspapers purporting to reveal proposals supposedly proceeding in part from Mr. Richberg, which neither he nor his clients have ever made or would consider making.

It seems therefore necessary to state quite plainly that the oil companies have not authorized, nor has Mr. Richberg undertaken, the discussion in their behalf of any proposal which does not conform to the objectives originally written as the basis for the discussions between Mr. Richberg and the Mexican Government. Nor has anything happened since the letter of Mr. Richberg, dated July 17, which would change the conclusion stated therein.

It becomes necessary accordingly, to report to the Department of State of the United States that the companies have found it impossible to arrive at an agreement with the Mexican Government for adjusting equitably the controversy arising out of the forcible seizure of these properties. Obviously it would not be appropriate for the Government of the United States to undertake—and it is not being asked to undertake—negotiations to determine the amount or method of paying a compensation which the Mexican Government confessedly is both unable and unwilling to pay. It is appropriate, however, in the present situation again to request the Government of the United

States to call upon the Mexican Government to return to the possession and control of American citizens their properties which have been unlawfully seized and held by the Mexican Government, and to call upon the Mexican Government to recompense the owners of these properties for all damages and losses resulting from that unlawful seizure and from the subsequent exploitation of these properties by the Mexican Government.

We think it would be also appropriate for the Government of the United States to remind the Mexican Government that the companies are not to be regarded as suitors for favor but as associations of injured American citizens who have been despoiled of rights acknowledged wherever civilized people are engaged in peaceful commerce among nations.

We believe that we have kept the Department so fully informed of the progress of these negotiations that the Department now understands how patiently and conscientiously we have striven to find an early and just solution of this controversy.

Respectfully yours,

W. S. FARISH

[Enclosure]

Mr. Donald Richberg to the Mexican Ambassador (Castillo Nájera)

[WASHINGTON,] July 17, 1939.

DEAR MR. AMBASSADOR: I have received and given careful consideration to your letter from Mexicali dated July 5, 1939, in which you state the position of the Mexican Government and propose a settlement of the oil question based in part upon the Modified Memorandum of June 18 which you submitted to President Cárdenas.

Before receiving your letter I had felt that, through discussions with President Cárdenas in Mexico City and in Saltillo and subsequent discussions with you in Washington, we had reached a fairly clear understanding of the essentials of any agreement which could be acceptable to the oil companies and the Mexican Government. The propositions advanced in your letter of July 5 depart so far from such an understanding that in reviewing them briefly I find it necessary to restate the essential positions taken by the oil companies in the efforts made to reach an agreement.

We have heretofore agreed upon the desirability of long-term contracts between the Mexican Government and each of the groups of companies in which would be consolidated the interests of each specified group of investors, but it was certainly understood that the Corporation being formed by investors would represent their interests

and be a private industrial enterprise. Obviously, it would not be a Government corporation since it would enter into a contract with the government for the development of oil properties created, and to be expanded, by investors of private capital. Therefore, the proposal that a majority of the Board of Directors and the President of the Company should be Mexicans appointed by the Mexican Government (which is made in your letter of July 5) is wholly inconsistent with the entire theory and purpose of our discussions. Such a corporation as you propose would be essentially a Government corporation to which private investors would be expected to contribute money and property without any such control as would justify such private investment.

The suggestion made in the Memorandum of June 18 that a majority of the Board of Directors should be Mexicans raised the immediate question, when this Memorandum was subsequently presented to my clients, that such a Board might be assumed to be under the control of the Mexican Government instead of under the control of the stockholders who elected it. The reasonableness of this criticism is now borne out by the proposition bluntly presented in your letter of July 5 that the President and a majority of the Board should be appointed by and under the control of the Mexican Government. I have repeatedly pointed out to you and to President Cárdenas that private investors would not think of contributing their money and property to a Government-controlled corporation since this would mean simply lending money to the Government.

I am compelled to call your attention again to the basic principle under which these negotiations were undertaken which was stated in the memorandum of objectives which were adopted as the foundation for the negotiations which began on March 8 in Mexico City. This first principle read as follows:

“Provision through the medium of a long term contract for the operation by the respective companies of properties taken, in accordance with the terms of the contract free from restrictions, claims or obligations not embodied therein.”

We have agreed heretofore that through the medium of a long-term contract and supervision of operations under that contract the Mexican Government would be vested with appropriate and adequate means to secure contract performance so that all National and Governmental interests would be thoroughly protected. But it has been made clear over and over again that the essential basis for inducing contributions of private money and capital necessary for the development of these oil properties was the control of operations by the chosen representatives of the investors.

In your letter of July 5 you bring forward a new proposition for the distribution of the revenues of the new oil corporations which discards all the progress made in our previous discussions of this question. It is now proposed that after operating expenses and taxes have been deducted, "the remaining proceeds will be divided between the two partners (Government and Companies) in the proportion determined in each contract." However, until receiving your letter of July 5 I had thought it was practically agreed that Government revenues would be fixed in the contract, probably through a fixed percentage of the oil produced. Thereby the Government would be absolutely assured of substantial and appropriate revenues and there would be no controversies in the future over Government taxation or over the rights of the investors to the proceeds of operations remaining after the payment of adequate wages, the payment of taxes and the payment of other operating costs. Through the methods previously discussed we would avoid the difficulties which are now presented anew in seeking to determine what proportion of the net proceeds would go to the private investors. The private investors would take the risk of recompensing themselves during the period of the contract for their contributions and of amortizing their investments, and the Government would be assured of definite revenues.

Moreover, in making the proposition contained in your letter of July 5 the uninviting prospect is held forth that there may be no remaining proceeds, because it is proposed that the expenses shall include "all wages and services to the workers as granted to them by the decision of the Arbitration and Conciliation Board." One of the matters most extensively discussed as to which we appeared to be heretofore in agreement was the need expressed in the Memorandum of June 18 as "a reciprocal guarantee of reasonable and workable labor conditions and the means for establishing and maintaining such conditions." We have hitherto discussed and apparently agreed upon three principles to effectuate this "reciprocal guarantee."

1. That a schedule would be written in the contract,
2. That standards for revision of the schedule would be stated in the contract, and
3. That a method of applying such standards impartially would be provided in the contract.

It is evident that if wages and working conditions are to be determined at the uncontrolled will of the Arbitration and Conciliation Board, there may be little or no proceeds left to provide the Government with revenues or the investors with any recompense for their contributions. Consequently, under the proposal contained in your letter of July 5 insurmountable obstacles are presented to the making of any contract.

You will readily see from the foregoing observations that it would be useless to undertake the negotiations suggested in Mexico City. Indeed, the proposals made in your letter, which are completely unacceptable to my clients, are so entirely incompatible with the tenor of our previous conversations that I am regretfully forced to conclude that the efforts heretofore made to arrive at an understanding of basic principles have now been abandoned; and, without such an understanding, further negotiations would be useless.

Sincerely yours,

DONALD R. RICHBERG

812.6363/6014

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

[WASHINGTON,] August 10, 1939.

The Mexican Ambassador called to see me this morning. The Ambassador told me that he had yesterday received a personal and confidential letter from President Cárdenas which the Ambassador classified as "ambiguous" and which he said contained no precise instructions. President Cárdenas, in referring to the communication the Ambassador had made to him of a personal and informal suggestion I had made as to a possible solution on a temporary basis of the problem of management and operation of the four Mexican corporations to be set up to handle the expropriated properties of the American oil companies, stated that he did not see how this plan would place control of management and operation in the hands of the Mexican Government since the list of individuals agreed upon by Mexico and the United States, from which the companies and the Mexican Government could select three directors on the board of directors, would be composed of persons who had spent their lives in the oil industry and who, for that reason, President Cárdenas said, would be more likely to sympathize with the directors appointed by the oil companies than with the directors appointed by the Mexican Government.

The Ambassador said that he had immediately cabled President Cárdenas explaining the real bases of the suggestion offered and requesting specific instructions which the Ambassador said he thought he would have by Friday morning.

I remarked to the Ambassador that it seemed to me that President Cárdenas had totally misconstrued certain fundamental points in the suggestion I had offered. I said that, in the first place, the list of men to be agreed upon by the Mexican Government and by the United States Government was not intended to be limited to individuals engaged in the oil industry, and that I had specifically stated to the Ambassador that I thought the individuals so selected might well

be persons not engaged in the oil industry but persons who had had experience in commerce or in finance. I had stated, I emphasized, that what I thought was required for the individuals comprising this list was recognized ability and character, knowledge of business management and practical experience in some form of finance or industry. Secondly, I said, the only reason I had made this suggestion of a possible solution was because both the Mexican Government and the companies were insisting upon entire control of management and operation. The purpose of the suggestion I had offered was to find a middle ground by which neither the Mexican Government nor the companies would have complete control but by which the balance of power between the two would be vested in the hands of impartial and competent persons.

The Ambassador said that he himself understood this fully and it was exactly these points which were contained in his cable yesterday to President Cárdenas.

The Ambassador spoke to me of a telegram he had received from Mr. Richberg advising him that the oil companies were going to have a meeting in New York this morning. I said I assumed that I would have some word as to the result of these deliberations from Mr. Richberg by tomorrow, Friday, morning and that I would appreciate it if the Ambassador would inform me as soon as possible after he had received the specific instructions he had requested from President Cárdenas.

As he was leaving the Ambassador asked me if I had any further information with regard to the difficulties of El Carrizal. I said I had had no word. The Ambassador said he was glad to tell me that he had this morning received a personal letter from the private secretary of the Mexican President telling him that President Cárdenas had sent personal and positive instructions to Governor Marte Gomez of the State of Tamaulipas informing him that he desired the situation of the Carrizal Corporation in connection with its labor difficulty cleared up immediately and that the just demands of the company were to be granted. I expressed my appreciation to the Ambassador for the information given me, as well as for the personal trouble which he had taken upon so many occasions with regard to this case.

S[UMNER] W[ELLES]

812.6363/6020

Statement to the Press by the Acting Secretary of State

[WASHINGTON,] August 14, 1939.

On March 18, 1938, the Mexican Government by decree undertook to expropriate the properties in Mexico of certain foreign owned, including American owned, oil companies operating there.

This action was similar in nature, although involving investments of far greater magnitude, to the steps taken by the Mexican Government in recent years to expropriate farm and other properties belonging to American citizens. With regard to the seizure of these agrarian properties, this Government had consistently pointed out that in the exercise of the admitted right of all sovereign nations to expropriate private property, such expropriation must be accompanied, in accordance with the recognized principles of international law, by provision on the part of the Government of Mexico for adequate, effective, and prompt payment for the properties seized. This latter problem was largely settled when on November 9-12, 1938, the two Governments exchanged communications⁵⁰ agreeing upon a satisfactory procedure for the determination of the fair compensation to be given American citizens whose lands have been taken subsequent to August 30, 1927, and in consequence of which agreement the Mexican Government will provide compensation in cash for such properties.

Immediately following the action taken to expropriate the petroleum properties belonging to American citizens, this Government informed the Mexican Government of its expectation that prompt compensation would be made in the form of just and effective payment to the extent of the fair and equitable valuation of such properties. This Government's position is firmly based not only on well recognized rules of international law; the elemental considerations of justice and of fair dealing which should govern the relations between nations demand such payment for the properties taken. The attitude of applying the principles of established international law in the solution of this problem has been consistently maintained by every official of the United States Government in its representations to both parties to the controversy throughout the period of the discussion. Furthermore, the close and friendly understanding which this Government desires to continue to maintain with the Government of Mexico requires the reciprocal assurance on the part of both Governments that their relations will in fact be governed by such principles of justice and of fair dealing.

In the decree of expropriation itself and on numerous occasions subsequently, the Mexican Government recognized its liability to make compensation and stated its willingness to discuss terms with the petroleum companies concerned. Since that time there have been discussions between representatives of the Mexican Government and of the petroleum companies in an endeavor to come to some fair and equitable agreement. This Government has continuously and consistently sought to facilitate and to further these negotiations by conferring with both sides, first with one and then with the other. For

⁵⁰ For exchange of notes, see *Foreign Relations*, 1938, vol. v, pp. 714 and 717.

a time the conversations between both parties proceeded satisfactorily, appearing to hold promise of an eventual solution. A set of bases of discussion, within the scope of which there might be found an agreement for the future operation of the industry, were believed to be determined, but recently a serious obstacle to final agreement was encountered. In this situation this Government, without prior consultation with either party, and in accordance with its repeatedly demonstrated desire to further an agreement, informally laid before both parties a suggested solution of this obstacle, without requesting or receiving any commitment or obligation on the part of either party to accept it.

This proposal was as follows: Each party had claimed that it must control the management and operation of new companies, which it had been agreed in principle might be established to operate the properties seized. In an endeavor to overcome the deadlock, this Government informally offered the suggestion that the Boards of Directors, as a temporary arrangement, and pending a final agreement, be composed of nine persons, three appointed by the Mexican Government, three appointed by the petroleum companies, and three selected by the two parties from a panel of nine drawn up in mutual agreement by the Governments of Mexico and of the United States. In order to attain complete impartiality on this panel of nine, no persons were to be included who came from any country whose citizens had a direct and important interest in any of the petroleum companies involved. These persons were all to be of demonstrated integrity and standing, and of practical experience in commerce, finance, or in the petroleum industry itself. This proposal seemed to offer a temporary middle ground on which the Mexican Government and the petroleum companies could have met with the balance between them resting in the hands of impartial and competent persons.

This Government naturally regrets that a proposal suggested for no other purpose than to reconcile a major difference of approach which threatened a breakdown in the present negotiations should have been discarded by either party without the fullest exploration of its possibilities, especially when both parties fully comprehended the purpose for which it was put forward.

It is of course evident that a solution of this controversy must be found in accordance with the basic principles of international law, as this Government has invariably insisted at every step of the present negotiations. A continuance of the dispute not only will dislocate still further beneficial commercial relations between Mexico and the United States, with great economic losses to both countries, but more important still, it will constitute a material barrier to the maintenance of that close and friendly understanding between Mexico and the

United States which both Governments regard as in the best interests of the two peoples.

The discontinuance of the present discussions can of course in no sense relieve the Mexican Government of its obligation to make prompt, adequate, and effective compensation for the petroleum properties which have been taken, if the expropriation is to be regarded as valid. At the same time, however, this Government expects that its own citizens with direct interest in this controversy will give the most ample and attentive consideration to all constructive proposals that are advanced to overcome the difficulties now standing in the way of a fair settlement of the controversy which exists. In the rapid, fair, and equitable solution of this controversy, the interests of their Government are directly concerned.

812.6363/6015 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, August 16, 1939—9 a. m.

[Received 12:22 p. m.]

212. In view of the statement by Acting Secretary Welles and the statement given out to the press last night by the Foreign Minister on oil situation please wire instructions. Thursday is the day I always call on Foreign Minister but I can make arrangements sooner if desired by the Department.

Substance of Hay's message was that oil companies were "recalcitrant" and were responsible for breaking off negotiations. He praised the "friendly attitude" of the United States Government and said the Mexican Government was willing to continue negotiations on the basis of those it had proposed or other basis equally constructive that may be submitted. He says that the oil companies had insisted upon a long term operating contract with special compromises from the Mexican Government on tax matters and labor agreements in violation of Mexican laws. He stated "the companies in one way or another have insisted upon the return of the properties for a certain length of time which without any doubt would result in the drying up of the wells; on an obligation on the part of the Mexican Government not to burden the industry in the future with new taxes as well as to establish a special system in regard to labor conditions distinct from that stipulated by the laws not recognizing on the one hand the rights of the workers and paralyzing fiscal action of the Government asking from the Government an abdication incompatible with the sovereignty." General Hay says his Government has invited representatives of oil companies to a discussion looking to agreement on

the value of properties expropriated and was desirous of making prompt compensation in the shape of a just and effective payment in accordance with an honest and equitable valuation of the properties, adding that his Government had incessantly manifested its good will to discuss the terms of compensation. He adds that his Government will indemnify the companies once the amount is known.

After charging responsibility for breaking off discussions General Hay added that the Mexican Government was willing to deal with the oil companies as a group or separately but that future discussions would have to be on a basis on which conflict could be avoided.

Mexican morning papers display Hay's statement and press articles from Washington on first pages and in English sections. None of them make editorial comment.

DANIELS

812.6363/6015 : Telegram

*The Acting Secretary of State to the Ambassador
in Mexico (Daniels)*

WASHINGTON, August 16, 1939—6 p. m.

170. Your 212 is appreciated. At least until such time as it has carefully examined the full text of General Hay's statement which you have forwarded by airmail, the Department has no suggestions to offer regarding detailed observations it might desire to have made to General Hay. In the meanwhile, however, in any conversations you may have with General Hay or other high Mexican officials you should reiterate the position taken by this Government in the public statement of August 14 and emphasize the very great importance attached by this Government to a prompt settlement of the petroleum controversy.

WELLES

812.6363/6038

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 8969

MEXICO, August 18, 1939.

[Received August 19.]

SIR: Referring to the Department's telegram number 170 of August 16, 6 p. m., I have the honor to report that in my usual Thursday call at the Foreign Office yesterday I expressed to the Minister for Foreign Affairs my regret and disappointment at the impasse reached in the negotiations with reference to the expropriation of the oil properties by the Mexican Government, and added that in view of

our frequent discussions, in which he had often expressed a hope of settlement, I felt sure he was also disappointed. He said that I was right, and added: "But it is not the fault of the Mexican Government."

He then recalled that immediately after the decree of President Cárdenas he had informed me that Mexico was determined to make just payment; that he also knew that President Cárdenas had informed me that the officials of his Government would be instructed to confer with the representatives of the oil companies, looking toward an agreement as to the value of the properties, so the Government could arrange for payment; and that there had been a standing invitation on the part of his Government to meet with the representatives of the oil companies to reach an agreement on the sum that Mexico should pay. He said that offer had not been withdrawn and his Government was ready now to enter upon such discussions as it had proposed in March 1938 and later. He regretted that the oil companies had declined even to enter upon such discussion, and said his Government could not pay unless the sum due was agreed upon.

General Hay went on to say that, after the refusal by the oil companies to discuss the value of the properties, his Government had agreed to discussions with Mr. Richberg, seeking to find a basis of settlement that would be fair and acceptable. But, he added, his Government would never consent to the return of properties as the British had demanded, and it could not agree to the proposals as to taxes and wages under a long term contract which the representatives of the oil companies insisted upon.

I said that the impasse was bad for the people of both countries, and that the question now was not who was responsible for the break in the negotiations, but that it was of the highest importance to discover a way of agreement and settlement, and that Acting Secretary Welles had suggested to both parties a method which invoked participation by fair-minded neutrals, since the principals found it impossible to reach an agreement. I told him that every consideration demanded a settlement and that, since it was apparent that the parties had come to a standstill, I saw no way to settle the matter without invoking fair-minded and impartial outside participation.

In the course of the conversation, in which he reiterated his desire for a fair solution, he neither approved nor disapproved the plan suggested by Acting Secretary Welles, but indicated that the determination was in the hands of the President. I urged him to do all he could to further some plan—and it would necessarily involve an outside party—to the desired adjustment of a matter that pressed for settlement. He said that he would give what I had said his serious consideration and he hoped that a way could be evolved.

His conversation showed that he felt the oil companies were at fault.

I will resume the subject with him at our next meeting, but I am of the opinion that the President himself has taken the whole matter into his own hands.

Respectfully yours,

JOSEPHUS DANIELS

812.6363/6095 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, August 31, 1939—1 p. m.

[Received 5:12 p. m.]

235. Upon arrival by air here yesterday Castillo Nájera said, in summary, that the companies had taken no steps to renew the suspended oil conversations. He added that he believed the decision as to war or peace in Europe would be taken by Saturday. He further said that the Mexican political situation was not of interest to the United States as far as he could see from public opinion there.

Newspaper reports forwarded by this morning's air mail.

DANIELS

812.6363/5992₂

President Roosevelt to the President of Mexico (Cárdenas)

WASHINGTON, August 31, 1939.

MY DEAR MR. PRESIDENT: I wish to acknowledge the receipt of your very friendly letter of July 29,⁵¹ which has been handed to me by your Ambassador in Washington.

You have written to me with entire frankness, and I desire to correspond with equal frankness, since I know that we are both equally desirous of doing what may be possible to prevent the continuation of any controversy which has arisen between Your Excellency's Government and nationals of the United States, or of any controversy which might arise between this Government and nationals of Mexico, because of our joint recognition that so long as controversies of this character persist, so long will it be difficult, if not impossible, for the peoples of our two countries to attain that kind of neighborly relationship—free from misunderstanding, suspicion, and ill-will, and rooted in trust and friendship—which is so indispensable to the best interests and to the progress of both nations.

⁵¹ Not printed.

In your letter which I am now acknowledging you refer specifically to the dispute which has arisen between the Government of Mexico and certain American companies because of the expropriation by the Mexican Government of the properties of these companies located in Mexico. You set forth the position assumed by the Government of Mexico in this regard, and emphasize the many difficulties which have arisen in the negotiations which have been undertaken between representatives of the Government of Mexico and of the American companies to find a satisfactory solution of the problem presented.

It had of course been my hope that both parties to the controversy which unfortunately exists would recognize their equal responsibility in this search for a fair and satisfactory solution, and that consequently an agreement might have been reached long since.

As you know, throughout the period of these negotiations this Government has done what it felt it appropriately could to facilitate and further negotiations, conferring both with representatives of the Mexican Government as well as with representatives of the American companies in the endeavor to assist in the finding of some common meeting ground. When it appeared a few weeks ago that these negotiations had reached a complete deadlock, the Acting Secretary of State at my direction informally laid before both your Ambassador in Washington and the representatives of the companies a suggested solution of the chief point of difficulty. The prompt discarding of this suggestion by the companies concerned, and its rejection by the Government of Mexico thereafter was, I am frank to say, most disheartening.

In your letter you state that "The expropriation decreed by the Government of Mexico . . . constitutes a legitimate act of the Government of Mexico, authorized by its own laws, similar in this point to those of other nations, and sanctioned at the same time by the principles of international law."

As you say, the principle of international law is well known with regard to the expropriation by one country of the property of citizens of another. It requires prompt and effective payment to the extent of the fair and equitable valuation of the property. In various official communications addressed by this Government to the Government of Mexico, it has been made very clear that the authority of the Mexican Government to take property for purposes of public utility was not questioned, and could not be questioned, but it was also pointed out that under international law the procedure of expropriation requires as an integral part for its fulfillment payment of just and adequate compensation. That Your Excellency coincided in these views is made plain by the statement in your letter that "In the light of the laws and principles" cited by Your Excellency, and to which

reference has above been made, "the American companies affected can only claim the payment of a just compensation the terms of which my Government has been ready to fix."

Since it is unfortunately evident that the negotiations which have been in progress have resulted in no solution, and give no promise of attaining any agreement satisfactory to the Government of Mexico and to the companies, and since you inform me that the Mexican Government will under no circumstances undertake to return the properties to the American companies, there would seem to remain no other course of procedure for the Government of Mexico other than the payment of prompt and just compensation to the American companies for the properties taken.

From the negotiations which have taken place, and from what you state in your letter to me, it seems to be equally clear that the Mexican Government and the American companies are in accord neither as to the just valuation of the properties expropriated, nor as to the principles which should determine the amount of compensation to be fixed. If these questions remain unsettled there would seem unfortunately every likelihood that the controversy which has arisen will remain in existence for an indefinite period, with consequent grave prejudice to that friendly feeling between both nations which it is my earnest desire to promote.

As you may recall, in the autumn of 1937, prior to the expropriation by the Mexican Government of these American-owned properties, both of our Governments had taken up for review all of the questions of difference between the two countries, some of them of long standing, with the intention of undertaking to compose all of these questions in a manner which would be just and equitable to both countries, thus clearing the horizon of Mexican-American relations of all matters which might at any time disturb them. Because of the long protracted controversy with regard to the expropriation of oil properties, the negotiations then envisaged have remained in abeyance.

I now make the suggestion that the two Governments agree, without further delay, to take up all of these questions with a view to their individual solution in such manner as the two Governments may in each case determine to be best suited to the achievement of a satisfactory settlement. I further suggest that we include among the questions so to be settled in the immediate future the question of compensation for the American-owned oil properties expropriated and that both Governments agree that the question of the compensation to be paid for these properties be submitted to the decision of impartial arbitrators, selected either in accordance with the provisions of treaties or conventions to which both Governments may be parties, or to be selected by common determination; this suggestion

being based upon the premise that the Government of Mexico is willing to provide compensation in accordance with the decision of the arbitrators, and that the arbitral award must determine the time and form of payment. It would further be my suggestion that the terms of the arbitral submission, should the suggestion prove acceptable to you and to the Government of Mexico, be determined as a result of an understanding to be drawn up by the Government of Mexico and by duly authorized representatives of the American companies whose properties have been expropriated, or by the two Governments.

Mexico and the United States live side by side. Both nations have been confronted with many difficult problems during the last six years, but I am confident that, given the exceedingly friendly understanding which fortunately exists between our two Governments, a satisfactory solution can be found for all of the problems between the two nations which yet remain unsettled and to which I have referred. By the peaceful and friendly adjustment of all of these questions, the Governments of Mexico and of the United States can give to a world sorely beset by distrust, fear, and violence, an admirable example of how with good-will the governments and peoples of two neighboring countries can in a peaceful, friendly, and satisfactory way resolve their differences.

I wish to express my very particular appreciation of your most friendly and understanding letter and I warmly reciprocate the good wishes which you have extended to me.

With the assurances of my high personal regard, believe me

Yours very sincerely,

FRANKLIN D. ROOSEVELT

812.6363/6129 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, September 6, 1939—6 p. m.
[Received September 7—12:02 a. m.]

272. We have learned very confidentially from the French Legation that the day after war was declared by France on Germany, Suarez sent for the French Commercial Attaché to make him a proposition to have either the French Government or French private interests make extensive purchases of Mexico [*Mexican oil?*]. At the same time he offered to work out a plan of industrial collaboration with the French. The French Commercial Attaché had for some time prior to the declaration of war urged his Government to consider the purchase of Mexican oil in exchange for French exports. He has never received any reply to these suggestions from the French Government and

French Legation considers it unlikely that the French Government will at present favorably consider offers of oil from Mexico. They consider the suggestion of industrial collaboration made by Suarez to be impracticable.

We learn informally and confidentially from *Petroleos Mexicanos* that the German Legation and the Mexican Government have reached an understanding to continue shipments of oil to Germany via Italy and to receive German or Italian goods in return via Italy.

DANIELS

812.6363/6157

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] September 19, 1939.

The British Ambassador called at his own request and handed me an *aide-mémoire*,⁵² a copy of which is attached, in regard to the Mexican oil situation. I thanked him for this information concerning the attitude of his Government toward the matter and added that my Government was doing all it possibly could to aid in bringing about a satisfactory settlement of the oil question.

C[ORDELL] H[ULL]

812.6363/6158

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom are convinced that the altered conditions resulting from the outbreak of the war would render it more than ever necessary that they should adhere to their policy of doing nothing which would condone the arbitrary character of the expropriations of the British oil properties in Mexico.

His Majesty's Government feel that the circumstances are now more favourable for a reasonable settlement of the dispute, and they therefore hope that the United States Government may see their way to use their influence to this end.

WASHINGTON, September 19, 1939.

812.6363/6157

The Department of State to the British Embassy

AIDE-MÉMOIRE

The Secretary of State of the United States acknowledges the receipt of the *aide-mémoire*, setting forth the views of the British Government

⁵² *Infra.*

regarding the Mexican oil situation, handed to him by His Excellency the British Ambassador on September 19, 1939.

Confirming his statement at that time, the Secretary of State appreciates the courtesy of His Majesty's Government in furnishing this expression of views. He feels that the United States Government is doing all it possibly can to aid in the bringing about of a satisfactory solution of the oil question.

WASHINGTON, September 25, 1939.

812.6363/6177a : Telegram

The Secretary of State to the American Delegation at the Meeting of the Foreign Ministers of the American Republics at Panama, 1939

WASHINGTON, September 29, 1939—6 p. m.

30. For the Under Secretary from Duggan. Ambassador Daniels who passed through Washington last night stated that President Cárdenas has not yet made up his mind regarding the reply to be made to the President's letter. President Cárdenas indicated, however, that while the procedure suggested in the President's letter, particularly that part dealing with the solution of the petroleum controversy, might be acceptable to him he felt that the companies had not yet really made a whole-hearted effort to come to a solution through direct negotiations with him. Inasmuch as Mexican public opinion holds the same view he thought that inability to arrive at an agreement would have to be clearly demonstrated to public opinion before it would be possible for the Mexican Government to go forward with arbitration. He said that he would send his reply by Castillo Nájera whose departure from Mexico City has now been postponed until October 8. He is due to arrive in Washington October 12. [Duggan.]

HULL

812.6363/6194

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] October 6, 1939.

Mr. Lancaster⁵³ stated that the Seaboard Oil Company had inquired of him whether it should continue to await the outcome of Mr. Richberg's negotiations with the Mexican Government or whether it should undertake its own negotiations. In turn, Mr. Lancaster

⁵³ W. W. Lancaster of Shearman and Sterling, New York, counsel for the National City Bank.

inquired whether I could tell him anything about the prospects of a settlement of the petroleum controversy.

I replied that I could tell him for his own confidential information that various signs pointed to the possibility of the Mexicans making some sort of a proposition within the near future.

Under the circumstances Mr. Lancaster said he would advise his clients to take no steps to initiate discussions with Mexico for the time being.

812.6363/6200

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] October 6, 1939.

The Minister of The Netherlands⁵⁴ called at his own request. He spoke entirely about the Mexican oil negotiations and the interest of Dutch Shell in that connection. He said he was under the impression that there might be increased opportunities for a settlement and that his Government hoped this Government would stand firm in insisting on the rights of our nationals.

I replied that I felt constrained to await the return of the Mexican Ambassador during next week and for a conference with him before making predictions; that I hoped the present situation, which leaves Mexico without an oil market, would encourage her to offer reasonable settlement with our oil owners; that, of course, my Government had overlooked no word or act from the beginning that would be helpful in promoting a settlement; that it went without saying that this Government "is standing firm," to use the Minister's expression, and doing all possible.

C[ORDELL] H[ULL]

812.6363/6338

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] November 14, 1939.

The British Ambassador called to see me this morning by appointment.

The Ambassador inquired with regard to developments in the Mexican oil controversy and I gave him for his confidential information the present status of this matter. The Ambassador expressed the opinion that the only feasible solution was a partnership between the Mexican Government and the companies providing for a division of the profits from the oil properties with the management of the

⁵⁴ A. Loudon.

properties placed in the hands of competent neutral parties. The Ambassador expressed his personal regret that the companies had refused to accept the suggestion which the Department of State had made to this effect some months ago.

812.6363/6323

Memorandum by the Under Secretary of State (Welles) to the Assistant Chief of the Division of the American Republics (Bursley)

[WASHINGTON,] November 21, 1939.

Mr. BURSLEY: I am strongly inclined to the belief that at least at the present stage it is unwise to employ too many cooks in preparing this particular broth. At the present time we are dealing with the Mexican Government through the Mexican Ambassador in Washington who is undoubtedly in close and continuing contact with President Cárdenas himself with regard to all phases of the oil problem. Until and unless these efforts prove completely fruitless, I believe it would be unwise to give any encouragement whatever to any other individuals who suggest solutions of this problem.

812.6363/6333

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

[WASHINGTON,] November 24, 1939.

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

The Ambassador commenced the conversation by telling me that he had had two recent interviews with Mr. Patrick J. Hurley in representation of the five Mexican companies affiliated with the Sinclair Company and was to have a further meeting later this afternoon. The Ambassador told me that Mr. Hurley had suggested carrying out the expressed intention of the Sinclair group to undertake negotiations directly with the Mexican Government and to thus separate itself from the Standard and Shell companies, and that the Sinclair group would be willing to accept 30,000,000 barrels of oil from the expropriated properties as full compensation for the value of the Sinclair properties expropriated and as part of the same deal would agree to purchase from the Mexican Government 15,000,000 barrels of oil from the Mexican Government oil fields. The arrangement suggested by Mr. Hurley further contemplated that the 30,000,000 barrels of oil to be paid by the Mexican Government would be paid

at the rate of 10,000 barrels a day, increasing up to 40,000 barrels a day when and if the expropriated properties were so managed as to make this greater output possible. Mr. Hurley's estimate as to the time involved during which such compensation would be made would range from seven to ten years.

The Ambassador told me that he had replied to Mr. Hurley that the amount of compensation in oil suggested by Mr. Hurley was altogether in excess of the value of the properties and had reminded Mr. Hurley that two of the five companies in question had offered some years ago to let the Mexican Government take over their properties for nothing inasmuch as they were alleged to be losing money at the rate of some \$2,000,000 a year. The Ambassador had further pointed out to Mr. Hurley, he said, that inasmuch as oil was now selling at approximately one dollar a barrel, this would mean compensation to the Sinclair group amounting to \$30,000,000, and would necessarily imply, at the rate of valuation claimed by the foreign companies, the payment of some \$300,000,000 to the Standard Oil Company group which was very far in excess of what the Mexican Government believed the proper valuation of the properties of that group to be. The Ambassador finally said that Mr. Hurley agreed that the amount asked was for bargaining purposes and that they could reach an agreement providing for a lesser amount in the way of compensation.

The Ambassador then went on to say that the Mexican Government's valuation of the foreign oil properties expropriated was nearing completion, and that although the Ambassador had believed that the valuation fixed by the Mexican Government was going to be unduly low, he was relieved to find that it would probably run about \$100,000,000.

[Here follows a discussion of the agrarian claims. For portions of the memorandum dealing with this question, see page 660.]

As he was leaving the Ambassador said that three years ago when Mr. George Rublee, who had been in Mexico for some time as representative of the American bondholders group, had finally succeeded in reaching an agreement for resumption of payment on the foreign debt with the Mexican authorities and President Cárdenas had actually instructed the Mexican Secretary of the Treasury, Señor Suarez, to sign the agreement, Ambassador Daniels had gone to the Mexican Secretary of the Treasury to tell him that the Government of the United States was not interested in the agreement inasmuch as a large percentage of the bondholders were not American citizens and that the Government of the United States saw no reason why any payment should be made to the American bondholders for that reason. The Ambassador said that as soon as this information was given to President Cárdenas by Señor Suarez the instructions previously given to sign the agreement were revoked and the whole matter went by the

board with resultant prejudice to the already seriously debilitated credit of the Mexican Government.

S[UMNER] W[ELLES]

812.6363/6337: Telegram

The Chargé in Mexico (Boal) to the Secretary of State

MEXICO, December 2, 1939—3 p. m.

[Received 7:26 p. m.]

388. Second Chamber Supreme Court today unanimously upheld project of decision submitted by Justice Asiain in petroleum *amparo*.⁵⁶ Project of decision was forwarded Department in despatch No. 9518, November 17, 1939.⁵⁷

BOAL

812.6363/6342

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 9603

MEXICO, December 5, 1939.

[Received December 6.]

SIR: I have the honor to report that with the final decision of the Supreme Court upholding the constitutionality of the Expropriation Law of 1936 and the Expropriation Decree of March 18, 1938, the next step taken by the Government has been to proceed with the appraisal of the companies' properties in accordance with judicial procedure.

The metropolitan press of December 5, 1939, prints a statement in quotation from the Attorney General of the Republic, Licenciado Genaro V. Vázquez, which I quote in translation as follows:

"The Attorney General of the Republic, Licenciado Genaro V. Vázquez, moved before the First Civil District Court of the Federal District, the initiation of judicial procedure for the appraisal of the properties expropriated from the petroleum companies, both those which have not been appraised by the Government, as well as those which have no fiscal value, and which were affected by virtue of the Decree of March 18, 1938.

"The mentioned court will cite the affected companies to be present at the proceedings, designating their expert appraisers who, with those of the Government, must submit their decisions within a designated period.

(At this point the Attorney General named the various petroleum companies which would be cited by the court. The list of the companies will be found in the attached Spanish text.)

⁵⁶ Cía. Mexicana de Petróleo "El Aguila," S. A. y coags., Mexico, *Semanario Judicial de la Federación*, vol. LXXII, No. 12, November 27–December 2, 1939, pp. 3021–3072; No. 13, December 2–6, 1939, pp. 3073–3134. Published in English in Standard Oil Company of New Jersey, *Denials of Justice* (New York, 1940), pp. 49–167.

⁵⁷ Not printed.

“As the Supreme Court of the Nation has just rendered its decision in the *amparo* case which the petroleum companies entered because of the expropriation, denying to them the protection of the federal judiciary, the procedure of the appraisal, now begun, constitutes the next to the last phase of the expropriatory process, because once determined the amount of the indemnization, the Nation will fix the form of payment.”

From information previously received from various sources and particularly from a conversation which the Commercial Attaché had with Finance Minister Suárez, it seems quite definite that the Federal Government has already practically completed the appraisal of all company property. The Commercial Attaché recalls that Minister Suárez intimated that the properties belonging to American companies show an approximate value of ten million dollars, and those properties belonging to other nations of an equal value. No doubt, the judicial procedure now instituted by the Attorney General is for the purpose of compelling the companies through court action to agree legally to an appraisal of properties, or, if not, their denial would probably permit the Government legally to proceed on appraisals, and evaluations, made solely by the Government, or, in conjunction with other appraisal experts appointed by the Court.

Respectfully yours,

JOSEPHUS DANIELS

812.6363/6350 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, December 6, 1939—9 p. m.
[Received December 7—1:15 a. m.]

392. According to the press of December 5th Attorney General initiated before the First Civil District Court procedure for the appraisal of properties expropriated from the petroleum companies. Under such procedure the district court will cite petroleum companies to appear and appoint an appraisal expert who must be designated within three days after presentation of summons. Attorney General is quoted in the press as saying that appraisal of companies' property is next to last step in oil controversy with the fixing of the form of payment as the last. Information received indicates that court will attempt to present summons Thursday or Friday. If companies do not appoint appraiser then court can appoint one for them and proceed with appraisals legally. Sollenberger of Huasteca Petroleum Company left by plane today to confer with Standard officials in New York on Thursday at 10 a. m. He stated that from local Mexican angle it would be to companies' advantage to appoint appraiser rather than to permit court to do so. He said that from an international

angle it might be unwise to do so and for that reason he was flying to New York. Sollenberger further stated that he believed acts of his company would depend upon attitude of Department of State. If the Department shows no inclination to intervene on behalf of companies under assumption denial of justice had resulted from legal procedure in Mexico it would place companies in a very difficult position in making a decision as to whether or not to continue the battle or accept principle of compensation. Sollenberger expressed his views to the effect that if the Department does not intervene on behalf of companies battle will have been lost. Sollenberger said that after the meeting at New York Thursday morning he believed that officials of Standard would go to Washington the following day to confer with Department. Airmail despatch follows.

DANIELS

812.6363/6364

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 9655

MEXICO, December 11, 1939.

[Received December 12.]

SIR: I have the honor to report that some of the Aguila petroleum officials who attended petroleum conferences in New York during the latter part of last week returned Saturday afternoon by plane to Mexico City. We were confidentially advised that the companies decided not to take any notice of the Mexican First Civil District Court's summons for an appraiser and, accordingly, they will not appoint an appraiser. According to law, the court will appoint an appraiser to represent them and the legal proceedings will continue.

It will be recalled that from the beginning the Aguila group have insisted upon the return of their properties, and it seems that their position has not changed.

While the actual hour in which the three-days summons of the court will expire has not been definitely determined, it is calculated that it will not be later than Wednesday of this week.

Respectfully yours,

JOSEPHUS DANIELS

812.6363/6354

Memorandum by the Under Secretary of State (Welles) of a Conversation With the Mexican Ambassador (Castillo Nájera)

[WASHINGTON,] December 11, 1939.

[For the first part of this memorandum on the subject of agrarian expropriations, see page 664.]

I then passed to the subject of the oil problem and said to the Ambassador, after a few moments discussion, that since he now confirmed to me what Mr. Richberg said, namely, that both the Mexican Government and the oil companies had reached the conclusion that negotiations were now impossible, it seemed to me that there was no solution now available other than arbitration. The Ambassador inquired whether I meant arbitration as to the value of the properties. I said that I did not but that I was not prepared at this stage to give him any indication as to what this Government believed arbitration should cover. I said that I hoped within a few days to ask the Ambassador to have another conversation with me when I might explain to him by authorization of the President and after the Secretary of State had had an opportunity of giving fullest consideration to the problem, what the views of this Government with regard thereto might be.

In conclusion I stated to the Ambassador that the Secretary of State had requested me to say to him that now that the generalization of duty reductions on petroleum imports was to become effective within the next few days and that under the allocation of quotas determined upon by this Government Mexico would be enabled to compete for the 3.8 percent of imports allotted to countries not accorded a specific quota, if Mexico attempted to export to the United States any petroleum from expropriated properties Mexico would create such a storm of indignation in the United States as to have very seriously prejudicial effects upon the friendly relations between the two countries. I said that the Secretary of State and I both hoped for this reason that the Government of Mexico would take effective steps to see that no petroleum from Mexico was exported to the United States. The Ambassador took this statement very calmly and said that he understood our point of view and would communicate immediately with his Government in that sense.

S[UMNER] W[ELLES]

812.6363/63864

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

[WASHINGTON,] December 12, 1939.

The British Ambassador called to see me this morning and handed me the attached *aide-mémoire*⁵⁸ which contained, the Ambassador told me, the outline of the position of the British Government with regard to the present stage of the Mexican oil expropriation problem. The Ambassador read to me some of the points contained in the *aide-mémoire*.

⁵⁸ *Infra*.

I stated to the Ambassador that I would be glad to study the *aide-mémoire* and that I would hope to have the opportunity within a few days of talking further with him on the matter and of informing him at such time of the position of the Government of the United States with regard to this same question.

S[UMNER] W[ELLES]

812.6362/63893

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Ambassador duly reported to the Foreign Office the substance of his conversation on November 14th with the Under Secretary of State, on the subject of the dispute between the Mexican Government and the oil companies. Lord Lothian informed the Foreign Office that as a result of his interview with Mr. Sumner Welles he understood the present position to be that President Cárdenas had expressed his readiness to resume negotiations with the oil companies on the broadest lines, and that the United States authorities felt, and President Cárdenas was understood to agree, that if the companies were unwilling to embark on such negotiations, or if the negotiations were unsuccessful, the dispute should be referred to arbitration in order to decide:

(a) the rights and properties of the companies in respect of which compensation was payable and the value which should be placed on these

(b) in what manner and at what time the awarded compensation was to be paid.

His Majesty's Government in the United Kingdom have given most careful consideration to these latest developments in the situation. They fully appreciate the anxiety of the United States Government to bring about an early settlement of the oil dispute and would themselves be the first to welcome such a settlement if it could be achieved on reasonable terms. They have also taken into account the decision reached by the Mexican Supreme Court on December 2nd, which they consider to be merely the last step in what has been a policy of spoliation under the guise of law. This decision, however, ends all possibility of the companies obtaining just redress by invoking the legal methods open to them in Mexico.

His Majesty's Government are convinced that it is only possible to reach an honest solution of the Mexican oil question by standing firmly on a clear principle. Where disputes, like that which has arisen in Mexico, arise between a sovereign state and foreign companies exploiting natural resources within it there are only two bases on

which a successful solution can rest. The first is by the expropriation of the rights and properties of the foreign companies at a fair valuation and in return for prompt, effective and adequate payment of compensation. This method, however, is only possible in the case of an economically developed state, which is solvent, and can therefore pay cash or its equivalent for what it expropriates. The second is by an arrangement whereby the foreign company is granted a long lease of the asset on agreed terms which on the one side will provide for proper labour conditions and royalties and on the other will enable the companies to make reasonable profits and recoup themselves for the capital outlay in discovery, equipment and development. In this [those?] countries in which the state is unwilling or unable to pay full compensation for expropriation, this is the basis upon which the development of natural assets is now taking place all over the world with satisfactory results and with due regard to the sovereign rights of the countries concerned.

It is quite clear that the first principle is inapplicable in the case of Mexico today. The Mexican Government has long been in default on its external debt. It has not the credit upon which it could borrow the sums which any impartial tribunal would award as the value of rights and properties of the oil companies if they were expropriated. It has not the means with which to pay prompt, effective and adequate compensation. Nor is there the least likelihood of its being able to manage the seized oil wells in such a way that it could pay fair wages to labour, fair interest on an impartial valuation of the companies' properties including the amortization of the capital within a reasonable time, and obtain any revenue for the Mexican State as well. His Majesty's Government, therefore, feel bound to maintain the attitude which they have consistently adopted against the policy of expropriation. The grounds for this attitude were fully set out in His Majesty's Embassy's *aide-mémoire* of March 25th, 1938,⁵⁹ and it was made clear on several occasions—notably in the conversations between Sir Ronald Lindsay and the Under Secretary of State on May 6th, 1938, between Mr. Mallet and Mr. Duggan on October 11th 1938, and between Mr. Mallet and Mr. Welles on January 6th—that His Majesty's Government had in no way departed from their original standpoint. This fact was confirmed once again by His Majesty's Ambassador in his interview with the Secretary of State on September 20th. His Majesty's Government were glad to note that the United States Government themselves enunciated the same principle in their communication of July 21st, 1938, to the Mexican Government⁶⁰ regarding the agrarian expropriations and that as recently as

⁵⁹ Not printed.

⁶⁰ *Foreign Relations*, 1938, vol. v, p. 674.

August 14th last Mr. Sumner Welles in his statement to the press⁶¹ declared that the United States Government insisted that the Mexican Government should make prompt and effective compensation to the oil companies if the expropriation was to be regarded as valid.

His Majesty's Government feel unable to agree to the proposal to submit the question of the value of the rights and properties to be expropriated and the method and time of payment to arbitration. In view of the foregoing considerations as to the financial condition of Mexico it is clear that when the arbitral award has been given the Mexican Government will still in fact be unable to pay compensation in any reasonable time. If the proposal about arbitration were adopted the position, after the award had been given, would be just as it is today, with the Mexican Government operating the wells and unable to pay adequate, prompt and effective compensation, and with all the present bitterness and controversy unremoved.

Nor are His Majesty's Government convinced that the inclusion in the suggested terms of reference to arbitration of the question of time and method of payment of compensation would afford any safeguard against Mexico's example being followed elsewhere. On the contrary they are persuaded that to proceed on such a basis in view of Mexico's known financial condition would inevitably be followed by most undesirable repercussions in other actual and potential oil producing countries not merely in Latin America but elsewhere and would moreover react adversely upon the contractual relations of United States and British nationals with foreign governments in other spheres of commercial activity. His Majesty's Government have frequently made it clear in the past that they are bound to pay most serious consideration to the bearing of the Mexican dispute upon other countries and to take into account the world wide strategic issues involved. More than ever now when the maintenance of their established national oil companies not merely in Latin America but also in Iran and Iraq is a vital interest from the standpoint of national defence are His Majesty's Government concerned to refrain from any move in regard to Mexico which could be interpreted elsewhere as a sign that they had weakened on the point of principle involved.

In view of all these considerations His Majesty's Government are convinced that the only justifiable course and the only course which is likely to produce a final and stable settlement within a reasonable time, is to stand squarely on the principle that inasmuch as Mexico is unable to produce prompt, effective and adequate compensation the only basis for settlement is that the operation of the properties should be returned to the companies on a sufficiently long lease and upon agreed terms as to labour conditions and royalties. The opera-

⁶¹ *Ante*, p. 697.

tion of the industry by people of specialist experience, who are concerned with efficiency and not politics, and who are able to provide, from time to time, the fresh capital necessary for the development and maintenance of the industry, is, in fact, the only way in which today Mexico can obtain the revenue of which she is in need, labour can obtain reasonable conditions and the legitimate rights of the oil companies be secured. The restoration to the companies of full control over the operation and management of their oil properties is the inescapable condition of any sound solution. Once that principle is accepted, there are many ways in which the other aspects of the problem can be solved.

His Majesty's Government venture to hope that the United States Government shares this view.

Proposals on these lines—sometimes referred to as the Five Points—were made to the Mexican Government through Mr. Richberg in March last and for some time it seemed probable that they would be accepted by President Cárdenas as an acceptable basis for negotiations. The equipment of the oil industry in Mexico is deteriorating for want of new capital. The foreign sale of Mexican oil is increasingly difficult owing to the war and for other reasons. The real obstacle in the way is not that the Five Point proposals are unfair or unjust to Mexico—they constitute indeed, the only solution which will economically benefit Mexico and be conformable with her national honour. It lies in the main in the present internal political conditions in Mexico itself, and these, like the political conditions in all countries, are fluid and not unresponsive to considerations of reason and justice and of national advantage, if consistently pressed.

It is therefore still the hope of His Majesty's Government that time, the economic facts, and patient adherence to sound basic principles, will end in the dispute being settled to the satisfaction of both parties and it is their understanding that the companies are ready at any time to renew discussions on the basis of the proposals mentioned above. In the meantime, however, His Majesty's Government would strongly deprecate any solution which would have the appearance of a surrender to *force majeure* and, as the matter stands, they earnestly trust that the United States Government will appreciate the reasons which dictate their inability to depart from their present policy.

WASHINGTON, December 12, 1939.

**SUPPLEMENTARY EXTRADITION CONVENTION BETWEEN THE
UNITED STATES AND MEXICO, SIGNED AUGUST 16, 1939**

[For text of the convention, signed at Mexico City, see Department of State Treaty Series No. 967, or 55 Stat. 1133.]

NICARAGUA

VISIT OF PRESIDENT SOMOZA OF NICARAGUA TO THE UNITED STATES; AGREEMENTS REACHED REGARDING ASSISTANCE TO NICARAGUA; PROPOSED CANALIZATION OF THE SAN JUAN RIVER

817.812/776

Memorandum of Conversation, by Mr. George H. Butler of the Division of the American Republics

[S. S. "SANTA MARIA",] December 30, 1938.

Participants: Dr. Manuel Cordero Reyes, Chairman, Nicaraguan Delegation;
Mr. Butler.

Dr. Cordero Reyes¹ said that he would like to speak with the Secretary² about the Bryan-Chamorro Treaty,³ but that he would go over the matter with me first so that I could bring it to the Secretary's attention. The substance of his comment follows:

1. Nicaragua has no desire or intention of repudiating the Treaty, although there is some opinion in Nicaragua to the effect that the Treaty provisions entail the sacrifice of certain elements of sovereignty, and that the Treaty was not negotiated by a free and independent government representative of the Nicaraguan people. (The implication was that the Nicaraguan Government which negotiated the Treaty did so during the U. S. Marine occupation of the country.)

2. The present Government of Nicaragua feels that if the United States does not exercise its right to construct a canal it will adversely affect Nicaraguan economy, since Nicaragua cannot undertake the work itself and will not allow any other powerful foreign nation to do so. Meanwhile, the country suffers because of the lack of adequate transportation facilities for its development.

3. If the United States does not wish to undertake construction of the canal at the present time, the Nicaraguan Government feels that it would be only fair if the United States would undertake the work of canalization of the San Juan River. This would mean a great deal to Nicaraguan economy. Some estimates of the cost of this

¹ Nicaraguan Minister for Foreign Affairs; he had served as Chairman of the Nicaraguan delegation to the Eighth International Conference of American States.

² Cordell Hull, then returning from Lima, Peru, where he had served as Chairman of the American delegation to the Eighth International Conference of American States, Lima, December 9-27, 1938. For correspondence concerning the Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.

³ Convention between the United States and Nicaragua, signed August 5, 1914, *Foreign Relations*, 1916, p. 849.

work have run from three to nine million dollars. The idea of the Nicaraguan Government is to negotiate a convention with the United States to provide for this work, and the cost would be deducted from payments made to Nicaragua in the event that an interocean canal eventually is constructed.

4. The new Nicaraguan constitution contains provisions which would cover the negotiation of a convention for the canalization work. Therefore, the Nicaraguan Government is most anxious that such a convention be negotiated in time to be submitted to the U. S. Senate during the coming session of Congress.

5. Nicaragua is prepared to extend to the United States the most ample facilities for defense measures—ports, the use of air fields, transit of troops in case of necessity, etc.

6. The President of Nicaragua would like to come to Washington for a conversation with President Roosevelt in the event that an agreement with respect to the canalization of the San Juan River appears likely. (This, of course, would be a political move to strengthen the position of the Nicaraguan President in his own country.) Dr. Cordero Reyes expressed the opinion that an agreement between the United States and Nicaragua along the lines suggested would have a very favorable effect in the other American Republics.

I promised to bring the foregoing observations to the Secretary's attention and to let Dr. Cordero Reyes know when the Secretary could see him. I also reminded Dr. Cordero Reyes of his conversation in Lima with the Secretary about the same matter,⁴ during which the Secretary had stated that he would give the matter his attention upon his return to Washington and that he would be glad to discuss the matter frankly and in detail with representatives of the Nicaraguan Government.

817.812/771

The Minister in Nicaragua (Nicholson) to the Under Secretary of State (Welles)

MANAGUA, January 14, 1939.

MY DEAR MR. WELLES: The introduction in both houses of the American Congress of bills looking to the construction of a canal under the Bryan-Chamorro Treaty has given fresh impetus to discussions of that project by the press and by government officials. These matters have been fully reported, and I have made known also President Somoza's desire, as expressed to me in informal conversations and more recently announced in the local newspapers, to visit Washington at an early date with a view to urging action.

I have at no time expressed any opinion as to the proposed visit. Last night at a dinner the President gave in honor of the Mexican

⁴ Memorandum of conversation not printed.

Ambassador to the United States he told me, as most confidential, that the Nicaraguan Minister in Washington had advised him that an invitation to visit Washington would be forthcoming sometime in the spring—probably after the visit of King George.⁵

In spite of President Somoza's injunction of secrecy, I shall not be surprised if this intelligence finds its way to the newspapers sooner or later. It would be ungracious for me to express a doubt as to the promise of an official invitation, but I think you should know that he has spoken of this as having been arranged between Minister DeBayle and the Department. I may add that the President yesterday told our naval attaché for air exactly the same thing and with a similar injunction as to its confidential nature.

I feel constrained to say that this subject has now assumed so great an importance with Nicaragua and its government that President Somoza will not easily be diverted from his purpose to press for action. If, as seems likely, the Constituent Assembly extends his term of office he undoubtedly expects to make the realization of the canal the great achievement of his administration.

With best wishes,

Sincerely yours,

MEREDITH NICHOLSON

817.812/771

The Under Secretary of State (Welles) to the Minister in Nicaragua (Nicholson)

WASHINGTON, January 31, 1939.

MY DEAR MR. NICHOLSON: I have received your letter of January 14, 1939 with respect to the projected visit of President Somoza to Washington. The President has indicated that he would be very happy to receive President Somoza as his guest at the White House on May 5, and the Nicaraguan Minister has been so informed. The Protocol Division will prepare the program for the visit in collaboration with Dr. León De Bayle. Until the visit is announced officially, please consider this information as strictly confidential.

It is understood that President Somoza hopes to obtain the assistance of this Government in the project for the canalization of the San Juan River as an alternative to the construction of the Interoceanic Canal through Nicaragua. As you probably know, two resolutions have been introduced into Congress providing for the construction of the Nicaraguan Canal, but obviously there is no assurance that favorable action on these resolutions will be forthcoming. Every effort

⁵ King George VI of Great Britain visited the United States in June 1939.

will be made prior to President Somoza's arrival here to determine what action, if any, it will be possible to take in response to the request which has been made by the Nicaraguan Government for assistance in the canalization of the San Juan River. Here again it is of course impossible to forecast at this moment the nature of the conclusions which will be reached.

In view of the uncertainties surrounding this situation, it is greatly to be hoped that the Nicaraguan Government will not publicly interpret our concurrence in the visit of President Somoza as an indication that favorable action on either the construction of the Nicaraguan Canal or the canalization of the San Juan River will be taken. If you have occasion to discuss his visit with President Somoza I think that it would be very desirable to suggest to him informally that the greatest reserve on these questions should be maintained.

With my cordial best wishes, I am,

Sincerely yours,

SUMNER WELLES

817.812/780

*Memorandum of Conversation, by Mr. Gerald A. Drew of the
Division of the American Republics*

[WASHINGTON,] February 16, 1939.

Participants: Brigadier-General George V. Strong, Assistant Chief
of Staff, War Plans Division
Commander F. L. Lowe, U. S. N., Office of Naval
Operations
Mr. Briggs ⁶
Mr. Beaulac ⁷
Mr. Chapin ⁸
Mr. Drew

In accordance with arrangements made with the War and Navy Departments with the approval of Mr. Welles, a conference was held to discuss the proposed legislation for the construction of the Nicaraguan canal and the construction of additional facilities in the Canal Zone.

The representatives of the War and Navy Departments indicated that the reports of their Departments on the proposed legislation had not been prepared and that they were not therefore in a position to state the nature of the final recommendations on the legislation which would be made.

⁶ Ellis O. Briggs, Assistant Chief, Division of the American Republics.

⁷ Willard L. Beaulac, First Secretary of Embassy in Cuba, then on temporary duty in the Department.

⁸ Selden Chapin, Assistant Chief, Division of the American Republics.

General Strong pointed out that the estimated cost of the proposed Nicaraguan canal of approximately three-fourths of a billion dollars would probably reach a billion dollars if adequate defense arrangements were made. It had been roughly estimated, on the other hand, that the cost of an additional set of locks in the Canal Zone located a safe distance away from the present locks would be approximately \$300,000,000. It was felt that the third set of locks and the connecting channels would in effect provide a new canal which in time of emergency could be reserved for the use of American public and merchant vessels, which would eliminate the danger of sabotage by a foreign or neutral merchant vessel while transiting the existing lock system.

The conversation also included discussion of the present and proposed defense system for the Panama Canal, with particular reference to the danger of attack from the air. The difficulties involved in the defense of a second canal through Nicaraguan territory were also discussed.

The officers present were asked their opinion with regard to the possible strategic value of the Nicaraguan project for the canalization of the San Juan River. General Strong did not appear to consider the project as of any great strategic value but agreed to go into the matter further.

After further general discussion of the strategic and financial considerations affecting the proposed legislation, it was agreed that a draft of the reply of this Department to Congressman Bland⁹ would be submitted informally to the War and Navy Departments in order to avoid any conflict in the recommendations submitted.

817.001 Somoza/81

The Under Secretary of State (Welles) to the Minister in Nicaragua (Nicholson)

WASHINGTON, April 18, 1939.

MY DEAR MR. NICHOLSON: I wish to thank you for your letter of April 4, 1939¹⁰ with regard to the visit of President Somoza to this country.

The appropriate officers of the Department are giving careful study to the proposals which it is understood will be advanced by President Somoza. While it is unlikely that it will be possible to give satisfaction to all of the Nicaraguan proposals, I am hopeful that something tangible may emerge from our conversations which will be of benefit in our relations with Nicaragua and at the same time contribute to the success of the visit.

⁹ Schuyler Otis Bland, Representative from Virginia.

¹⁰ Not printed.

I have given careful consideration to your suggestions for the purchase of the Corn Islands by this Government. While this idea has been found of interest, I doubt that the Congress would give its approval to the purchase of these islands when they are already under a long-term lease to this Government.

With my very kind regards, I am,
Sincerely yours,

SUMNER WELLES

817.51/2608

The President of Nicaragua (Somoza) to President Roosevelt

WASHINGTON, May 22, 1939.

EXCELLENCY: I desire to express the sincere thanks of the Republic of Nicaragua for the many courtesies and the cordial hospitality which I have received during my visit in this country from the Government over which Your Excellency so worthily presides. The people and Government of Nicaragua are grateful to the United States for these significant evidences of friendship and mutual consideration.

The opportunity of knowing Your Excellency has been a source of real satisfaction to me and it has enabled me to confirm the impression which I had formed of your brilliant personality and your sincere and noble devotion to the ideals of Pan Americanism as well as your friendly sentiments toward my country.

I have been happy to tell you that we in Nicaragua have faith and confidence in our strength and ability to develop our country, to improve our agricultural possibilities, our mines and our small industries, to raise the standard of living and to advance our cultural attainments. But we realize that in an age of increasing specialization and interdependence we can utilize advantageously the counsel and friendly assistance of our neighbors, just as our aid and cooperation is useful to them. In this spirit of mutual helpfulness, I have thought it desirable to set forth certain of the objectives of my Government of interest to the United States in order to ascertain the possibilities of cooperation in our common benefit. I am hopeful that your consideration of these objectives will disclose ways and means in which we can cooperate for their attainment.

I

Adequate transportation facilities are a prime requisite to the development of the production and trade of a nation. It is the opinion of the Government of Nicaragua that it is of paramount importance to link together the productive regions of the east coast of Nicaragua with the more densely populated productive regions of the interior and

the Pacific coast, and to provide a more direct channel of communication for commerce between Nicaragua and the United States. This objective could effectively be attained by the canalization of the San Juan River for vessels of moderate draft and if possible, by a complementary waterway from Lake Nicaragua to the Pacific. I desire to inquire whether the assistance of the Government of the United States might be extended to assist my Government in the realization of this project. Specifically it would be necessary in any event as a first step to have precise surveys and estimates, and I am hopeful that it will be feasible for the Government of the United States to send engineers of the United States Engineer Corps for this purpose.

II

Nicaragua also greatly needs additional transportation facilities in the form of roads and highways. The construction of certain sections of the proposed Pan American Highway through Nicaragua, part of which has already been surveyed and a portion built by the Nicaraguan Government with the assistance of the Bureau of Public Roads of your Government,¹¹ and of essential lateral feeder roads would permit of the expansion of agricultural and mineral production in the principal producing areas of the Republic. To this end, the Government of Nicaragua requests the loan of the services of engineers of the Bureau of Public Roads for engineering advice and supervision, and the extension of credit facilities to finance the purchase from United States manufacturers of equipment and materials not available in Nicaragua.

III

I consider that the development of the foreign commerce of Nicaragua and of economic relations between Nicaragua and the United States will be facilitated by the prompt payment at all times of commercial obligations to United States nationals and concerns, and by the elimination of unusual fluctuations in the rate of exchange of the cordoba and those arising out of the irregular timing of international in- and out-payments. The problem of the former accumulated commercial arrearages has been solved within the limits of Nicaragua's economic resources in an agreement concluded with the National Foreign Trade Council, Inc., on September 13, 1938,¹² the terms of which are being and will continue to be carried out. To achieve the further objectives referred to a line of credit in United States currency to the National Bank of Nicaragua would be desirable.

¹¹ See section entitled "Cooperation of the United States With Other Governments in the Construction of the Inter-American Highway," *Foreign Relations*, 1937, vol. v, pp. 175 ff.

¹² *La Gaceta, Diario Oficial*, September 26-30, 1938.

IV

Nicaragua is especially desirous of encouraging the large-scale production of suitable non-competitive agricultural products which will complement production and find a market in the United States. My Government will, therefore, greatly appreciate the cooperation of the Government of the United States in the study and development of such products which may provide the United States with necessary and assured sources of supply.

V

In view of the desire of the Nicaraguan Government to reopen the Military Academy of the National Guard for the purpose of facilitating the adequate training of officers of that organization, it is requested that an arrangement be concluded for the detail of a qualified officer of the United States Army to act as director of the Military Academy.¹³ It is also desired to obtain the services of a qualified aviation officer to act as instructor in the Air Corps of the National Guard.

VI

The investment of new foreign capital and technical knowledge in the development of the agricultural and mineral resources of Nicaragua is of supreme importance in the carrying out of a sound program for the economic development of the country, and I wish to assure Your Excellency that the Government of Nicaragua will encourage in every way the valuable cooperation of United States citizens who have invested or who in the future may invest their capital and technical knowledge in the expansion of the Nicaraguan economy.

In this connection I wish to announce that the Government of Nicaragua will take forthwith the necessary steps to ensure that adequate dollar exchange shall be provided at all times under the most favorable conditions possible to enable United States holders of the Guaranteed Customs Bonds of 1918 to transfer payments of interest and amortization.

In closing, I wish to record my personal conviction that the successful carrying out of these objectives cannot fail to give renewed vigor to the effective participation of our two countries in the furtherance of these American ideals to which the nations of this hemisphere are devoted.

I avail myself [etc.]

A. SOMOZA

¹³ For text of agreement providing for a military mission, signed at Washington May 22, 1939, see Department of State Executive Agreement Series No. 156, or 53 Stat. 2435.

817.51/2608

President Roosevelt to the President of Nicaragua (Somoza)

WASHINGTON, May 22, 1939.

EXCELLENCY: I have received with great satisfaction Your Excellency's communication of May 22, 1939 expressing appreciation for the courtesies which it has been possible to extend to you in the course of your visit in the United States. Needless to say it has been a very real pleasure for us to have had the opportunity of knowing you and of hearing from you the expressions of the sincere friendship of the Government and people of Nicaragua for this country. I fully share Your Excellency's conviction that increased cooperation between two friendly neighbors will further the common interests of this hemisphere.

I have noted with special interest the statement of the objectives of your Government of promoting the development of mutually beneficial economic relations between Nicaragua and the United States, and developing the national economy and natural resources of Nicaragua. As you well know, the Government of the United States is greatly desirous of taking any steps possible in order to continue and expand the economic cooperation between Nicaragua and the United States.

I

The objective of Your Government of providing adequate transportation facilities as a major step toward the development of production and foreign commerce of the nation appears to me to be entirely sound.

Regarding your suggestion for the canalization of the San Juan River for vessels of moderate draft, I have been pleased to instruct the United States Army Engineer Corps to make the necessary studies and surveys of a canalization and highway project to link the eastern and western regions of Nicaragua. I am impressed with the thought that such a project would very greatly facilitate and expedite communications between your country and mine and by opening new areas to the production of complementary non-competitive products would provide new bases for an increase in commerce between those areas and the United States. Moreover, it is obvious that should occasion arise, the existence of such a waterway would have a very important bearing upon the defense of the hemisphere.

As soon as the necessary financial arrangements can be made in this country, a board of four officers of the Corps of Engineers, accompanied by an official of the United States Engineer Department and an officer of the Army Medical Corps will be sent to Nicaragua. It is

expected that the board would leave for Nicaragua next July and would be able to carry out the studies of the project within a few months. Upon the basis of their reports we can take such further action as seems in the common interest of our two countries.

II

The Government of the United States is also pleased to cooperate in the construction of certain sections of the proposed Pan American Highway, useful lateral feeder roads, and other projects. In order to expedite this construction, I am prepared to detail under the authority of Public No. 63¹⁴—Seventy-sixth Congress available engineers of the Bureau of Public Roads for temporary service with the Nicaraguan Government for engineering advice and supervision. Moreover, the Export-Import Bank of Washington will assist in arranging certain credits to finance the purchase of United States equipment, materials and services for the construction of highways and other productive projects.

III

I am in the fullest accord with Your Excellency's opinion that expansion of economic relations between Nicaragua and the United States will be facilitated by the prompt payment at all times of commercial obligations to United States nationals and concerns, and by the elimination of unusual fluctuations in the rate of exchange of the cordoba and those arising out of the irregular timing of international in- and out-payments. The Export-Import Bank will assist in the attainment of this objective by the extension to the National Bank of Nicaragua of a credit. A copy of a communication in regard to these matters addressed to you by the President of the Export-Import Bank is enclosed as Appendix A.¹⁵

IV

The Government of the United States is keenly interested in cooperating with the Government of Nicaragua in every possible way in the study and development of non-competitive agricultural products which will complement production in the United States. As you are aware, legislation has already been enacted which authorizes the loan of experts of the Government of the United States to assist in specialized agricultural studies and developments, and suitable provisions are under consideration to enable the Government of the United States to undertake surveys of agricultural resources of foreign countries and assistance in the development of production of manila hemp, rubber and other non-competitive products.

¹⁴ Approved May 3, 1939; 53 Stat. 652.

¹⁵ *Infra*.

V

In accordance with your request the Department of War has agreed to assign a qualified officer to act as director of the Military Academy of the Nicaraguan National Guard and arrangements will be made for the officer so detailed to carry out the necessary studies with respect to the project of the Nicaraguan Government for the establishment of a military aviation school.

I am confident that the investment by citizens of the United States of their capital and technical knowledge in the development of Nicaragua's mineral and agricultural resources will contribute to the sound expansion of the national economy and it has been reassuring to receive Your Excellency's statement that the Government of Nicaragua will give the fullest encouragement to present and future investments of this nature.

I extend [etc.]

FRANKLIN D. ROOSEVELT

817.51/2608

*The President of the Export-Import Bank of Washington (Pierson)
to the President of Nicaragua (Somoza)*

WASHINGTON, May 22, 1939.

EXCELLENCY: I have the honor to refer to your communication of this date to the President of the United States.

The Export-Import Bank of Washington will undertake either directly or through United States commercial banks to provide credits for the National Bank of Nicaragua in order to assist it to attain the expressed objectives of the Government of Nicaragua of encouraging the development of Nicaraguan foreign commerce and economic relations with the United States by meeting promptly at all times commercial obligations to United States nationals and concerns and eliminating unusual fluctuations in the rate of exchange of the cordoba and those resulting from the seasonality of major export crops. The total amount of such credits shall not exceed \$500,000 at any one time, and such credits are to be utilized from time to time as required prior to June 30, 1941.

To permit the National Bank of Nicaragua ample opportunity to liquidate its obligations under the credit it is proposed that each availment thereunder shall be payable in equal quarterly installments during a period not exceeding thirty-six months, and the rate of interest shall be 3.6% per annum. Details and other conditions of the transaction will hereafter be arranged between the Export-Import Bank and the National Bank of Nicaragua, but it shall be understood that all obligations under this arrangement shall be liquidated on or before June 30, 1944. Availments under the line of credit shall have

the approval of the National Bank of Nicaragua and the Export-Import Bank.

To aid in improving Nicaragua's transportation facilities and the development of other projects designed to increase the productive capacity of the Nicaraguan people and their trade with the United States, the Export-Import Bank will cooperate with United States manufacturers and exporters and with the Nicaraguan Government in arranging for the financing in the United States of equipment, materials and technical services not available in Nicaragua. It is envisaged that the construction program may entail the extension of credits by the Export-Import Bank of as much as \$2,000,000 prior to June 30, 1941.

We are informed that available engineers of the Bureau of Public Roads will be detailed by the President to the Government of Nicaragua to furnish engineering advice and supervision, but that in order to carry on the proposed construction, they must be supplemented by the employment by the Government of Nicaragua in agreement with the Export-Import Bank of additional engineers and other technical assistants.

We understand that individual expenditures under the construction program shall follow examination of the feasibility and utility of particular projects and certification as to their necessity by the Government of Nicaragua and the Export-Import Bank.

To permit the improvements under consideration to be carried forward as rapidly as is consistent with sound financial policy it is contemplated that the credits will take the form of discounting, under conditions to be agreed upon by the Government of Nicaragua and the Export-Import Bank, of serial notes to be issued from time to time by the Government of Nicaragua bearing interest at the rate of 5% per annum and maturing over a period of seven years.

During the time the Export-Import Bank is in position to assist in providing or arranging for these credits, and to the extent that its funds may be available for this purpose it will be pleased to cooperate as indicated above with the Government of Nicaragua.

Sincerely yours,

WARREN LEE PIERSON

*Memorandum From the President of Nicaragua (Somoza) to
President Roosevelt*¹⁶

1. Nicaragua and my Government favor the construction of the inter-oceanic canal.
2. When Nicaragua negotiated the Bryan-Chamorro Treaty, she acted fundamentally on the assumption that the inter-oceanic canal

¹⁶ Photostatic copy obtained from the Franklin D. Roosevelt Library, Hyde Park, N. Y.

would be constructed by the United States in the more or less near future.

3. For Nicaragua, the indefinite postponement of this project means the stagnation or the frustration of her most valuable natural resource, destined to exercise a preponderant influence over her progress and development.

4. Nicaragua does not ask a revision of the Bryan-Chamorro Treaty; but, on the contrary, continues to offer her cooperation in the defense of the United States, which is likewise her own.

5. Nevertheless, if the United States indefinitely defers the construction of the inter-oceanic canal, Nicaragua considers it fair that the United States should assist in the canalization of the San Juan River, in order to eliminate to some extent the injuries Nicaragua would suffer from this indefinite postponement.

6. This work—the canalization of the San Juan—not only would benefit the commerce of Nicaragua and other near-by regions, with the United States, but would contribute also to the objectives related to military defense.

7. Nicaragua suggests that this assistance be given through an additional treaty with the United States, in which it would be stipulated that the cost of the canalization be applied, without interest, to the indemnities of a pecuniary nature that the United States would pay Nicaragua, in accordance with the Bryan-Chamorro Treaty, when she decides to carry out the construction of the inter-oceanic canal.

8. At the same time, Nicaragua is desirous of including in these stipulations whatever provisions both countries may deem advisable in order to derive advantages, also, from the canalization, for the objectives of military defense.

9. A negotiation of this character would have the double advantage of correcting the legal defects which have been adduced against the validity of the Bryan-Chamorro Treaty; and of ending the criticism which has been leveled against the treaty by many sectors of public opinion in this hemisphere; it would, furthermore, reinforce the confidence which the Good Neighbor policy has inspired.

10. Nicaragua believes that an additional treaty on the bases herein indicated, would not meet with opposition in the Senate of the United States, if President Roosevelt should lend it the support of his personal influence, and if the circumstances and objectives underlying the negotiations should be revealed.

11. These points are substantially the same as those set forth in detail in the Memorandum of November 8, 1938,¹⁷ presented by my Government to the Department of State.

A. SOMOZA

WASHINGTON, May 22, 1939.

¹⁷ Not printed.

817.812/805 : Telegram

The Secretary of State to the Minister in Costa Rica (Hornibrook)

WASHINGTON, May 22, 1939—7 p. m.

24. By desire of the President, the Minister of Costa Rica¹⁸ was requested to call at the Department this afternoon and he was informed that it was the wish of this Government that the Government of Costa Rica be informed immediately of the precise nature of the negotiations which had taken place during the visit in Washington of the President of Nicaragua and of the agreements¹⁹ which had been reached.

For your information there is quoted the pertinent portion of the text of a memorandum of the conversation with the Costa Rican Minister:

"I told the Minister that President Somoza had been informed by the President that the Congress had already indicated its decision to favor construction of a third series of locks in the Panama Canal²⁰ and to postpone any further consideration of the construction of the Nicaraguan canal. I said, furthermore, that the estimates presented to the President by the engineers of the War Department for the construction of the Nicaraguan inter-oceanic canal had been so huge as to make it impracticable for this government at this time to give any further consideration to the question on the ground of the expense involved quite apart from other considerations.

I stated that President Somoza had then urged upon this Government an agreement between Nicaragua and the United States whereby the Government of the United States would provide the Government of Nicaragua with funds sufficient to make possible as a project of the Nicaraguan Government, and under its control, the canalization of the San Juan River so that the River might be used as a barge canal with the further possibility of opening a barge canal between the Lake of Nicaragua and the Pacific Ocean through the Isthmus of Rivas. I said that this matter had been given very detailed consideration by the President and that he had reached the decision in agreement with President Somoza to lend to the Government of Nicaragua the services of a group of Army engineers of the United States for the purpose of making a study and report upon the cost which would be incurred by the Government of Nicaragua through the canalization of the San Juan River and through the creation of a barge canal from the Lake of Nicaragua to the Pacific Ocean. I said that the Minister would clearly understand that the commitment of the United States went no further and that all that was now in mind was the preparation of this report and estimates.

¹⁸ Ricardo Castro Beeche.

¹⁹ See exchange of letters between President Roosevelt and President Somoza, May 22, pp. 725-730.

²⁰ Provided for by act approved August 11, 1939, 53 Stat. 1409; see also Panama Canal, Governor, *Annual Report, 1940* (Washington, 1941), p. 78.

I said that throughout the negotiations this Government had borne clearly in mind the rights of the Government of Costa Rica in so far as the River San Juan was concerned and that both the President and the Minister for Foreign Affairs of Nicaragua in their conversations with officials of this Government have repeatedly recognized the rights of Costa Rica in this regard.

I said, therefore, that it was the desire of the President that the Government of Costa Rica be informed fully of this fact and that it should be further advised that in the event that the study and report and the estimates prepared by these engineers for the Government of Nicaragua made it appear that the canalization of the San Juan River and the construction of a barge canal through the Lake of Nicaragua to the Pacific Ocean were feasible, nothing further would be done by this Government in the matter until and unless the Government of Costa Rica and the Government of Nicaragua reached an agreement covering the projected canalization of the River San Juan. In that event, I said, a convention would have subsequently to be concluded between the United States and the Government of Nicaragua for submission to the Senate of the United States in order that ratification by the Senate might be obtained. I stated that in this manner it would seem to me very clear that the rights of Costa Rica would be fully protected and that the Government of Costa Rica would be free to reach its own decision as to its wishes in the matter. I said that the general idea had been given favorable consideration by this Government because of our belief that the canalization of the River and the construction of the barge canal would open up to profitable development the interior regions both of Nicaragua and of Costa Rica and would greatly facilitate and stimulate trade between the United States and the two neighboring republics. I said further that if the barge canal were completed between the Pacific and the Atlantic Oceans, such a canal would undoubtedly be of considerable service from the standpoint of continental military defense.

The Minister expressed his very great appreciation of the information I had given him. He said that he had not approached me in the matter because of the entire confidence which his Government and he himself had that this Government would give full recognition to the legitimate rights of Costa Rica. He said that, of course, under the arrangements I explained to him, the United States itself would not be undertaking the work involved but that the work would rather be undertaken by the Government of Nicaragua itself with financial assistance provided by the United States. He said that consequently the arrangements to be reached with regard to their respective rights in the San Juan River would have to be reached directly between Nicaragua and Costa Rica and that because of the very friendly relations existing between the two present Governments, he anticipated no difficulty on that score. The Minister asked if I could give him technical information as to the size of the vessels which would be enabled to transverse the contemplated barge canal and I said that none of these details had been determined or even discussed and that all that the engineers would be required to report upon would be the compilation of two alternative estimates, one estimating for the construction of a barge canal for vessels of 10-foot draft and the other estimate for vessels of 12-foot draft."

The Minister of Costa Rica stated that he would cable a summary of the above immediately to the President of Costa Rica for the latter's information.

You are requested to call upon the Minister for Foreign Affairs and to communicate to him the statements contained in the text above quoted without leaving, however, any written copy thereof.

HULL

817.516/369a

*The Chief of the Division of the American Republics (Duggan) to
the Minister in Nicaragua (Nicholson)*

WASHINGTON, May 26, 1939.

DEAR MR. MINISTER: I have asked that there be sent to you by air mail a set of the letters exchanged in Washington as a result of President Somoza's visit. The exchange of letters covers what was agreed upon here with two exceptions.

In the first place, President Roosevelt, acting entirely on his own volition, agreed that if the survey of the canal route proved that a feasible shallow draft barge canal could be constructed, he would then proceed to negotiate a supplementary treaty with Nicaragua providing for the construction of the canal at the expense of this Government, the money so expended to be deducted from the payment to Nicaragua if, as, and when a deep-water interoceanic canal is constructed. The Nicaraguans naturally were overjoyed with the President's intentions and act as though the barge canal was as good as already agreed upon. Personally I have a feeling that this barge canal will not be built in the immediate future, regardless of what the survey may show. There is very healthy skepticism in many political quarters here as to the utility of expending the necessary funds for a barge canal. A treaty possibly might not secure the necessary two-thirds vote.

With regard to the barge canal, the Nicaraguans were informed that if the survey shows it to be practicable and before any supplementary agreement is negotiated, this Government will have to be assured that any rights which Costa Rica has, have been adequately safeguarded. This naturally implies prior negotiations with the Costa Ricans. The Nicaraguans have vigorously protested against this and may continue to work on you trying to convince you that they can take care of the Costa Ricans. If they do, might I venture to suggest that you take a rather strong line with them and maintain the Department's position that it cannot proceed with any arrangements until it knows for itself that the Costa Ricans are satisfied. I think that you will agree that it is obvious that we do not wish to get into a dispute

with Costa Rica because of any construction works that may be undertaken in Nicaragua. We certainly cannot rely on the Nicaraguans to get together with the Costa Ricans. We will have to ascertain for ourselves that the Costa Ricans are agreeable to the construction of a barge canal and that whatever rights they have have been taken into account and satisfied.

In the second place, President Somoza objected strenuously to contracting the services of a financial expert at this time. This was originally laid down as a condition for the attainment of the Export-Import Bank credit. The President explained at considerable length that Nicaraguan public opinion had become antagonistic to foreign financial experts . . . The President stated that he would like to have a financial adviser and that he intended to request one he hoped within two or three months as soon as the aroused public opinion had calmed down, but that he could not do so at the moment.

The Export-Import Bank is now looking around for a capable man to serve as chief engineer. This chief engineer will really be the high mogul so far as the construction activities are concerned.

So far as I know, President Somoza and his troop left here satisfied with what they had obtained.

With kindest regards to Mrs. Nicholson and to you,

Yours very sincerely,

LAURENCE DUGGAN

817.812/810

The Minister in Costa Rica (Hornibrook) to the Secretary of State

No. 706

SAN JOSÉ, May 29, 1939.

[Received June 2.]

SIR: I have the honor to refer to the Department's telegram No. 24 of May 22, 7 p. m., and to report as follows:

The Minister for Foreign Affairs was not in his office on the date of receipt of the same, but I obtained an appointment for Thursday. On this occasion the substance of the entire instruction was submitted point by point, but in accordance with instructions, no memorandum thereof was left with the Minister.

The Minister expressed himself as being highly gratified that the Government of the United States respected the rights of his country in the San Juan River and that President Roosevelt and Secretary Hull had been courteous enough to request me to confirm assurances on that point which had already been communicated to him by both cable and airmail by the Costa Rican Minister to Washington.

The Minister then stated that the information which I had imparted to him on various other phases of the situation coincided with the data which he had obtained through Mr. Castro Beeche. He added to the

above statement that his Government at no time had the slightest doubt as to the position of our Government as to Costa Rican rights in the San Juan River and cited the award²¹ of President Cleveland on this question as a clear indication of the viewpoint of Washington.

He stated that Costa Rica looked with favor upon the canalization of the San Juan River and owing to the friendly relations actually existing between the Liberal Government of General Somoza and Costa Rica this Government did not believe that any difficulty would be encountered in reaching an agreement. He recognized the advantages that might be derived by Costa Rica should this project be undertaken but raised the following question: The Colorado delta is entirely on the Costa Rican side, he said, and should the projected canalization of the San Juan River be carried out in a manner that would adversely affect the delta, this might become the subject of a dispute between Nicaragua and Costa Rica which could possibly prolong or even defeat the negotiations. He added, however, that he did not believe it would stand in the way of an amicable arrangement between the two countries.

Respectfully yours,

WM. H. HORNIBROOK

817.812/851 : Telegram

The Minister in Nicaragua (Nicholson) to the Secretary of State

MANAGUA, August 3, 1939—5 p. m.

[Received August 4—3:10 p. m.]

83. Somoza plans to leave for San José by air August 12 returning August 18. He offered to give me a copy of the draft treaty regarding canalization which he will use as a basis for discussions suggesting that I might send copy to Hornibrook, to aid in case of need. I made no commitment in this regard.

Cordero Reyes today explained the draft fully which provides in substance:

(1) In accordance with the Somoza-Roosevelt agreement the United States will extend its cooperation to canalize the River San Juan and the port or Bay of San Juan del Norte for medium draft vessels for account of Nicaragua. Nicaragua declares this does not imply cession of territory and will continue complete sovereignty and control of the works to be turned over for use and administration.

(2) Costa Rican existing rights of navigation are recognized. Nicaragua extends upon completion of the works the right of free navigation for the entire San Juan from lake to sea. Costa Rica cannot oppose or obstruct works in the upper section of the river not bordering its territory nor demand compensation in the event that later Nicaragua negotiates a treaty for a greater canal, unless Nicaraguan works to be constructed now occupy or prejudice Costa Rican territory.

²¹ *Foreign Relations*, 1888, p. 456.

(3) Upon completion of canalization Costa Rican vessels may use the port, bay and entire river of San Juan and the Riofrio, San Carlos or Sarapiquí or Colorado using Costa Rican ports including the Colorado mouth under the same terms as Costa Rican [*Nicaraguan?*].

(4) Merchandise in transit for Costa Rica is exempt from import charges. Costa Rican products may transit via San Juan to Costa Rica or to third countries under the same conditions. Imports into Nicaragua may pass in transit via the river Colorado without duty and Nicaraguan products for the Nicaraguan east coast or third countries also.

(5) Costa Rica grants Nicaragua permission to make the necessary studies and works for construction operation and maintenance including the use of water in the river Colorado to secure the necessary depths of waters in the said canal without right to indemnification, distinct from the rights of navigation Nicaragua now grants. Works in Costa Rica remain subject to the complete sovereignty of that country and subject to its laws provided the purpose for which constructed is not prejudiced.

(6) These mutual concessions do not prejudice either state in the event that Nicaragua negotiates a treaty with a third state for the construction, operation and maintenance and defense of a larger interoceanic canal in which case territorial and navigation rights of both countries shall be considered to be such as at present defined and delimited.

Cordero Reyes pointed out that they will not indicate to Costa Rica what aid the United States is to extend and that publicly the accord will rest on the Somoza-Roosevelt letters. The entire agreement offers Costa Rica in rights of navigation much more than Costa Rica is requested to give in rights in the Colorado and fully protects her sovereignty. No mention will be made of the Nicaraguan proposal which he said was discussed at Washington for American troops et cetera, to use the route in time of war and the construction of four landing fields. Costa Rica will doubtless demand the right of navigating the Lake of Nicaragua which will be a trading point. No offer will be made of a right to cross to the Pacific. He foresees a request to divert the Colorado via the Tortugurro lagoons which Nicaragua cannot accept either for itself or because of possible danger to a future interoceanic canal.

He pointed out that both countries remained free and in *status quo ante* insofar as their rights to obtain settlement from the United States in the event of a future interoceanic canal. Nicaragua under the Washington Agreement will consider the present project as advance payment by the United States toward a future settlement.

Text by air mail²² direct pouch to the Department Saturday. I shall not forward a copy of the treaty to San José unless so instructed.

NICHOLSON

²² Despatch No. 608, August 3, 1939, not printed.

817.812/845a : Telegram

*The Acting Secretary of State to the Minister in Nicaragua
(Nicholson)*

WASHINGTON, August 8, 1939—5 p. m.

55. Please inform the appropriate officials of the Government of Nicaragua that in accordance with the terms of section 1, paragraph 3 of the letter of May 22, 1939 from the President to President Somoza a board of eight officers and employees of the Corps of Engineers, United States Army, and the United States Engineer Department, under the command of Lieutenant-Colonel Charles P. Gross, will leave New York en route to Nicaragua on August 10 on the S. S. *Panama*. Two members of the board will arrive in Corinto by steamship from Panama about August 25, and the remainder of the party will proceed from Panama to Managua on a United States army plane on August 20. Names of the members of the board will be sent to you by air mail in order that appropriate arrangements can be made in connection with their arrival.

The expenses of the mission and the cost of preparation of its report in connection with the proposed canalization will be paid from an appropriation of \$100,000 which has now been made available by the Congress for this purpose. For your confidential information it is hoped that additional funds for the completion of the report may be appropriated by the Congress at a later time if it should be necessary. It is expected that the present appropriation will be adequate to complete the work of the mission in the field.

WELLES

817.812/851 : Telegram

*The Acting Secretary of State to the Minister in Nicaragua
(Nicholson)*

WASHINGTON, August 10, 1939—6 p. m.

56. Your telegram no. 83, August 3, 5 p. m., and despatch no. 608, August 3, 1939.²³ Please convey to the Minister of Foreign Affairs an expression of the appreciation of this Government for his courtesy in making available the text of the draft treaty with Costa Rica with relation to the proposed canalization of the San Juan River.

You are requested to convey orally the following comments to the Minister of Foreign Affairs.

Article 1. The text of this article indicates that there has been some definite undertaking on the part of this Government to carry out the canalization project. It is believed that the article should be

²³ Latter not printed.

modified so as to conform more accurately with the text of the letters of May 22 which make it clear that the canalization project is at present only under study. Its completion is dependent on (1) the results of the studies shortly to be undertaken by a board of officers of the United States Engineer Corps; (2) the conclusion between the United States and Nicaragua of a treaty or agreement for the canalization project which would of course be subject to approval by the United States Senate; and (3) appropriation by the Congress of the United States of the necessary funds for the project.

Articles 2 and 3. The Department is considering the possibility of suggesting to the Nicaraguan Government that it reserve in these articles the right to grant the privilege of free navigation of the port and river of San Juan and Lake Nicaragua to vessels of the United States. However, you should not make this proposal to the Minister for Foreign Affairs unless you receive further instructions.

Article 6. The following wording is suggested for the closing phrase of this article "in which case the rights of Nicaragua and Costa Rica as well as third countries shall be those existing prior to the signature of this treaty."

Please repeat the foregoing to the American Legation in San José for its strictly confidential information, adding a statement that the Department will forward the text of the draft treaty in the next air mail pouch.

WELLES

817.812/883 : Telegram

The Secretary of State to the Minister in Nicaragua (Nicholson)

WASHINGTON, October 3, 1939—7 p. m.

75. Reference your despatch no. 679, September 22.²⁴ In view of the present state of negotiations between Costa Rica and Nicaragua with regard to the proposed treaty for the canalization of the San Juan River, the Department would not wish to authorize Colonel Gross to proceed to San José unless his presence there should be considered essential for the purpose of furnishing the Costa Rican authorities with technical information of an engineering nature. It would be preferable in any event to furnish this information if possible through the Nicaraguan Government or by correspondence, as it is desired to avoid even the appearance that we are participating in any way in the negotiations. In this connection you are reminded of the memorandum of conversation forwarded with the Department's instruction no. 226 of August 10.²⁴ Please telegraph your views and recommendations on this question.

If the object of Colonel Gross' proposed visit to Costa Rica is to obtain information of an economic nature, it would be possible for the

²⁴ Not printed.

Department to obtain such information from the Costa Rican Government through its regular representatives in San José.

HULL

817.812/884 : Telegram

The Minister in Nicaragua (Nicholson) to the Secretary of State

MANAGUA, October 6, 1939—5 p. m.

[Received 8:37 p. m.]

119. Telegraphic instruction No. 75, October 3. The proposed visit of the Canal Commission to San José has long been announced in both Nicaragua and Costa Rica and I believe that canceling it at this time would be misinterpreted and would cause undesirable comment. While I have not of course requested Nicaraguan opinion with regard to the visit I am sure this Government has no objection but would on the contrary recommend that the visit be made.

As already reported Colonel Gross takes the position that his instructions do not cover the preparation and presentation of a memorandum to the Costa Rican Government or its representatives.

The economic information normally included in an engineering report of the character to be presented would necessitate long preparation and the visit of the mission to San José would include indicating to officials there the type and character of the information desired but it would not be a primary object of the trip.

The mission desires also to acquaint itself with the general geographic and economic conditions prevailing in each country as it has already done in Nicaragua by extensive visits to outstanding cities and the different geographical sections of the country including the east coast.

I should like to recommend that I be instructed to inform Colonel Gross of your desire to avoid even the appearance of participation in any way in the negotiations between the two countries and that the reasons for his visit to San José would be only to furnish technical information of an engineering nature and to explain what economic information he requires. The mission returns to Managua Monday from Puerto Cabezas.

NICHOLSON

817.812/884 : Telegram

The Secretary of State to the Minister in Nicaragua (Nicholson)

WASHINGTON, October 7, 1939—3 p. m.

77. In view of the considerations set forth in your telegram no. 119, October 6, 5 p. m., you are requested to inform Colonel Gross that the proposed visit of the Commission to San José is approved. Please

inform him that it is the understanding of this Department that the purpose of his visit is to make available to the Costa Rican Government technical information of an engineering nature with regard to the proposed canalization and to indicate to the Costa Rican Government through the American Legation in San José information of an economic nature which he desires to obtain. You should also explain to Colonel Gross that this Department wishes to avoid even the appearance that we are participating in any way in the current negotiations between the Governments of Costa Rica and Nicaragua.

The foregoing has been repeated to the American Legation in San José for the information and guidance of the Minister.

HULL

817.812/896

The Minister in Costa Rica (Hornbrook) to the Secretary of State

No. 924

SAN JOSÉ, May [October] 23, 1939.

[Received October 30.]

SIR: I have the honor to refer to the Department's telegraphic instruction No. 56 of October 7,²⁶ and to report as follows:

Colonel Charles P. Gross and his party of army engineers arrived here on October 19. On the following day I presented the Colonel and three other army engineers to the Minister of Foreign Affairs with the idea that they would pay their respects, exchange a few pleasantries and depart. The Foreign Minister, however, immediately launched into a discussion of the canalization project, produced a map and requested Colonel Gross to outline the proposed route of the canal project. The explanation lasted for an hour and three quarters with the result, I think, that many phases of the situation were clarified in the mind of the Foreign Minister. In fact at a cocktail party the night following, he informed me that the explanation had been satisfactory. I did not participate in the discussion, at the Foreign Office, nor did I discuss the treaty negotiations or technical details at the cocktail party the following evening.

On the same afternoon I took the group of officers to President Leon Cortés to pay their respects. They were received most cordially and the President expressed a keen interest in the proposed project. He stated, however, that he was not competent to pass upon the technical matters confronting the American engineers and therefore designated Mr. Francisco Pacheco, Minister of Public Works and a graduate of an American engineering school, as his representative for the purpose of obtaining information as to the plans thus far outlined by Colonel Gross.

²⁶ This telegram repeated telegram No. 77, October 7, 3 p. m., to the Minister in Nicaragua, *supra*.

I may state in connection with both of the above-mentioned interviews Colonel Gross at no time expressed an opinion as to proposed negotiations, and confined his remarks and explanations exclusively to the technical points involved. He did make it plain, however, that he did not come to San José with the idea of "selling" the project to Costa Rica, but merely to aid the Government by explaining the engineering problems. He also requested certain economic information from the President who promised to provide the same.

On October 21 Mr. Cordero Reyes arrived from Managua with a new draft treaty. It has heretofore been stated in the press that he would not return unless he received an official invitation from the Costa Rican Government, and, as far as I have been able to ascertain, no such invitation was extended. I have not as yet seen Mr. Cordero Reyes, but assume that when I do he will perhaps discuss this feature of his visit.

The Nicaraguan Foreign Minister will in all probability not be able to have any extended talks with the American engineers during their brief visit here for the reason that the Costa Rican Government has arranged for trips which will consume most of the remaining days of their visit. The officers, however, will be in the company of Mr. Pacheco and will have ample time to discuss engineering problems. They plan to leave here on October 26.

Respectfully yours,

WM. H. HORNIBROOK

817.812/907

The Minister in Costa Rica (Hornibrook) to the Secretary of State

No. 983

SAN JOSÉ, November 27, 1939.

[Received December 4.]

SIR: I have the honor to refer to my despatch No. 963 of November 13, 1939,²⁷ relative to the proposed canalization of the San Juan River, and to report that Dr. Cordero Reyes and Mr. Luis Mena Solorzano, Nicaraguan Minister to Costa Rica, called by appointment at my residence on November 25 for the purpose of advising me as to the progress of their negotiations with the Costa Rican Government on the canalization project. Both seemed to be rather depressed as to the prospects of an early agreement, and the former stated that in the event he held another conference with the Minister for Foreign Affairs he proposed to suggest an agreement on the proposals which he had heretofore submitted, with a proviso that they should not come into legal operation until such time as the Costa Rican Government had had an opportunity to study the final report of the American engineers. He stated that the only objection which had thus far been voiced by the Costa Rican Foreign Minister or the President

²⁷ Not printed.

had been the fact that Colonel Gross was not in a position on the date of his visit to San José to give detailed information as to the project. The Colonel stated to officials here that he would not be able to give out additional information until such time as his final report had been submitted to the War Department and later released as a public document.

Dr. Cordero Reyes again pointed out that the contention of his government is that Costa Rica has no legal right to oppose the project under existing treaties and asserted that under a clause in one of those pacts signed in 1850 Nicaragua has a right to proceed with the construction and pay the slight damages which might possibly be awarded to Costa Rica for minor losses as a result of flooding a small portion of her territory.

On November 25 I again met Dr. Cordero Reyes at a cocktail party and he stated that it now seemed to be definitely plain Costa Rica would not sign a treaty until such time as Colonel Gross had completed his report and the results made known to the officials of the government. He stated he had again urged upon the local authorities that the project must be agreed upon between Costa Rica and Nicaragua before the end of the Roosevelt administration in order to insure congressional support in the United States, but was told that until Costa Rica obtained the necessary technical information from Colonel Gross it could hardly be expected to enter into an agreement which might adversely affect its material rights.

Dr. Cordero Reyes asserted that in his opinion Max Effinger, German naturalized Costa Rican now employed in the Ministry of Public Works as an engineer, had considerable to do with the attitude of the Costa Rican Government. He asserted that Effinger has unquestionably raised a large number of technical questions as to possible damage to Costa Rican lands in close proximity to the project.

Press comments have been made from day to day in all local newspapers, but as they appear to confirm the remarks made to me by Dr. Cordero Reyes I shall not include them as enclosures.

Respectfully yours,

WM. H. HORNIBROOK

817.812/915

The Minister in Costa Rica (Hornibrook) to the Secretary of State

No. 1003

SAN JOSÉ, December 12, 1939.

[Received December 19.]

SIR: I have the honor to refer to my despatch No. 995 of December 4, 1939,²⁸ and to report as follows:

²⁸ Not printed.

On December 8, Dr. Cordero Reyes, Minister for Foreign Affairs of Nicaragua, and Mr. Mena Solórzano, Minister to Costa Rica from the same country, called for the purpose of requesting me to expedite the delivery of the report of Colonel Gross as to the proposed work on the Costa Rican side of the project.

Dr. Reyes pointed out at this conversation that in the viewpoint of his own country it is unimportant to receive the report of the proposed work on the Nicaraguan side at this time, but that it is highly important to satisfy Costa Rica as to just what damage, if any, may be caused to Costa Rican territory. He stated that in his opinion, if the State Department made the suggestion, it would be quite possible the War Department might instruct Colonel Gross to confine his present work to a study of the Costa Rican side and submit the same as an independent document at a very early date to his superior officers and this partial report could be promptly submitted to the Costa Rican Foreign Office and thus speed up the signing of the treaty. He again expressed the fear that in the event President Roosevelt concluded to decline a third term his successor in office might not be as friendly to the project and therefore felt that it should be pushed through before the expiration of his term of office.

During the course of the conversation Dr. Reyes stated that he had intended to leave the early part of the same week, but Mr. Martinez, the President's private secretary, had called upon him and requested that he remain in San José until the President returned from Puntarenas for the purpose of holding another conference on the treaty negotiations. This, Dr. Reyes, stated he agreed to do, but up until the date of the conversation he had received no summons to confer with either the President or the Minister for Foreign Affairs.

He also stated that he had conferred by long distance telephone with the Nicaraguan Minister to Washington as to the Castro Beeche cablegram in which Undersecretary Sumner Welles was quoted as saying that the latter was in accord with the Costa Rican viewpoint with respect to postponing final action until after the report of Colonel Gross had been received in San José. He asserted that his Minister had assured him that he was certain Mr. Castro Beeche had not properly explained the Nicaraguan viewpoint as to the alleged thirty days ultimatum, and that this accounted for any statements which might have been made by Secretary Welles on the date of the interview. He explained again that he had sent no ultimatum to the Costa Rican Government, but that he had referred to a section in the treaty of 1858²⁹ wherein Nicaragua obtained the legal right to commence work on the proposed canal upon thirty days notice, and that his country is prepared to pay the damages, if any, which might be suf-

²⁹ Signed April 15, 1858, *British and Foreign State Papers*, vol. XLVIII, p. 1049.

ferred by Costa Rica in the event that this clause should be invoked by Nicaragua.

On December 11 Dr. Cordero Reyes and the Nicaraguan Minister again called by appointment. Both of them were manifestly depressed and somewhat disillusioned. Dr. Reyes stated that he had been recalled from his mission by President Somoza and intended to leave by air for Managua on the following morning. He asserted that despite the assurances given by the President's private secretary to the effect President Cortés desired to receive him for the purpose of consulting again in regard to the proposed treaty, no call for such consultation had been received nor had he been asked to consult with the Costa Rican Minister for Foreign Affairs during the past week. He stated that both President Somoza and himself regarded this as a discourtesy to their Government, and the latter was manifestly displeased with his treatment by Costa Rican officials since the date of his arrival.

Dr. Cordero Reyes stated he felt it of very great importance to the success of the negotiations that Colonel Gross speed up his report on the project insofar as the same might effect Costa Rican interests and if he requested the State Department to expedite the matter to the end that he might return to San José and resume the negotiations. He added that without a report as to the Costa Rican side of the border he felt it would be futile to continue the conversations further with this Government.

Neither Dr. Cordero Reyes or the Nicaraguan Minister have any ill feeling towards our own Government. On the contrary they are most friendly, but they are both rather bitter as to the present attitude of Costa Rica. The latter has made one or two unfortunate statements which I am inclined to believe have reached the ears of local government officials and have not tended to promote an early settlement of the treaty negotiations.

Both Dr. Cordero Reyes and the Minister stated on one or two occasions that in the event Costa Rica did not see fit to sign the proposed treaty their Government proposed to proceed under the treaty of 1858, and the Cleveland award. In other words, that they would build the barge canal and pay Costa Rica such damages as might be found just and equitable, presumably to be determined by arbitration.

While Dr. Cordero Reyes did not say so in so many words I gathered from his conversation that President Somoza is bitter in his remarks about President Cortés and his treatment of his Foreign Minister during the period of the negotiations. The recall of Dr. Cordero Reyes appears to confirm the intimation that I received on this subject during our conversation.

Despite the fact that both President Cortés and Dr. Calderón Guardia, the latter almost certain to succeed as President, have privately stated they approve of the treaty, political considerations on

the eve of the approaching election have made it rather hazardous for them to proceed with the negotiations, at least until such time as the report of Colonel Gross confirms the statement of Dr. Cordero Reyes that the material interests of Costa Rica will not be adversely affected.

Respectfully yours,

Wm. H. HORNIBROOK

[A treaty between Costa Rica and Nicaragua regarding the canalization of the San Juan River was signed April 5, 1940. In a letter of January 31, 1941 (817.812/993), the Secretary of War informed the Under Secretary of State that after work for the report of the Corps of Engineers on this project had been completed in December 1940, he had reported the facts to President Roosevelt at a Cabinet meeting. The President then said he no longer desired the completion of the report. The project was indefinitely postponed, apparently because of the excessive cost and lack of sufficient economic or political advantages.]

AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA PROVIDING FOR A MILITARY MISSION, SIGNED MAY 22, 1939

[For the text of this agreement, signed at Washington, see Department of State Executive Agreement Series No. 156, or 53 Stat. 2435.]

PANAMA

NEUTRALITY IN THE WATERS OF THE ISTHMUS OF PANAMA: AGREEMENT EFFECTED BY EXCHANGE OF NOTES CONFIRMING THAT THE PROTOCOL OF OCTOBER 10, 1914,¹ IS IN EFFECT, SIGNED AUGUST 25, 1939

Executive Agreement Series No. 160
711F.19111/4

The American Ambassador in Panama (Dawson) to the Panamanian Minister for Foreign Affairs (Garay)

No. 38

PANAMÁ, August 25, 1939.

EXCELLENCY: My Government assumes that the protocol signed by the Secretary of State and the Minister of Panamá on October 10, 1914, dealing with hospitality extended in the waters of the Republic of Panamá and of the Canal Zone to belligerent vessels of war or those employed by belligerent powers for the purpose of prosecuting or aiding hostilities is still in force. However, it would be appreciated if in view of existing circumstances, the Government of Panamá would signify in writing that it shares the view of the United States as to the present force and effect of this protocol.

Accept [etc.]

WILLIAM DAWSON

Executive Agreement Series No. 160
711F.19111/4

The Panamanian Minister for Foreign Affairs (Garay) to the American Ambassador in Panama (Dawson)

[Translation]

D. D. No. 1890

PANAMÁ, August 25, 1939.

MR. AMBASSADOR: I have the honor to advise Your Excellency in reply to your esteemed Note No. 38 of this date that the Government of Panamá considers that the protocol signed at Washington on October 10, 1914, by the Minister of Panamá in the United States of America, Dr. Eusebio A. Morales, and the Secretary of State of the United States, Robert Lansing, is at present in effect and may be applied by both countries whenever circumstances require.

I avail myself [etc.]

NARCISO GARAY

¹ *Foreign Relations*, 1914, p. 984.

EXCHANGE OF NOTES BETWEEN THE SECRETARY OF STATE AND THE PANAMANIAN MINISTER, FEBRUARY 1, 1939, CLARIFYING CERTAIN PROVISIONS OF THE GENERAL TREATY OF FRIENDSHIP AND COOPERATION, SIGNED MARCH 2, 1936

[For text, see Department of State Treaty Series No. 945, or 53 Stat. 1863.]

STATEMENT BY PRESIDENT ROOSEVELT REGARDING CERTAIN AMERICAN LEGISLATION DENYING EQUALITY OF TREATMENT TO PANAMANIAN IN EMPLOYMENT BY THE PANAMA CANAL

811F.504/150 : Telegram

The Ambassador in Panama (Dawson) to the Secretary of State

PANAMÁ, August 5, 1939—11 a. m.

[Received 1:45 p. m.]

82. In a conversation this morning the Secretary of Foreign Relations called my attention to the provisions regarding the employment of Americans found in the new locks bill.² He said that these provisions have caused a painful impression here as excluding Panamanians from desirable employment. He said that this seems contrary to the letter and spirit of the treaty³ and he referred specifically to the closing paragraph of article I and to the exchange of notes dealing with equalities of opportunity and treatment.

DAWSON

811F.812/1109

The Secretary of State to the Ambassador in Panama (Dawson)

No. 19

WASHINGTON, August 19, 1939.

The Secretary of State refers to the Department's telegram No. 62 dated August 16, 1939, 5 p. m.,⁴ and transmits the text of a statement made by the President at the time of giving his approval to H. R. 5129.

The Ambassador is authorized to transmit a copy of the text of this statement to the Panamanian Government for its information.

² Public Law 391 (H. R. 5129), approved August 11, 1939; 53 Stat. 1409.

³ General Treaty of Friendship and Cooperation and exchange of notes, signed at Washington, March 2, 1936. For correspondence regarding negotiations, see *Foreign Relations*, 1933, vol. v. pp. 852 ff.; *ibid.*, 1934, vol. v, pp. 581 ff.; *ibid.*, 1935, vol. iv, pp. 889 ff. For text, see Department of State Treaty Series No. 945, or 53 Stat. 1807.

⁴ Not printed.

[Enclosure]

*Statement by President Roosevelt on Approving H. R. 5129,
August 11, 1939*

In view of the special relationship which exists between the United States and Panama on account of the Panama Canal, the Canal administration and the Panama Railroad Company have for many years granted facilities for employment to Panamanian citizens which were not generally extended to the citizens of other countries.

The Order of the Secretary of War dated December 23, 1908⁵ and the Executive Orders of February 2, 1914⁶ and February 20, 1920⁷ extended to Panamanian citizens, with respect to the higher paid categories, opportunity for employment and treatment in employment equal to that extended to American citizens.

Accompanying the General Treaty between the United States and Panama signed March 2, 1936 and ratified July 27, 1939 is an exchange of notes between the two Governments by which the United States has agreed to maintain as a principle of public policy the opportunity for employment and treatment in employment of Panamanian citizens which is set forth in the Order and Executive Orders noted above.

A provision of H. R. 5129 authorizing and providing for the construction of additional facilities on the Canal Zone, etc., provides "that all new personnel in such construction work occupying skilled, technical, clerical, administrative, and supervisory positions shall be citizens of the United States". It is my opinion that this provision is at variance with the policy to which this Government pledged itself in its note to the Government of Panama of March 2, 1936, the date of the signing of the General Treaty, since the Order and Executive Orders specifically provided equal opportunities for employment for Panamanian citizens in the very categories in which employment would be denied them under the quoted provision of H. R. 5129.

The new Treaty was negotiated to provide a firm basis for friendly and effective collaboration between the two Governments in order that the Canal might fulfill in the most ample sense its functions. With the exchange of ratifications of that Treaty, the United States and Panama entered into a new stage of their relationship. This relationship will be advantageous and enduring to the extent that each party cooperates loyally and fully in the observance not only of the letter but of the spirit of that Treaty.

⁵ *Executive Orders Relating to the Panama Canal (March 8, 1904, to December 31, 1921)* (the Panama Canal Press, Mount Hope, C. Z., 1922), p. 86.

⁶ *Ibid.*, p. 158.

⁷ *Ibid.*, p. 266.

I am giving my approval to this important bill which by authorizing the construction of a third set of locks will enhance not only our own security but that of this hemisphere. I propose, however, to request the Congress at its next session to amend the present law so as to bring it into conformity with the commitments entered into with Panama which pledge to the citizens of Panama opportunity and treatment in employment in the Canal administration and the Panama Railroad Company equal to that offered to citizens of the United States.

FRANKLIN D. ROOSEVELT

811F.504/154½

The Ambassador in Panama (Dawson) to the Secretary of State

No. 88

PANAMÁ, September 5, 1939.

[Received September 8.]

SIR: I have the honor to refer to the Department's instruction No. 19 of August 19, 1939 (no file number), authorizing me to transmit to the Panamanian Government a copy of the text of a statement made by President Roosevelt at the time of giving his approval to H. R. 5129.

A copy of the text of the statement was furnished the Panamanian Foreign Office with a note of August 23, and I am today in receipt of a reply dated September 2 of which I enclose a copy and an English translation.

Respectfully yours,

WILLIAM DAWSON

[Enclosure—Translation]

The Panamanian Minister for Foreign Affairs (Garay) to the American Ambassador (Dawson)

D. D. No. 1954

PANAMÁ, September 2, 1939.

MR. AMBASSADOR: I take pleasure in acknowledging the receipt of Your Excellency's courteous communication No. 53 of the 23rd instant, with which you were good enough to send me a copy of the text of the statement made by His Excellency President Franklin D. Roosevelt at the time of giving his approval to the Act of the Congress of the United States which authorizes the construction of additional facilities on the Panamá Canal and provides the means therefor.

The Foreign Office has read with profound satisfaction the above mentioned statement in which President Roosevelt reminds the legislators of his country of the precedents which for over thirty years

have guided the policy of the United States in its relations with Panamá and in particular the principle of equality of treatment between Panamanians and Americans in the Canal Zone.

This Government is confident that the statement of the President of the United States will bring about shortly the effect desired and that the American legislators will respond to the appeal made to them by the Chief Executive of that great country not to depart from the norms of justice and equity which have inspired in this respect the Public Administration of the United States nor from the commitments entered into by the Department of State with the Panamanian Negotiators, as is of record in the minutes of session No. 107 held in Washington, on February 1, 1936, at 11 a. m.

I shall be grateful if Your Excellency will be good enough to transmit to His Excellency Mr. Roosevelt the expression of the lively gratitude with which Panamá received his gallant statement, as respects both public opinion and official circles.

I avail myself [etc.]

NARCISO GARAY

REQUEST OF FOREIGN BONDHOLDERS PROTECTIVE COUNCIL FOR A RETURN OF CANAL ANNUITY PAID TO PANAMA, ON GROUND THAT FUNDS WERE PLEDGED TO SERVICING THE PANAMA DOLLAR BONDS⁸

711.1928/881

Memorandum of Conversation, by the Chief of the Division of the American Republics (Duggan)

[WASHINGTON,] September 21, 1939.

Mr. White⁹ telephoned that he had learned from various sources, including the newspapers and the Chase National Bank, of the payment of Panama Canal annuities. He requested to be informed whether the distribution of payments in the form of three checks, two to the Chase National Bank of \$1,500,000 and \$220,000, respectively, and one to the Government of Panama for \$860,000, was correct. Inasmuch as Mr. White seemed to be in possession of accurate information, I informed him that his information was correct.

Mr. White then stated that he felt that the irrevocable instructions given by the Panamanian Government to the United States Government were clear to the effect that all of the annuity payments were to be turned over to the Chase National Bank as Fiscal Agent. I in-

⁸ See article VII of the General Treaty of Friendship and Cooperation between the United States and Panama, and exchanges of notes, signed March 2, 1936, Department of State Treaty Series No. 945, or 53 Stat. 1807.

⁹ Francis White, president of the Foreign Bondholders Protective Council, New York.

formed Mr. White that that was a legal question which I was not prepared to discuss. He said that in the interest of protection of the bondholders he felt that the Council would have to write the Department a letter setting forth the Council's contention that the money should have been paid over to the Chase National Bank as Fiscal Agent.

711.1928/882

*The President of the Foreign Bondholders Protective Council, Inc.
(White), to the Secretary of State*

NEW YORK, September 26, 1939.

[Received September 27.]

DEAR MR. SECRETARY: I enclose herewith, for the information of the Department, a copy of the cable¹⁰ which the Council has to-day sent to the President of Panama requesting the return of the \$860,000 of the canal annuity paid directly to Panama last week. The Council feels that these funds are unquestionably pledged to the service of the Panama dollar bonds and that this sum should be paid by the Panamanian Government to the proper paying agents for the service of the dollar bonds of Panama.

As I have said orally to members of the Department in the past, the Council feels that the full Canal annuity of 430,000 Balboas a year is pledged for the service of the bonds and should, under the terms of the bond contracts and related documents, be paid directly to the Fiscal Agents serving these bonds, and I have the honor to request that the Council be given a hearing, on behalf of the American holders of these bonds, regarding this matter before any further Canal annuity installments are paid.

I trust you will agree with me that the bondholders have a very real interest in knowing the terms and conditions which the Government of Panama requested should be attached to the two payments of \$1,500,000 and \$220,000 to the Chase National Bank and that you will therefore be willing to advise the Council, as set up to represent the bondholders' interests, what were, if any, such terms and conditions.

Needless to say, the officers of the Council are at the disposal of yourself and other members of the Department to discuss the matter of the Canal annuity payments at such time as may be most convenient to you or to the other officers of the Department.

Faithfully yours,

FRANCIS WHITE

¹⁰ Not printed.

711.1928/882

The Secretary of State to the President of the Foreign Bondholders Protective Council, Inc. (White)

WASHINGTON, October 5, 1939.

MY DEAR MR. WHITE: The Department has received your letter dated September 26, 1939 enclosing a copy of a cablegram which the Foreign Bondholders Protective Council, Incorporated, has addressed to the President of Panama, requesting "the return of the \$860,000 of the Canal annuity" recently paid by this Government to the Republic of Panama. It is noted that the Council feels that these funds are unquestionably pledged to the service of the Panama dollar bonds, and that this sum should be paid by the Panamanian Government to the proper paying agents for the service of the dollar bonds of Panama.

You request that the Council be given a hearing, on behalf of the American holders of these bonds, before any further Canal annuity payments are made. In reply, you are advised that the Department will be pleased to receive the officers of the Council at their convenience and to hear their views with respect to the proper disposition of the Canal annuity payments. It may be stated in advance, however, that the Department considers that the instructions regarding these payments which have been received from the Panamanian Government are in conformity with instructions which had previously been received, and that this Government's obligations will have been discharged upon their execution.

The payments have been subject to no conditions or terms other than that they represent full payment of the sum due from this Government on account of the Canal annuities for the period 1934-1939 inclusive.

Very sincerely yours,

For the Secretary of State:
ADOLF A. BERLE, JR.
Assistant Secretary

711.1928/893

The President of the Foreign Bondholders Protective Council, Inc. (White), to the Assistant Secretary of State (Berle)

NEW YORK, October 19, 1939.

DEAR MR. BERLE: Referring to the conversation on October 17, 1939 ¹¹ between yourself and Messrs. Finley and Butler of the Department of State and Messrs. Clark and White, representing the Coun-

¹¹ Memorandum of conversation not printed.

cil, and to the understanding then reached that we should write you a letter setting forth certain questions concerning the Panama Canal annuity which it would be helpful for the Council to have answered before it undertook a presentation of the rights of the bondholders, to the end that the Council might more directly address itself on behalf of the bondholders to the particular problems raised thereby, I have the honor to submit the following:

(1) Is the Treaty of 1936¹² to be regarded as amending the Treaty of 1903,¹³ leaving the latter as the fundamental instrument creating the Canal Zone and the obligations incident thereto except as amended by the Treaty of 1936, or is the Treaty of 1936 to be regarded as a superseding treaty, hereafter to be considered as the fundamental instrument upon and by which all rights and obligations, direct, indirect, and ancillary in and to the Canal Zone are to be wholly measured?

(2) If the Treaty of 1936 is regarded as a superseding treaty then does it extinguish all rights founded upon or growing out of the old treaty, particularly the rights of American citizens which are based upon the provisions and obligations of the Treaty of 1903, as also the obligations of Panama incurred thereunder or having to do with the subject matter thereof?

(3) Specifically, if the Treaty of 1936 is regarded as a superseding treaty, was it intended to wipe out the rights of the bondholders to the Canal annuity created and provided for in the Canal Treaty of 1903?

(4) If the Treaty of 1903 is regarded as still the fundamental instrument creating the Canal Zone and governing all matters connected therewith which are not specifically amended by the Treaty of 1936, then is the annuity provided for in the later treaty to be considered as the equivalent of the annuity of the Treaty of 1903, or, if the new annuity be not the equivalent of the old, then what part of the new annuity is equivalent to the old annuity and is the excess to be regarded as an additional gift or grant to Panama?

(5) Would the Department be good enough to furnish us with a copy of any directions or instructions or requests which it received from the Panamanian Government touching the matter of the accrued annuity payments and also a copy of the instructions which were sent by the Department to the Chase Bank in connection with its delivery to the Bank of the two checks sent to the Bank on account of the payment of the Canal annuity? These would be most helpful to us in understanding the questions involved in connection with this Canal

¹² General Treaty of Friendship and Cooperation, Department of State Treaty Series No. 945, or 53 Stat. 1807.

¹³ Treaty for a Ship Canal, Department of State Treaty Series No. 431, or 33 Stat. 2234.

annuity issue. We understood from you that it might be possible to send us a copy of these instructions.

A knowledge of the Department's position on these matters, would enable the Council, representing the bondholders, to make to the Department a better presentation of the rights of the bondholders than would otherwise be possible.

Faithfully yours,

FRANCIS WHITE

711.1928/893

The Assistant Secretary of State (Berle) to the President of the Foreign Bondholders Protective Council, Inc. (White)

WASHINGTON, October 27, 1939.

MY DEAR MR. WHITE: I have received your letter of October 19, 1939 wherein, on behalf of the Foreign Bondholders Protective Council, and as bearing upon its relation to the rights of the holders of bonds of the Republic of Panama, you submit several questions to the Department.

By way of reply I refer in the first instance to the following provisions of Articles VII and XI of the General Treaty of March 2, 1936 between the United States and Panama:

"Beginning with the annuity payable in 1934 the payments under Article XIV of the Convention of November 18, 1903, between the United States of America and the Republic of Panama, shall be four hundred and thirty thousand Balboas (B/430,000.00) as defined by the agreement embodied in the exchange of notes of this date. The United States of America may discharge its obligation with respect to any such payment, upon payment in any coin or currency, provided the amount so paid is the equivalent of four hundred and thirty thousand Balboas (B/430,000.00) as so defined." (Article VII)

"The provisions of this Treaty shall not affect the rights and obligations of either of the two High Contracting Parties under the treaties now in force between the two countries, nor be considered as a limitation, definition, restriction, or restrictive interpretation of such rights and obligations, but without prejudice to the full force and effect of any provisions of this Treaty which constitute addition to, modification or abrogation of, or substitution for, the provisions of previous treaties." (Article XI)

In relation to the reference in Article VII of the Treaty to an agreement embodied in an exchange of notes, I invite your attention to the notes attached to the Treaty as exchanged March 2, 1936 in regard to the Monetary Agreement of June 20, 1904¹⁴ between the United States and Panama wherein reference is made to "the neces-

¹⁴ Effected by an exchange of notes, not printed.

sary condition of the Agreement that the standard unit of value of the Republic of Panama, the Balboa, should continue at a parity at the rate of one dollar for one Balboa". A further statement is contained in these notes that "it has also been recognized that in the Republic of Panama and in the Canal Zone silver Balboas and fractional currency of the Republic are circulating together with United States currency at the rate of one Balboa for one dollar".

Further replying to your inquiries I advise you that the annuity provided for in the Treaty of 1936 is not considered as the equivalent of the annuity for which provision is made in Article XIV of the Convention of 1903, but it is considered that \$250,000 of the new annuity is equivalent to the former annuity and that the excess over that amount is intended as an additional grant to Panama made in consideration for grants made to the United States in the Treaty of 1936.

I also wish to refer to your request for copies of communications from the Government of Panama, and between this Department and the Chase National Bank, regarding the accrued annuity payments. Inquiries have been made in order to ascertain if the Panamanian Government has objection to the disclosure of these official documents. If there are no objections, I shall take pleasure in sending to you in the very near future, copies of the relevant notes and letters.¹⁵

Sincerely yours,

ADOLF A. BERLE, JR.

¹⁵ These were sent on November 2, according to a letter of that date from Mr. Berle to Mr. White.

PARAGUAY

ARRANGEMENTS FOR THE EXTENSION OF FINANCIAL ASSISTANCE BY THE EXPORT-IMPORT BANK OF WASHINGTON TO THE GOVERNMENT OF PARAGUAY

834.51/267

*Memorandum of Conversation, by Mr. Andrew E. Donovan II of the
Division of the American Republics*

[WASHINGTON,] April 20, 1939.

Participants: José F. Estigarribia, Minister of Paraguay;
Dr. Feis;¹ Mr. Collado;⁴
Mr. Briggs;² Mr. Donovan.
Mr. Butler;³

The Paraguayan Minister called by appointment at 3 p. m. on April 19, 1939. After Mr. Briggs had explained that the Department desires to assist the Paraguayan Government in whatever way may be proper, he explained that it had been thought desirable to have a full and frank conference with the Minister in order to determine the most effective manner of helping Paraguay.

General Estigarribia, after describing the economic plight of his country following the Chaco War, said that he personally is convinced that the development of roads through the agricultural portion of the country east of Asunción is the most important step at the present time. He said that it was planned to construct a road from Asunción to the Brazilian frontier at Iguassú but that only the first section of this road, from Asunción to Villarrica, would be undertaken at this time in order not to assume greater obligations than Paraguay could pay. General Estigarribia explained that this road would follow the course of the railway for but a relatively short distance, approximately to Loque and would then swing north to Tobati and would proceed north of Valenzuela, through Ajos, and then south to Villarrica. He explained that this section would cost approximately \$3,500,000; would take three years to build; and that not only would it be a splendid step for Paraguay but that at the same time it would give employment to demobilized officers and soldiers.

¹ Herbert Feis, Adviser on International Economic Affairs.

² Ellis O. Briggs, Assistant Chief of the Division of the American Republics.

³ Robert H. Butler, Assistant Chief of the Division of the American Republics.

⁴ Emilio G. Collado, of the Division of the American Republics.

The General then said that the contract with Colonel Taylor had not been signed as certain minor revisions were necessary to make it acceptable to the Paraguayan Congress. He said that the Taylor group, which he explained had been formed only for this purpose, proposes to sign a contract for the construction of this road and that Paraguay should pay it with funds advanced by the Export-Import Bank.

Mr. Briggs thereupon gave a short explanation of the functioning of the Export-Import Bank in cases of this nature and referred briefly to the plan which had been worked out with the Haitian Government. He said that the Department would consult the Government departments involved and draw up an explanatory memorandum for the Minister, to be ready in approximately a week.

General Estigarribia then said that a second matter of great importance was to obtain a fund which might be used as a gold backing for the Paraguayan peso. He explained that the Government "expropriates" fifty percent of all exchange produced by exports, paying the exporters in Paraguayan currency. He said that this foreign exchange is supposed to be used to back the peso but that due to war necessities, it had all been spent and there is now very little gold backing. He said that if a credit could be obtained in the United States which would give confidence in the value of the peso, the exchange collected each year, which he estimated at a minimum of \$2,000,000, could be used for public works in Paraguay and for the purchase of the necessary agricultural machinery, etc., to develop the country.

Dr. Feis said that the Department would give this phase of the matter every consideration but pointed out that the creation of a credit of this nature required Congressional action as in the Brazilian case, but that the Department would discuss it with the Treasury and include in its memorandum such recommendations as might be possible.

834.51/275

The Paraguayan Minister (Estigarribia) to the Secretary of State

[Translation]

WASHINGTON, June 13, 1939.

EXCELLENCY: I have the honor to inform Your Excellency that on June 17 next I will leave by aeroplane to return to my country, where I must arrive before the end of the month because of matters related to the coming constitutional change of Government which will take place August 15 next.⁵ I truly regret that my stay in the United States

⁵ Mr. Estigarribia became President of Paraguay in August 1939.

must be relatively very short. The extraordinary progress of this country in all matters is a perpetual source of education for all the other new countries of our continent and we all have a great deal to learn here. But above all, the cordial hospitality and the friendly understanding which His Excellency the President of the United States as well as Your Excellency have consistently shown me have been for me a cause of satisfaction which I can never forget. They reveal to me how sincere and effective is the determination of His Excellency President Roosevelt, in close collaboration with Your Excellency, to convert into reality the policy of true cooperation and good will between the American Republics which the Government of the United States so wisely pursues. I carry to my country the most ardent admiration for the notable talents as a statesman of His Excellency the President and for the high qualities of Your Excellency.

The peaceful and successful settlement of the boundary dispute between Paraguay and Bolivia, which was agreed upon by the two parties with the assistance of the six mediatory nations at the Chaco Peace Conference,⁶ leaves my country free to devote itself to the constructive task of developing its natural resources. Paraguay knows from bitter experience what sacrifices and what diversion of energies from economic and social progress are imposed by war. It turns from the sword to the ploughshare with deep satisfaction, and as a result of the freely-expressed choice of the Paraguayan people. I realize, as do my fellow citizens, the magnitude of the task which faces us, but we are determined to succeed and to obtain those benefits of modern civilization which will mean happiness and prosperity to the country. The United States already has shown its desire to be of assistance through cooperation in the lending of experts on various subjects, and any further help which it now may be able to offer in the matters set forth below will strengthen and perpetuate those friendly ties which mark the cordial relations so happily existing between the two countries.

I

In carrying out its desire of encouraging the expansion of production of appropriate non-competitive agricultural products which will complement production in and furnish the United States with necessary and assured sources of supply, the Government of Paraguay greatly appreciates the cooperation which is being extended by the Government of the United States in the study and development of such products. My Government considers that the development of the nation's economy and natural resources and of economic relations between Paraguay and the United States may further be stimulated by the provision of adequate transportation facilities linking the coun-

⁶ See *Foreign Relations*, 1938, vol. v, pp. 89 ff.

try with the capital and with the principal routes of communication to foreign nations. In order to make possible this extension and improvement of the transportation facilities of Paraguay and the development of other projects designed to increase the productive capacity of my country and its commerce with the United States, the Government of Paraguay requests the extension of credit facilities for the financing in the United States of equipment, materials and essential services.

II

The expansion of Paraguayan foreign commerce and economic relations with the United States would be further encouraged by the carrying out by the Government of Paraguay of a policy of meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso. To carry out this policy, credit in United States currency to the Banco de la Republica del Paraguay would be desirable.

III

Recognizing the valuable contribution which new foreign capital and technical experience may make to the development of Paraguay's natural resources I wish to assure Your Excellency that it is the intention of the Government of Paraguay to accord every appropriate protection and security to encourage such investment by United States citizens.

Before closing, I wish to express to Your Excellency the conviction of the Paraguayan people, and my own, that with the realization of the program outlined above, there will be assured the prompt economic and financial rehabilitation of Paraguay whose progress, through the assistance of the United States, will be yet another factor in the collective security of the Continent to which all Americans aspire.

I take advantage of this opportunity to reiterate to Your Excellency the expression of my personal gratitude to His Excellency the President of the United States as well as to Your Excellency and beg [etc.]

JOSÉ F. ESTIGARRIBIA

834.51/275

The Secretary of State to the Paraguayan Minister (Estigarribia)

WASHINGTON, June 13, 1939.

EXCELLENCY: I have received with pleasure your communication of June 13, 1939 with reference to the possibilities of increased economic

cooperation between the United States and Paraguay which I have discussed with you from time to time during the period of your residence in Washington. You also inform me of your early departure for your own country due to the change in Government which is to take place in Paraguay on August 15.

Please accept once again my sincere congratulations on your election to the high office of President of Paraguay, and my assurances of the personal pleasure afforded me by our association during your mission in Washington. Your generous comment with respect to President Roosevelt and myself is very deeply appreciated. It has been for us a pleasure to have given you the full measure of our assistance and cooperation during your mission, and I wish to take this opportunity to assure their continuance during the period of your Presidency. I am happy to learn of your wholehearted approval of the policy of inter-American cooperation which in the light of sombre developments in other parts of the world takes on added importance.

I appreciate the problems confronting your country as a result of the Chaco war and in connection with the development of its resources and I am sure that our two Governments can cooperate with mutual advantage in solving these problems. The United States is very pleased to have had a part in bringing to a successful conclusion the negotiations at Buenos Aires which culminated in the Treaty of July 21, 1938, between Paraguay and Bolivia,⁷ thus bringing to an end a long and costly dispute in a manner which presents to the world a striking proof of the fact that international disputes can be settled by peaceful means.

I

I am pleased to note the generous appreciation of the Government of Paraguay for the cooperation being extended by my Government in studying and encouraging the expansion of production of appropriate noncompetitive agricultural products which will complement production in and furnish the United States with necessary and assured sources of supply. Moreover, the opinion of the Government of Paraguay that the development of the nation's economy and natural resources and of economic relations between Paraguay and the United States may further be stimulated by the provision of adequate transportation facilities appears to me to be well founded. I am informed that the Export-Import Bank has found it possible to assist in the attainment of this objective by arranging the financing in the United States of equipment, materials and essential services for the extension and improvement of the transportation facilities of Paraguay and

⁷ Bolivia, Ministerio de Relaciones Exteriores, *Colección de Tratados Vigentes de la República de Bolivia*, vol. v, p. 331.

for the development of other projects designed to increase the productive capacity of your country.⁸

II

My Government is pleased to note that it is the desire of the Government of Paraguay to encourage the expansion of Paraguayan foreign commerce and economic relations with the United States by carrying out a policy of meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso. I am further informed that the Export-Import Bank has agreed to assist in the carrying out of this policy by the extension to the Banco de la Republica del Paraguay of a credit. A communication in regard to these matters has been addressed to you by the President of the Export-Import Bank.

III

I also have noted with gratification the assurance that it is the intention of the Government of Paraguay to accord every appropriate protection and security to encourage the investment of capital and technical experience of United States citizens in the development of Paraguay's natural resources.

It is the sincere hope of my Government that the arrangements outlined in the foregoing paragraphs will be carried through successfully, that they will result in genuine advantages to both countries, and will furnish another example of the mutually profitable cooperation possible among the American republics.

Accept [etc.]

CORDELL HULL

834.51/277

The Paraguayan Minister (Estigarribia) to the Secretary of State

WASHINGTON, June 13, 1939.

EXCELLENCY: I have the honor to refer to your communication of this date regarding arrangements for credits to the Banco de la República del Paraguay and for public works purposes.

It is my opinion that it would be highly desirable for the Banco de la República del Paraguay to secure the services of a competent United States technical expert on international financial matters for the period during which the above-mentioned credit to that Bank is

⁸ In a letter dated June 13, 1939, the President of the Export-Import Bank of Washington agreed to the establishment of credit for the Banco de la República del Paraguay not to exceed \$500,000 to be utilized prior to June 30, 1941.

extended, in order to assist that institution in the attainment of the policy of the Government of Paraguay of stimulating the expansion of Paraguayan foreign commerce and economic relations with the United States by meeting promptly commercial obligations to United States nationals and concerns and reducing seasonal and unusual fluctuations in the rate of exchange of the peso. I should be deeply grateful if you would take the necessary steps to secure a suitable person for this post.

Accept [etc.]

JOSÉ F. ESTIGARRIBIA

834.51A/26a : Telegram

The Secretary of State to the Minister in Paraguay (Howard)

WASHINGTON, July 20, 1939—4 p. m.

11. In connection with the recent arrangements for economic cooperation with Paraguay, the Paraguayan Legation in Washington has signed a contract for the services of Eric F. Lamb as adviser to the Banco de la República during the period credits are extended by the Export-Import Bank to the bank. Mr. Lamb has been employed until recently by the Federal Reserve Bank of New York and will sail from New York for Buenos Aires on July 21 on the S. S. *Southern Prince* accompanied by his wife.

HULL

834.51/287

The Minister in Paraguay (Howard) to the Secretary of State

No. 952

ASUNCIÓN, September 21, 1939.

[Received September 29.]

SIR: I have the honor to refer to despatch No. 929, August 31, 1939^a reporting that the Estigarribia administration had submitted to Congress its projects for obtaining credits to stabilize the peso and build public works.

Early last week the project of law authorizing the Bank of the Republic to contract a credit of up to \$500,000 with the Export-Import Bank was passed, and on Friday, September 15, the project for a highway to Villarrica, sanitation works in Asunción and minor port works, at a total value of approximately \$3,000,000, received final approval in the Senate and was sent to the Executive Power for action.

Respectfully yours,

FINDLEY HOWARD

^a Not printed.

834.51/293

*The Paraguayan Minister (Fernandez) to the Under Secretary
of State (Welles)*

WASHINGTON, November 24, 1939.

DEAR SIR: I take pleasure in sending you, herewith, the memorandum, which you had the goodness to request of me, relative to the increase of the credit to the Bank of the Republic of Paraguay.

Placing myself at your disposal for any clarification regarding the subject in question, I take pleasure in expressing to you my distinguished consideration.

HORACIO A. FERNÁNDEZ

[Enclosure—Translation]

The Paraguayan Legation to the Department of State

MEMORANDUM

At the Consultative Meeting held at Panama by the Foreign Ministers of the American Republics,¹⁰ on October 3, the Resolution was approved declaring that "it is desirable and necessary, now more than ever, in view of present circumstances, that close and sincere cooperation be established among the American Republics in order to protect their economic and financial structure, maintain their fiscal equilibrium, assure the stability of their currencies, promote and expand their industries, intensify their agriculture and develop their commerce."¹¹

The United States, in carrying out its policy of financial cooperation with the American Republics, anticipated the resolutions passed at the Conference of Panama.

Paraguay is one of the countries which has received the financial collaboration of the United States Government, through the granting of special credits intended for the execution of public works and to meet the needs of the trade between the two countries.

The Bank of the Republic of Paraguay has at its disposal a credit extended by the Export-Import Bank of Washington amounting to \$500,000, intended for the purpose of stimulating the expansion of Paraguayan foreign commerce and economic relations with the United States, and to meet the commercial obligations with the said country and, likewise, to regulate the fluctuations of the rate of exchange.

¹⁰ See pp. 15 ff.

¹¹ *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá, September 23-October 3, 1939* (Washington, Government Printing Office, 1940), p. 50.

The granting of this loan to the Bank of the Republic of Paraguay was concluded before European events had reached a crisis, and it can be affirmed, that in determining the amount thereof the dislocations created by the European war in the régime of international commerce could not be taken into account.

The European war has caused great disturbances in commercial relations. International trade has been restricted and some traditional markets of Paraguay have been closed, not only to importation but to exportation.

This diversion of the trade of Paraguay will be intensified until the United States will become the most important commercial center of acquisition, a circumstance which must be taken into account in connection with the Bank of the Republic, an official institution charged with facilitating dollar exchange to pay for imports.

Previous permits for imports from the United States give the following figures since the date on which the Comptroller of Imports was established:

June	\$63,445.55	
July	\$74,701.72	
August	\$138,946.74	
September	\$141,818.49	
October	\$153,978.65	(until October 17)
	<hr/>	
	\$572,891.15	

A noticeable increase is observed in the volume of imports from the United States since just before the war.

This month the amount of the permits will be much larger and the proportion will increase if the European war lasts a long time.

In view of the foregoing circumstances, and as a measure of foresight, it would be necessary for the credit of \$500,000 extended to the Bank of the Republic, and which will be used to meet the payments for the purchases made in the United States and guarantee the stability of the currency indispensable for the security of engagements contracted in the United States, to be increased in the amount of \$500,000 more, under the same conditions as the previous one.

The Bank of the Republic has scarcely begun to make use of the said credit and will soon have to do so on a larger scale in order to facilitate to Paraguayan commerce its purchases in the United States. In former years, without the canalization of the commerce of Paraguay toward the United States having occurred, it reached an average amount of \$650,000.

WASHINGTON, November 24, 1939.

884.51/295

*Memorandum of Conversation, by Mr. Andrew E. Donovan II of
the Division of the American Republics*

[WASHINGTON,] December 6, 1939.

Participants: Dr. Fernandez, Minister of Paraguay;
Mr. Warren Lee Pierson, President, the Export-Import
Bank;
Mr. Donovan.

Dr. Fernandez, the new Paraguayan Minister, called on Mr. Pierson of the Export-Import Bank on December 6, 1939. I accompanied him to interpret if necessary.

The Minister explained that he had communicated to this Department the desire of his Government to have an additional credit of \$500,000, necessitated by the large increase in imports from the United States, a diversion of trade which he thought would be permanent.

Mr. Pierson said that he viewed the Paraguayan request with the greatest sympathy and fully understood the economic difficulties facing that country. He said, however, that the first difficulty was a lack of funds, at least at this time, adding that it would be possible to reconsider the matter when and if the funds of the Bank were increased. He said that before proceeding with further credit arrangements it would be well to see how the present arrangement is working, pointing out that in addition to the \$500,000 credit, the Banco de la República should soon feel the effect of the additional foreign exchange which will be brought into the country through dollar expenditures on the road building project. The Minister interposed that these two matters were entirely separate, the \$500,000 credit having been made to the Bank while the road funds were an obligation of the Government. He said that he feared, as did General Estigarribia, that with the rapid increase in imports from the United States this credit would be exhausted and merchants clamoring for exchange in the free market would have an unfortunate effect on the exchange rate. Mr. Pierson then said that with the additional funds coming in from the road construction program he thought this danger limited.

Mr. Pierson continued that while the moment was not ripe for an additional credit, he would continue his careful consideration of the matter but before proceeding further wanted more detailed information from Mr. Lamb and from the Banco de la República regarding its actual position, explaining that as it is now prepared, its balance sheet leaves much to be desired. He said that Lamb was work-

ing with the Banco and that undoubtedly the information would be available. He also spoke of additional data on imports and exports and the foreign exchange reserves of the Banco, explaining that he would have to have this detailed information in order to base his actions on a sound banking basis. He handed the Minister a short informal memorandum outlining the foregoing points and reiterated that he would gladly reconsider the matter at a later date, suggesting that at the end of three months the situation would be much clearer and that perhaps at that time, when the full effect of the credit operation and road program could be seen, Paraguay might find that it did not need an additional credit.

While the Minister apparently understood Mr. Pierson's remarks, he was obviously disappointed but went away somewhat cheered by the prospect of renewing his request later.

PERU

PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT
BETWEEN THE UNITED STATES AND PERU¹

611.2331/151

The Peruvian Ambassador (Freyre) to the Secretary of State

WASHINGTON, November 2, 1939.

YOUR EXCELLENCY: I have been instructed by my Government to inform Your Excellency, as I hereby have the honour to do, that they are prepared to prosecute the negotiations for a Treaty of Commerce between Peru and the United States.

Mr. Juan Chavez, Commercial Counselor of the Embassy, and Mr. Pedro G. Beltrán, Special Peruvian Commercial Delegate, have been designated to represent the Embassy at the proposed negotiations, which it is to be hoped may be initiated at an early date.

Please accept [etc.]

M. DE FREYRE Y S.

611.2331/158

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] November 14, 1939.

Participants: Señor Juan Chavez, Commercial Counselor, Peruvian Embassy;
Señor Pedro Beltrán, Special Commercial Delegate of Peru;
Mr. Hawkins;²
Mr. Smith.

Señor Chavez and Señor Beltrán called by appointment to continue the preliminary discussions initiated on November 9 at an introductory meeting with Assistant Secretary Grady for the purpose of exploring the possibilities of establishing a basis upon which negotiations for a trade agreement between the United States and Peru might be undertaken.

¹ Continued from *Foreign Relations*, 1938, vol. v, pp. 831-874.

² Harry C. Hawkins, Chief of the Division of Trade Agreements.

The history of preliminary conversations which took place in Lima in 1938 looking to the establishment of a mutually satisfactory basis for trade-agreement negotiations was reviewed by Mr. Hawkins who pointed out that those conversations had not resulted in the establishment of such a basis, principally on account of the apparent reluctance of the Government of Peru to extend to the commerce of the United States tariff concessions granted by Peru to Chile in the trade agreement between those two countries.

Señores Chavez and Beltrán were furnished with copies of the draft general provisions developed by this Government for use in trade agreements and each one of the articles in that draft was reviewed and explained to the Peruvian representatives, who indicated that they did not believe that their Government would have any great difficulty in accepting them in substance, with the exception of the article dealing with most-favored-nation treatment. A considerable discussion followed on the latter point and the previously expressed attitude of this Government was conveyed to Señores Chavez and Beltrán that in a trade agreement with Peru we might be willing to permit certain exceptions to unconditional-most-favored-nation treatment in connection with Peruvian concessions granted to Chile, provided those exceptions did not affect any articles of substantial commercial interest to the United States. There then followed a discussion of the various products on which Peru grants exclusive concessions to Chile. It was pointed out to the Peruvian representatives that of those products the United States would expect in any trade agreement with Peru to receive unconditional-most-favored-nation treatment with respect to the following articles and possibly some others: lumber, fresh fruits, dried fruits, oats, wheat, canned fruits, canned vegetables, canned milk and sewing machines. It was indicated that the products mentioned above, listed in their approximate order of importance to the United States, were entirely distinct from any other products on which the United States might desire to receive concessions in a trade agreement with Peru, and the foregoing minimum list referred only to those items on which exclusive tariff concessions were granted by Peru to Chile.

A general discussion followed as to the establishment of a basis for trade-agreement negotiations and the time at which such negotiations might take place. The Peruvian representatives stated that their instructions from their Government expressly stipulated that none of the concessions extended by Peru exclusively to Chile could be extended to the United States, and they did not feel that they could ask their Government to recede from its position on this question unless they could present some indication of the concessions which might be secured from the United States in a trade agreement. It

was emphasized to Señores Chavez and Beltrán that no commitments could be given with respect to any products on which this Government might consider granting concessions in a trade agreement prior to the giving of the usual public notice of intention to negotiate, the receipt of views submitted by interested persons in this country in writing and orally, and full consideration of such views by the trade-agreements organization. It was pointed out by Mr. Hawkins that in as much as the trade-agreements organization was now extremely occupied with pending negotiations with several countries, it was not believed that it would be possible to undertake at this time any detailed consideration of a trade agreement with Peru, but it would be helpful for future use if the Peruvian Government were to study the position of this Government with respect to the exclusive preferences granted by Peru to Chile.

It was agreed that a further conversation would be held on the following day.

611.2331/157

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] November 15, 1939.

Participants: Señor Juan Chavez, Commercial Counselor, Peruvian Embassy;
Señor Pedro Beltrán, Special Commercial Delegate of Peru;
Mr. Hawkins;
Mr. Smith.

Señor Chavez and Señor Beltrán called by appointment to continue the conversation held on the previous day with respect to the possibility of establishing a basis for trade-agreement negotiations between the United States and Peru.

Mr. Hawkins indicated again that trade agreements now under negotiation with several countries would completely occupy the time of the trade-agreements organization, probably until at least the end of the present year. Shortly thereafter the Trade Agreements Act,³ which expires June 12, 1940, may come up in Congress for renewal and probably will not be disposed of before March. This would impose an additional burden on the trade-agreements organization, involving the preparation of memoranda for Congressional committees

³ Approved June 12, 1934, 48 Stat. 943; extended by Joint Resolution of March 1, 1937, 50 Stat. 24.

and the answering of the large volume of correspondence to which the consideration of a question of this kind in Congress gives rise. Mr. Hawkins indicated that under such circumstances it would not be possible to undertake trade-agreement negotiations with Peru in the immediate future.

It was agreed, however, that further preliminary conversations might be held looking to the establishment of a basis for negotiations so as to be ready if it should become feasible and desirable at some future time to proceed with such negotiations, and it was decided that another meeting would be held on November 30.

611.2331/165

*Memorandum of Conversation, by Mr. H. Gerald Smith of the
Division of Trade Agreements*

[WASHINGTON,] November 30, 1939.

Participants: Señor Juan Chavez, Commercial Counselor, Peruvian Embassy;
Señor Pedro Beltrán, Special Commercial Delegate of Peru;
Mr. Hawkins;
Mr. Smith.

Señor Beltrán and Señor Chavez called by appointment to continue the discussions of the previous day regarding the possibility of establishing a basis for trade-agreement negotiations between the United States and Peru. Señor Beltrán furnished a list of the products⁴ on which Peru might be interested in securing concessions in a trade agreement and a general discussion took place out of which the following points emerged:

1. Mr. Hawkins indicated that the trade-agreements organization was not in a position at this time to give definitive consideration to the possibility of a trade agreement with Peru, and particularly with respect to sugar, that it would not be possible to consider this item until the domestic situation with respect to quotas, et cetera, had been clarified. It was pointed out, however, that studies would be undertaken as rapidly as possible on the various items on which the Peruvian Government had expressed interest.

2. Señor Beltrán made it clear that particularly with respect to sugar, the situation in Peru was critical and would remain so during the next four to five months until the current crop had been sold. He stated that it was highly important that Peru secure a greater outlet for its sugar in the United States market.

⁴ Not found in Department files.

3. Señor Beltrán also indicated that if the economic situation in Peru, particularly regarding sugar, could not be improved through a trade agreement with the United States, Peru would undoubtedly have to seek a barter or some similar arrangement with the United Kingdom or France.

It was agreed that the conversations would be renewed in January when Señor Beltrán had returned from Lima.

DISCUSSIONS REGARDING ARRANGEMENTS FOR ECONOMIC
COOPERATION BETWEEN THE UNITED STATES AND PERU

823.51/1279 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, May 29, 1939—2 p. m.

[Received May 30—2:08 a. m.]

42. President Benavides took occasion of the luncheon given today in his honor aboard U. S. S. *San Francisco* to ask if I knew why the American Government is apparently discriminating against Peru in the matter of loans. He mentioned recent negotiations with Brazil⁵ and Colombia⁶ and the invitation to the United States to the Chilean Minister of Finance.⁷ At first the President appeared perturbed and spoke in a somewhat threatening manner saying if Peru were unimportant to the United States, it could turn to Germany and buy more things from her as Germany was anxious to get more Peruvian cotton. The President, quite irrelevantly, said Peru had tried to do the right thing by the United States in building its section of Pan-American Highway.

I said I was not well informed in this matter but if there was any reason for what appeared to him as a lack of consideration on the part of the United States perhaps it might be because Peru has made no effort to repay the loans of the American bondholders⁸ or that when the matter of a trade treaty⁹ was broached Peru made no effort to meet the United States halfway.

The conversation was interrupted by the maneuvers of the planes after which the President resumed the conversation in a much more affable tone asking if I would be willing to find out why Peru had not been treated the same as the countries mentioned above.

DREYFUS

⁵ See pp. 348 ff.

⁶ See pp. 469 ff.

⁷ See pp. 439 ff.

⁸ See *Foreign Relations*, 1938, vol. v, pp. 874 ff.

⁹ See *ibid.*, pp. 831 ff; also *ante*, pp. 769 ff.

823.51/1279: Telegram

The Secretary of State to the Chargé in Peru (Dreyfus)

WASHINGTON, June 3, 1939—1 p. m.

37. For the Chargé d'Affaires from the Under Secretary.¹⁰ I discussed with the Ambassador of Peru¹¹ on May 31¹² the observations reported in your telegram no. 42, May 29, 2 p. m. The Ambassador will communicate to President Benavides the substance of our conversation but since the observations were made to you, I deem it important that you also confirm my statements as soon as possible.

I informed the Ambassador that it is the policy of this Government to cooperate with the other American republics to the fullest practicable extent and that we are desirous of establishing satisfactory bases upon which an arrangement with Peru might be negotiated. To date no discussions have been possible since an approach has not been made by that Government.

I pointed out that President Benavides has been misinformed with respect to the negotiations which have taken place with Brazil and those now contemplated with Chile. In both cases the initiative came from the interested countries and the invitations were issued after determining that bases existed for positive economic cooperation between those countries and the United States. The fact that Brazil gave assurances that it would at an early date resume payments on account of interest and amortization on dollar bonds, thereby affording evidence of good faith in meeting financial obligations, materially facilitated the conclusion of a mutually advantageous arrangement for economic cooperation and financial assistance. In the case of Chile, assurances have been received that it is not the intention of that Government to modify the existing debt settlement plan. The reference to Colombia is not clear since there have been no negotiations of the character in mind between that Government and the United States.

I also pointed out that this Government is desirous of improving the commercial relations between the two countries by the conclusion of a trade agreement if mutually satisfactory bases for negotiations can be found. With that end in view exploratory conversations were initiated last year. However, the whole question is in abeyance awaiting the list of products requested last November which Peru would like to except in such agreement in favor of Chile.

The Ambassador was reassured that this Government entertains a keen desire to cooperate in every practical manner with Peru. Furthermore the belief was expressed that with these explanations Presi-

¹⁰ Sumner Welles.

¹¹ Manuel de Freyre y Santander.

¹² Memorandum of conversation not printed.

dent Benavides would recognize that the United States has not been discriminating against Peru.

In the event that the President should make reference to the financing of the sale of hospital equipment to the National Social Insurance Institute requested in the early part of this year, you may say that the decision of the Export-Import Bank not to participate was predicated on the understanding that the Government of Peru was unwilling to work out an arrangement for the resumption of service on its present bonded obligations held in the United States. You may add that this action was not intended as an effort to exert pressure on the Peruvian Government with regard to any specific proposals or terms of settlement of that debt; but rather it was the logical inability of the Bank to undertake new financing pending a clarification of the attitude of the Government of Peru with respect to previous obligations now in complete default. [Welles.]

HULL

823.51/1282 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, June 8, 1939—11 a. m.

[Received 3:47 p. m.]

43. Referring to the Department's telegram No. 37, June 3, 1 p. m., last evening I was able to confirm to President Benavides the substance of the Under Secretary's conversation on May 31 with the Peruvian Ambassador, which had been already telegraphed to him by the latter.

The President said that in addition Ambassador Freyre had reported that the Department would be glad to receive duly qualified representatives to discuss the possibility of economic cooperation between Peru and the United States and that he would therefore send a commission to the United States for this purpose without delay. However, with characteristic petulance the President found fault that the invitation extended to Peru was different from the one to Brazil and Chile as Peru was told that "it could send qualified experts" while from the other two countries "specific officials had been invited." He went on to say that in the case of Brazil he could understand this special courtesy because of our close relations but as for Chile he did not see any explanation for it remarking irrelevantly that the Chileans had been buying up their depreciated bonds in the open market, a practice which he understood was disapproved in the United States. I assured the President that in my opinion there was not the least intention at the Department to discriminate against Peru in any way. My explanation seemed to satisfy him only in part.

Before I left the President said that he desired to express his appreciation to the Department for its very prompt action in this matter.

DREYFUS

823.51/1282: Telegram

The Secretary of State to the Chargé in Peru (Dreyfus)

WASHINGTON, June 13, 1939—1 p. m.

39. Your telegram no. 43, June 8, 11 a. m. There is no basis for any feeling on the part of President Benavides that this Government lacks desire to develop fuller and closer economic relations between the United States and Peru or is in any way discriminating in another's favor as compared with Peru. It is hoped that you can convince President Benavides that this is so.

Please inform President Benavides that this Government will be happy to welcome a mission here in Washington to discuss the means and terms for possible extension of economic cooperation between the two countries. When you convey this invitation please explain that the reason it is not extended to any designated official of the Peruvian Government, which was the form followed in the case of the invitation to Brazil and Chile, arises from the fact that the invitation is being extended at an earlier and more preliminary stage of the discussions than was the case with Brazil and Chile. In these instances essential preliminary conversations had been conducted for a considerable time with officials of these Governments, in the one case the Minister of Foreign Affairs of Brazil, and in the other the Minister of Finance of Chile, before invitations were arranged. It was then natural the invitations should be addressed to the particular officials with whom the work had already been carried forward.

In order that the discussions in Washington with the inevitable attendant publicity will have a successful issue it is essential, in the interests of both Governments, that there be a most careful and thorough preliminary exploration of the possibilities before a mission is sent. Please say to the President that your Government is confident that he will agree upon the usefulness and importance of such prior exchange of views.

The Department will for its part carry forward its studies. As a counterpart it is suggested that the Peruvian Government undertake and present in memoranda form proposals, as specific in detail as may be possible, of what it believes desirable and feasible. This will enable us to determine what may be possible. This will prepare the way for a successful mission to the United States.

It may be useful to have you make clear to the President the type of cooperation that might be considered as illustrated by the arrangements concluded with Brazil. Of course the form and scope of any arrangement with Peru must be determined primarily by the particular set of facts that present themselves. You may furnish the President with a copy of press release no. 84 of March 9¹³ outlining briefly the arrangements undertaken and the assistance contemplated.

With regard to the reference made by President Benavides to the Chilean debt, you may point out that neither this Government nor the Foreign Bondholders Protective Council condones the practice of a debtor's purchasing in the open market bonds which have been depreciated by the debtor's failure to pay the interest on them. A settlement reached by negotiation between the interested parties which provides for reasonable amortization operating concurrently with interest payments at some agreed rate, is not open to this objection. The Government of the United States does not conduct direct negotiations to determine the terms of debt adjustments, but it does endeavor in all appropriate ways to obtain consideration of the interests of American bondholders and to facilitate the negotiations of their representatives. The question of the Chilean debt settlement was fully discussed by the Foreign Bondholders Protective Council with the Chilean Government and the Council on October 24, 1938, after analyzing the proposed settlement in detail, left "to each bondholder himself to determine whether or not he wishes to accept the amount of services offered." You may add that it has been indicated to the Chilean Government that an essential condition of any arrangement for economic cooperation would be an assurance from the Chilean Government that at least the present interest payments on the external debt be continued.

In the case of Peru the Department has found it difficult to understand the attitude exhibited by the Peruvian Government in having assented to a settlement reached with the holders of the Guano Bonds whereas the negotiations on behalf of the American bondholders have not prospered and actually have been suspended regardless of the fact that the negotiator indicated a willingness to accept a settlement on a basis less favorable to the bondholders, in proportion to their contractual rights, than the one concluded with the British group. You may find it expedient to repeat the statement made by the Under Secretary to the Peruvian Ambassador that "in view of our knowledge of the very favorable economic and financial situation of the Peruvian Government, in which we all rejoice, it was very difficult to understand why no real effort had been made by the Government

¹³ Department of State, *Press Releases*, March 11, 1939, p. 174.

to reach an agreement for the adjustment of the legitimate obligations to the bondholders." You may also point out that Chile is now making substantial payments on account of service whereas the Peruvian dollar bonds are in complete default and negotiations seeking a resumption of payments have been suspended.

It is not clear from your telegram that the subject matter of the last paragraph of the Department's telegram no. 37, June 3, 1 p. m. was discussed in your conversation with the President. If you have not already done so, you may, in your discretion, refer to that matter and convey the statements already authorized.

HULL

823.51/1282: Telegram

The Secretary of State to the Chargé in Peru (Dreyfus)

WASHINGTON, June 23, 1939—7 p. m.

40. Please report by telegraph whether you have conveyed to President Benavides the substance of the Department's telegram no. 39, June 13, 1 p. m. and whether he understands that there must be a most careful and thorough preliminary exploration of the possibilities before a Peruvian mission is sent to Washington.

HULL

823.51/1287: Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, June 24, 1939—1 p. m.

[Received 2:51 p. m.]

50. With reference to the Department's telegram No. 40 of June 23, 7 p. m. the Foreign Office has not yet been able to arrange my audience with Benavides. The Foreign Minister¹⁴ assures me that a time will be fixed early next week. However, the substance of the Department's telegram No. 39, June 13, 1 p. m. was explained in detail to the Minister of Foreign Relations on June 15. The Foreign Minister informs me that he immediately conveyed this information to the President and that the latter already clearly understands that there must be extensive prefatory conversations before the commission departs.

DREYFUS

¹⁴ Enrique Goytizolo.

823.51/1288 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, July 8, 1939—9 a. m.

[Received 1 p. m.]

52. Supplementing my telegram 50, June 24, 1 p. m., Foreign Minister has informed me that the President has appointed a commission to make a preliminary examination here of possibilities for economic cooperation between the United States and Peru. The Foreign Minister also said the President intends to see me next week.

DREYFUS

823.51/1306

*The Peruvian Delegation to the Meeting of the Foreign Ministers of the American Republics Held at Panama, September 23–October 3, 1939, to the American Under Secretary of State (Welles)*¹⁵

MEMORANDUM

[Translation]

The justified fear of Peruvian agriculturalists that they will not be able to find in the near future buyers for cotton and sugar production because they consider the German market lost, which was absorbing from 20% to 25% of our exports (presumably of cotton and sugar exports only) and because they consider the British market doubtful, which was consuming up until now 35% of our exports, has aroused a lack of confidence and uncertainty in the holders of foreign exchange which has placed the stability of our currency in serious danger in the last days of this week.

The Government of Peru considers in the circumstances that the economic assistance which the United States has indicated it is disposed to grant us may be placed in effect immediately to avoid the greater depreciation of the sol which our Reserve Bank already has great difficulty in preventing.

This considerable lack of exchange has already had as its first result the reduction and almost the paralyzation of importation of merchandise from the United States.

An urgent and indispensable measure to remedy this situation would be the opening of a credit in dollars in the Export-Import Bank of Washington for the Reserve Bank of Peru which institution would distribute the credit among the Peruvian importers of North American merchandise. These importers would deposit in the Reserve Bank

¹⁵ Then at Panama as the United States delegate to the meeting.

the equivalent amounts in soles, the liquidation between dollars and soles to be effected at a rate of exchange to be determined.

The amounts thus deposited in the Reserve Bank to the credit of the Export-Import Bank would be balanced periodically in the future on bases that would be studied, one of which could be the value of United States imports of Peruvian products.

PANAMA, September 23, 1939.

823.51/1307

The Peruvian Delegation to the Meeting of the Foreign Ministers of the American Republics Held at Panama, September 23-October 3, 1939, to the American Under Secretary of State (Welles)

[Translation]

The Government of Peru takes the liberty to continue in its applications for a credit in dollars concerning which it has been negotiating to continue import trade with the United States which is completely paralyzed at this time.

Without prejudicing the possibility of arriving at a subsequent agreement and to alleviate the precarious situation the Export-Import Bank could grant immediately a credit of \$6,000,000 to the Banco Central de Reserva del Peru to reestablish its commercial transactions.

The credit would be used by the Banco Central de Reserva del Peru for imports from the United States, selling the exchange bills at the rate of the day and crediting this amount to the order of the Export-Import Bank, the total in dollar bills being represented by the equivalent amount in Peruvian currency.

The Banco Central de Reserva, in order to amortize the credit, would take the amount in dollars of the value of Peruvian products sold in the United States.

The Peruvian Government would guarantee through the Banco Central de Reserva whatever difference might occur in the rate of exchange at the time of liquidating the credit.

The Government of Peru, which has learned that there have been recently granted similar credits to Bolivia, Chile, and Colombia, hopes that its request may be complied with, taking into consideration the current emergency situation.

PANAMA, October 1, 1939.

823.51/1294 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, October 4, 1939—9 p. m.

[Received October 5—1:36 a. m.]

79. The Secretary General and the Chief of the Political Section of the Ministry of Foreign Affairs, both of whom are competent and well informed officials, made statements to me which are of interest in connection with economic and financial cooperation with Peru that may be undertaken as a result of the Panama Conference.¹⁶ They said that the Peruvian Minister for Foreign Affairs was very pleased by the sympathetic and helpful attitude shown by Mr. Welles. In commenting upon possible assistance from the United States, they observed that Peruvian Government revenues have declined, that very little dollar exchange is available, and that Peru needs financial help to meet the war situation. They apparently expect that a representative of the Export-Import Bank will visit Peru soon to discuss these matters. They indicated that in their opinion studies relating to a possible trade agreement might be expedited by the Peruvian Government, if a large enough loan could be obtained in the United States, service on the defaulted bonds might be resumed. Aside from repeating that my Government naturally would welcome any progress toward a solution of pending problems I made no specific comment.

The exchange situation continues unsatisfactory. The rate for the dollar is officially held at 5 soles 36 cents although official quotations of sterling and other free exchanges are the equivalent of about 5.60 soles per dollar. The National City Bank is receiving about 25% of requirements for urgent coverage and about 10% of all requirements. The manager expresses the opinion confidentially that United States trade has not been seriously affected as yet but that it is doubtful if dollar exchange can be found to pay for any substantial shipments of merchandise that may be en route or for large orders that may be diverted from Europe to the United States. A serious problem of frozen commercial balances therefore may arise. He does not anticipate exchange control legislation in the near future but if the present situation continues until a new administration takes office in December there may be such a backlog of funds awaiting exchange that control will be essential.

Meanwhile, the local political situation remains confused and uncertain. It is most unlikely that the administration at present in power will allow the dollar to reach rates corresponding to those for other free exchange currencies or that it will adopt any financial measures

¹⁶ For correspondence concerning the Panama Conference, see pp. 15 ff.

that would mean the diversion of funds from the public works program to requirements for trade or other obligations.

DREYFUS

823.51/1297

The Peruvian Embassy to the Department of State

MEMORANDUM

1.—Trade between Perú and the United States has practically ceased, due to the impossibility of obtaining dollars on the Lima market. Moreover the demand made by American importers for the equivalent of cash payment, increases the difficulty;

2.—In order to reestablish normal commercial intercourse with the United States, Perú requires without delay five to six million dollar credits;

3.—The Central Reserve Bank of Perú would handle these credits, selling drafts for the imports from the United States to Perú. Peruvian importers would purchase from the Central Reserve Bank of Perú the drafts they need, paying for them in Peruvian currency at the exchange of the day. Thus, the total amount drawn in dollars would always be represented by Peruvian currency deposited in the Central Reserve Bank of Perú. The Peruvian Government would guarantee, through the Central Reserve Bank of Perú, any difference in the type of exchange at the date of settlement;

4.—The Central Reserve Bank of Perú would apply to the amortization of these credits the amount paid in dollars by United States importers for Peruvian products;

5.—It would therefore [be] to the advantage of all parties concerned if means could be devised to intensify the sale of Peruvian products in the United States. If for instance, the Export and Import Bank could take charge of marketing the sale in the United States of certain Peruvian products, such as cotton, paying 80% of their value upon delivery, and the 20% balance after the sale is effected.

6.—It would seem advisable that an expert from the Export and Import Bank should go to Lima to settle the matter as soon as the basis for an agreement, as herein outlined, has been reached.

WASHINGTON, October 4, 1939.

823.51/1302a : Telegram

The Secretary of State to the Chargé in Peru (Dreyfus)

WASHINGTON, October 31, 1939—2 p. m.

66. In connection with our study of Peruvian requests for short-term credits, please inform the Department by telegraph regarding the following points:

1. Most recent position of the Central Bank, including, gold, foreign exchange, banking rediscounts, credits to Government, note circulation, and deposits. (The most recent statement available here is that of June 30.)

2. Statistics since June of imports and exports.

3. What volume of transfer of interest and dividends is taking place? Capital movement?

4. Has any back-log of commercial exchange accumulated?

HULL

823.51/1303 : Telegram

The Chargé in Peru (Dreyfus) to the Secretary of State

LIMA, November 4, 1939—3 a. m.

[Received 8:13 p. m.]

93. The following numbered paragraphs refer to the same numbers in the Department's telegram No. 66, October 31, 2 p. m.:

1. Central Bank bulletin for September gives balance as of August 31 as follows: Intangible gold 38,784,832 soles; gold under article 28 law 7,538 at 6,921,479; legal reserve abroad 2,079,988; excess reserve in Peru in checks and securities 200,000; excess reserve abroad 879,638; funds held abroad 1,320,593. Total of reserves and funds held abroad 51,571,565. Rediscounts to associated banks 19,627,625. Total of loans and credits and discounts to the Treasury 121,321,374. Note circulation 121,645,230. Deposits 36,473,934. Manager of Banco Central confidentially stated note circulation increased to about 136,000,000 middle September and was 132,072,750 on October 28.

2. The latest import and export statistics are for the period ending September 30. See E and T report No. 91 dated October 26¹⁷ and sent by air mail pouch of October 27.

3. Earnings of American capital in this country are remitted principally in the form of commodity exports. Reference is made to the Consulate General's report of September 29, 1938, on international balance of payments of Peru. Transfers of funds for the United States have been restricted by the high rate of exchange for dollars and the scarcity of dollar exchange. There is not sufficient accurate information obtainable to justify an estimate of the volume of transfer of interest and dividends and of capital movement. Additional background information will be sent by air mail despatch.

4. Several estimates of the back-log of exchange accumulated from purely commercial transactions are as low as a million dollars but the Italian Bank on the basis of recent reports from other banks places the total at about 5,000,000. This does not include other funds waiting to be transferred such as the Electric Boat Company account.

DREYFUS

¹⁷ Not found in Department files.

825.51/1313

The Chargé in Peru (Dreyfus) to the Secretary of State

No. 1361

LIMA, December 5, 1939.
[Received December 12.]

SIR: I have the honor to report upon statements made by President Benavides regarding possible assistance for Peru from the United States in the matter of the extension of credits by the Export-Import Bank. The statements were made during the interview that took place when I accompanied Mr. Edward F. Roosevelt in his visit to the President to discuss Peruvian participation during the second year of the New York World's Fair.

The gist of the President's vehement remarks, which he emphasized by pounding upon the arm of his chair, was that the United States seems to forget that there is a west coast of South America and is concerned only about the east coast countries, that in spite of friendly words there has been no action taken with respect to the extension of credits to Peru by the Export-Import Bank, that no reply has been received to Peruvian proposals (the President did not specify what proposals he referred to), that formerly credits were extended for Peruvian purchases of products imported from the United States but now cash is demanded, and that the present conditions interfere with trade between the two countries. He went on to comment upon the investment and trade opportunities in Peru.

I reminded the President that the Department is under a great pressure of work at the present time, including such studies as the general program for inter-American economic and financial cooperation, the special problems of individual countries, and the possible increase in the capital of the Export-Import Bank, and I told him that I was sure there was absolutely no discrimination in the case of Peru and that questions of interest to Peru are receiving the most careful consideration. Mr. Roosevelt, to whom the President was very cordial, said that next year he hoped to be able to interest some of his associates in a study of investment possibilities in Peru.

Part of President Benavides' attitude may be due to what, I fear, is a none too friendly feeling towards the United States. It was apparent on this occasion, as in the past, that he also does not understand the policies of the United States with respect to economic and financial cooperation with the other American Republics nor the nature and bases of agreements such as that between the United States and Brazil. President-elect Prado certainly will have a much better understanding of these economic and financial questions.

During the interview President Benavides also made the statement that he will probably visit the United States early next year when he

would take in the New York Fair. He added that he was desirous of getting away as soon as possible as he felt he would not get much rest if he remained in Peru after the inauguration. It will be recalled that the Peruvian Constitution provides that an ex-President of the Republic take a seat in the Senate for one term.

Respectfully yours,

LOUIS G. DREYFUS, JR.

URUGUAY

NEGOTIATIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND URUGUAY

611.3331/247a : Telegram

The Secretary of State to the Chargé in Uruguay (Dwyre)

WASHINGTON, June 28, 1939—4 p. m.

38. In pursuance of the trade-agreement discussions in Montevideo and in accordance with the procedure generally followed in trade-agreement conversations, this Government now desires to ascertain what concessions the Uruguayan Government would expect in return for negotiating a trade agreement on our basis. As a result of exhaustive study of all products of which Uruguay is the chief or an important supplier to the United States, this Government is fully prepared to give consideration to any request, within the authority of the Trade Agreements Act,¹ which the Uruguayan Government may wish to make in regard to the tariff treatment of such products. A memorandum in this sense, which embodies this Government's proposed basis for a trade agreement (which is in line with the Fowler-Sappington suggestions²), is being sent you by air mail for transmission to the Uruguayan Government. A copy of the memorandum is also being handed to the Uruguayan Minister here and a similar memorandum is being presented to the Argentine Government.

You should, unless you perceive objection, immediately inform the appropriate Uruguayan officials of the foregoing.³ You should strongly impress upon those officials the necessity of avoiding any publicity regarding both the nature of any trade-agreement discussions and the fact that such discussions are in progress.

HULL

¹ Approved June 12, 1934, 48 Stat. 943; extended by Joint Resolution of March 1, 1937, 50 Stat. 24.

² See footnote 3, p. 227.

³ In telegram No. 47, June 30, noon, the Chargé reported that a communication in the sense of this telegram was being sent to the Uruguayan Minister for Foreign Affairs (611.3331/248).

611.3331/248a

The Secretary of State to the Chargé in Uruguay (Dwyre)

No. 152

WASHINGTON, June 28, 1939.

SIR: There are enclosed a memorandum with enclosures⁴ embodying certain considerations and questions in regard to the basis for a possible trade agreement with Uruguay. You should, unless you perceive objection, present this memorandum and enclosures to the Uruguayan Foreign Minister as soon as possible.⁵

It will be noted that the proposed basis for a trade agreement embodied in the memorandum is in line with the suggestions, with respect to the basis for a trade agreement, made to Uruguayan officials by officers of the Department during conversations in Montevideo. The memorandum contemplates the negotiation of a trade agreement under which, from its effective date, the Uruguayan Government would accord full equality of treatment to United States trade, as provided in the proposed general provisions, and tariff treatment as indicated for United States products. It is desired to ascertain what concessions the Uruguayan Government would expect in return for according this treatment to United States trade under an agreement.

As indicated in the enclosed memorandum, the question of the negotiation of a trade agreement with Uruguay is closely related to the question of the negotiation of a trade agreement with Argentina.⁶ Similar consideration and questions in regard to the basis for a trade agreement are also being presented to the Argentine Government and the Department will keep you promptly advised in regard to the progress of discussions with that Government.

A copy of the enclosed memorandum is being handed to the Uruguayan Minister in Washington.

Please telegraph the Department any suggestions you may have regarding the contents of the memorandum prior to transmitting it to the Uruguayan Government, and you will, of course, report promptly to the Department the reaction of Uruguayan officials.

Very truly yours,

For the Secretary of State:

FRANCIS B. SAYRE

⁴The enclosures consisted of: (1) a draft of general provisions for inclusion in proposed trade agreement with Uruguay. Except for one article, the text is the same, *mutatis mutandis*, as the draft presented to Argentina, printed on p. 237; (2) a memorandum (not printed) explanatory of certain articles of the draft; (3) a list of products (printed in Department of State *Bulletin*, October 21, 1939, p. 420).

⁵In telegram No. 51, July 10, 3 p. m. the Chargé reported that this memorandum, together with a note of transmittal, had been sent to the Uruguayan Minister for Foreign Affairs (611.3331/249).

⁶See pp. 227 ff.

[Enclosure]

*Memorandum To Be Presented by the American Chargé in Uruguay
(Dwyre) to the Uruguayan Minister for Foreign Affairs (Guani)*

The Government of the United States, in pursuance of the conversations in Montevideo between officers of the Department of State of the United States and officials of the Government of Uruguay, desires to present to the Uruguayan Government certain considerations and questions regarding the basis for a trade agreement between the two countries.

Three essential elements comprise the basis for the negotiation of a trade agreement: 1) possible tariff concessions by the United States; 2) the general provisions of the agreement, particularly those relating to quotas and exchange; and 3) possible tariff concessions by Uruguay.

With reference to possible tariff concessions by the United States, the maximum reduction in United States import charges permitted by the Trade Agreements Act, under authority of which trade agreements are negotiated, is 50 per cent. As the Government of Uruguay is aware, the United States customarily grants tariff concessions only in respect of articles of which the other country concerned is the chief or an important source of imports into the United States. In accordance with this principle, the Government of the United States has exhaustively studied all products of which Uruguay is the chief or an important supplier to the United States. The products studied are contained in the attached list.⁷ As a result of this study, the Government of the United States is now fully prepared to give consideration to any requests which the Government of Uruguay may desire to make in respect of the tariff treatment of the products listed.

In making the above-mentioned study, the Government of the United States has borne prominently in mind the importance attached by Uruguay to the trade in meat, and has reexamined with the greatest care the questions relating to the importation of chilled and frozen meats from Uruguay. It has been forced to conclude that circumstances connected with the sanitary laws and regulations of this country are such that no practicable means can be found for effecting any immediate improvement in this situation. However, the Government of the United States, having in mind possible future developments, would be willing to cooperate with interested governments such as those of Uruguay, Argentina, and Brazil, should such governments desire, in a study of rinderpest and foot-and-mouth disease. A study of these diseases by an international group of well-qualified scientists, preferably non-governmental, might result, among other

⁷ Printed in Department of State *Bulletin*, October 21, 1939, p. 420.

things, in a finding that meat prepared in certain ways could not possibly transmit these diseases.

As regards the second element in the basis for negotiations, namely, the general provisions, the Government of the United States could not consider signing an agreement, involving substantial concessions by the United States, which would leave products of the United States exported to Uruguay at a disadvantage as compared with like products imported from any other country.

The disadvantage to which United States trade in Uruguay is now subjected is due to the practice of the Uruguayan Government of controlling imports on a bilateral basis, by means of exchange quotas and differential exchange rates, which favors imports from certain countries to the detriment of other countries, particularly the United States.

The Government of the United States fully appreciates that the Uruguayan Government may be compelled to control imports in order to safeguard foreign debt service and other necessary remittances abroad and to protect the exchange value of the Uruguayan currency during periods of foreign exchange stringency due to abnormally low returns from exports. However, the Government of the United States believes that any control of imports deemed necessary by the Uruguayan Government can be exercised more effectively and more fairly on a commodity basis than, as at present, on a country basis.

The control of imports on a commodity basis would permit the control of total imports, whereas the present practice may result in a diversion of imports from a disfavored to a favored nation and thus cause only a change in the source of imports. The control of imports on a commodity basis would be more fair than the existing practice because all suppliers to the Uruguayan market and Uruguayan importers would receive equitable treatment with respect to such imports as were admitted and the burden of restrictions would be spread over all export and import interests involved in the trade in the articles subject to restrictions. Even in the worst years, many articles could be permitted to enter without any restriction whatever. In the case of articles subject to restriction Uruguayan importers would be free to buy where they could buy to best advantage, within the limits determined upon by the Uruguayan Government.

Under the procedure here suggested, import quotas, applicable to imports of particular products from all countries, could be established when necessary for the protection of the exchange value of the Uruguayan currency. The maximum quantity of a given product which would be admitted into Uruguay during a specified period, including any imports of such product under compensation arrangements, would not have to be allocated among supplying countries. However, if the Uruguayan Government should allocate a share of

any such quantity to any third country, the United States would be allotted a fair share on the basis of its position as a supplier in a previous representative period. The previous representative period upon which the share of the United States in a total quota would be based would not necessarily be specified in the agreement. The Uruguayan Government would be free to select a base period for each product subject to an import quota on the general understanding that the period selected would be representative with respect to imports into Uruguay of the product in question. If shares of a quota are allotted to a third country and to the United States on this basis, the balance, if any, of the quota over and above these shares could, if the Uruguayan Government so desires, be made available to all other countries without specific allocation to such countries, or be allotted among several countries or even entirely to one other country. It is assumed, however, that the Uruguayan Government would as a general rule wish to allocate the balance, which in some cases would be a large part of the total quota, among other exporting countries on the same basis as that on which the allocation to the United States would be made.

Such control of imports, based on careful estimates of exchange available for merchandise transactions after the debt service and other necessary remittances have been provided for and with sufficient flexibility for any revision of such estimates as might appear advisable, would insure that imports would not exceed Uruguay's capacity to pay. Thus the present basis for the allocation or non-allocation of exchange quotas and differential exchange rates as between countries would be removed and since only an amount of imports would be admitted for which exchange was available, payment could be made promptly for all imports.

There are attached a set of general provisions which the Government of the United States would wish to have included in a trade agreement, together with a memorandum explaining the articles pertinent to the above discussion.

With reference to the third element in the basis for negotiations, the Government of the United States would expect the Uruguayan Government to grant, under a trade agreement, improvement in customs treatment,—that is, in the total charges resulting from the combination of official valuation, base duty, surtaxes, and gold surcharge,—to important United States products, including:

- Prunes and raisins
- Apples (on a seasonal basis)
- Automotive vehicles, parts, and accessories
- Lumber
- Radio receiving sets, parts, and tubes
- Automatic refrigerators and parts
- Varnish paints, enamels, and lacquers

and to bind existing customs treatment of other products of which the United States is the principal or an important supplier.

The Government of Uruguay, like the Government of the United States, doubtless has been giving intensive study to the possibilities of a trade agreement and is therefore in a position to indicate at an early date the concessions it would expect the United States to grant in a trade agreement.

The view has been expressed that, because of the similarity in important respects between the export trade of Uruguay and Argentina with the United States, the negotiation of trade agreements between the United States and Uruguay and between the United States and Argentina should take place simultaneously.

Similar considerations and questions regarding the basis for a trade agreement are also being presented to the Government of Argentina. In the event it should be impossible to reach agreement as to the basis for a trade agreement with the Argentine Government, it would be necessary for the Government of the United States to reconsider, in the light of those circumstances, the question of a trade agreement with Uruguay.

It is obviously desirable that both Governments make every effort to avoid any publicity in regard to any proposals under discussion or to the fact that such discussions are in progress.

WASHINGTON, June 28, 1939.

611.3331/263 : Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, September 7, 1939—5 p. m.

[Received 7:10 p. m.]

66. Referring to the Legation's telegram No. 59, September 1, 5 p. m.⁸ In conversation with the Minister of Foreign Affairs yesterday and today he stated that the Bank of the Republic has made a partial reply to the memorandum transmitted by the Legation to the Foreign Office,⁹ its examination of the question being limited to the provisions governing exchange control and the exchange policy, not, however, attempting to go into the matter of tariffs. The Minister stated that the bank officials have expressed themselves as being keenly interested at this particular time in the negotiation of a commercial treaty with the United States. The Minister pointed out that the negotiation of an agreement between Argentina and the United States and the failure to negotiate a similar agreement between Uruguay and the United States would be extremely disadvantageous for Uruguay

⁸ Not printed.

⁹ *Supra.*

since Uruguay's export products to the United States are virtually the same as those exported by Argentina. The Minister then said that his Government desires to grant all the necessary facilities to enable the negotiations to be conducted simultaneously (*paralelamente*) with those of Argentina and for that reason he desires to be informed if possible at the earliest possible moment of the point to which those negotiations have progressed to date. He mentioned also that the present international situation serves to make more feasible the negotiations of such a treaty at this particular time. I gained the unmistakable impression that Dr. Guani is not in entire sympathy with the trade policy which Uruguay has been pursuing during the past years and would be glad to bring about a change.

In addition the Minister expressed the wish that the tone of the Legation's telegram be decidedly optimistic toward the ultimate negotiation of a trade agreement, as he is very desirous that such a treaty be consummated. He remarked that the questions of tariffs and of exchange are highly technical and should be discussed by technical experts from each country and that if the United States desired to send experts here it would be gratifying to him. He said that Uruguay has the same obstacles confronting it in the way of certain bilateral treaties as has Argentina and should be equally as able to negotiate a treaty at this time. He further stated that his Government is ready to proceed toward a formal announcement of intention to negotiate a treaty but with the understanding that prior consultations shall take place between the two Governments to enable each party to formulate a previous declaration or basis of approach, as is understood to have been done in the case of Argentine-United States negotiations.

Despatch will follow by air mail.

DWYRE

611.3331/263 : Telegram

The Secretary of State to the Chargé in Uruguay (Dwyre)

WASHINGTON, September 11, 1939—7 p. m.

52. Your 66 of September 7, 5 p. m. You should inform the Foreign Minister that your Government is extremely gratified to learn of the desire of his Government to negotiate a trade agreement and express the hope that notice of intention to negotiate can be given at an early date.

With reference to the Foreign Minister's question concerning progress in connection with the proposed agreement with Argentina, you may say that the Government of Argentina responded favorably in writing to this Government's proposals of last June and that conversa-

tions subsequent to the receipt of the Argentine reply resulted in the establishment and clarification of a mutually satisfactory basis for public announcement on August 23 of intention to negotiate.¹⁰ This basis includes the following, as set forth in the announcement.

"The Government of Argentina has agreed that the proposed trade agreement will be based upon the principles of multilateral trade which underlie the trade-agreements program of the United States. The proposed trade agreement will assure that imports into Argentina from the United States will be accorded any advantage given competing imports from any other source and that any governmental regulation of imports into Argentina will be applied in a nondiscriminatory manner."

Negotiations regarding the proposed general provisions, and tentative discussions in regard to possible Argentine tariff concessions, are now being carried on in Buenos Aires. It is anticipated that definitive negotiations will take place in Washington beginning during the week of October 23.

In the light of your telegram under reference and the procedure followed in the case of Argentina, you should endeavor to obtain a written reply to this Government's memorandum of last June. The reply should indicate clearly that the Government of Uruguay understands fully what our proposal means, particularly in respect of quantitative restrictions and exchange, with a view to obviating the necessity for extended discussions in advance of public notice of intention to negotiate. We should like to be able to include a statement similar to that quoted above in a press release announcing negotiations with Uruguay. It should be made clear to the Foreign Minister that the list of products upon which this Government will consider granting concessions in a trade agreement is published at the time of public announcement and that no commitments with respect thereto can be made until all interested parties have had an opportunity to present their views thereon either in writing or at public hearings which are held about eight weeks after public announcement. The list in the case of Uruguay would be the same as that included with this Government's memorandum of last June, with information as to present rates of duty, and would be headed "List of products upon which the United States will consider granting concessions to Uruguay".

Should the Uruguayan Government desire to follow a similar procedure and publish a list of products upon which it will consider granting concessions to the United States, the list to be published should, of course, be cleared with this Government before publication.

¹⁰ Department of State *Bulletin*, August 26, 1939, p. 167.

Since this Government can not formulate definitively the concessions it will request of Uruguay prior to the public hearings here, any list published by the Uruguayan Government should be extensive enough to cover all products of which the United States is the principal or an important supplier to Uruguay.

Please telegraph the substance of the formal response to our proposals as soon as possible after its receipt.

HULL

611.3331/265 : Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, September 15, 1939—5 p. m.

[Received 5:28 p. m.]

74. Referring to the Department's telegram No. 52, September 11, 7 p. m. The Foreign Minister received me yesterday at which time the substance of the Department's telegram was fully discussed. He informed me that earlier in the day he had had a conversation with the President of the Republic on the subject and that in the light of the information as presented in the Department's telegram and as developed in our conversation he would immediately review all the details and be prepared to discuss the matter further with the President on Monday September 18 and that he would get in touch with me again on the 19th.

I took the occasion to show him the text of Ambassador Espil's Washington statement, Mr. Welles' statement of August 23¹¹ and the Argentine Government's communiqué, all as published in English in the *Buenos Aires Herald* (which he said he had not seen) and a full discussion thereof ensued after which he ordered an immediate translation stating that this information concerning the Argentine negotiations would be most helpful to him in the preparation of his reply to our Government's memorandum of last June.

I left with him a memorandum embodying the Department's telegram under acknowledgment and he stated that the details as now presented are clearly understood and remarked that "apparently the next step then is a public announcement of the intention to negotiate" in which I concurred pointing out however the necessity of an early written reply to the Department's memorandum and the prior establishment of a satisfactory basis for public announcement.

DWYRE

¹¹ Department of State *Bulletin*, August 26, 1939, p. 166.

611.3331/271 : Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, October 9, 1939—11 p. m.

[Received October 10—1 a. m.]

81. Department's telegram No. 58, September 29, 4 p. m., and my telegram No. 80, October 5, noon.¹² I have just received a signed note dated today from the Minister of Foreign Affairs of which the following is a translation.

"With reference to the Legation's note dated July 10, 1939, transmitting the memorandum of the Department of State of June 28, and to the conversations held regarding plans for the negotiations of a commercial treaty between our Government and the Government of the United States of America I have pleasure in confirming herewith, Mr. Chargé d'Affaires, that Uruguay likewise desires sincerely that international commerce be conducted on multilateral bases and with minimum of obstacles and difficulties.

The bilateral agreements which Uruguay has made with countries which at present purchase the greater part of its products are due, generally, to the desire of those countries that the exchange created by their purchases be devoted preferentially to the payment of the financial and commercial services which Uruguay owes them.

The Government of the United States of America recognizes that our Government is compelled to exercise control over imports with a view to safeguarding the service of the foreign debt and other remittances of funds abroad and to protect the exchange rate of Uruguayan currency during periods of foreign exchange difficulties.

The Government of the United States recognizing the necessity of this measure, it is possible, in the opinion of the Uruguayan Government, that the control may be effected on the basis of quantitative regulation as suggested by the Government of the United States, it being admitted also that this system of regulation may be implanted without causing disturbances in the commerce which the Republic is maintaining with other countries, provided that action in this regard is exercised with the elasticity of viewpoint demonstrated in the memorandum under acknowledgment.

The Government of the United States of America has borne in mind, at the same time, the importance which we attribute to the meat trade, examining carefully the points relative to the imports of canned or frozen meats from Uruguay. The procedures which it proposes for the study of the sanitary laws and regulations now in force encourage the hope that there may be obtained a change favorable to us as regards the present situation.

Consequently, our Government is in agreement in that there be made the announcement of a formal intention to negotiate a treaty of commerce between both countries and expresses its conformity with the regime of quantitative regulation referred to above.

The projected commercial agreement will provide assurance that imports into Uruguay coming from the United States of America will

¹² Neither printed.

receive any advantage that may be granted for imports from any other sources and that all governmental regulation of imports into Uruguay will be applied in a non-discriminatory manner.

As expressed in the memorandum referred to of the authorities of the United States of America, the Government of Uruguay will indicate at an early date, as soon as the announcement of these negotiations has been promoted, the conditions which it would expect from the Government of the United States of America in the formulation of a commercial agreement.

I have pleasure in presenting to you, Mr. Chargé d'Affaires, the assurances of my very distinguished consideration. Signed Alberto Guani."

Original Spanish text with English translation will be transmitted by the next airmail pouch.

DWYRE

611.3331/271: Telegram

The Secretary of State to the Chargé in Uruguay (Dwyre)

WASHINGTON, October 10, 1939—8 p. m.

60. Your telegram no. 81, October 9, 11 p. m. You should immediately inform the Uruguayan Foreign Minister that this Government greatly appreciates the consideration given its proposals by the Uruguayan Government, and is deeply gratified that the Uruguayan Government's reply of October 9 indicates that apparent agreement has been reached between the two Governments as to the general basis for the negotiation of a trade agreement. You should inform the Foreign Minister that his Government's reply is now under consideration by the trade-agreements organization of this Government with a view to the issuance of a public announcement of intention to negotiate a trade agreement at an early date, possibly on October 16, if agreeable to the Government of Uruguay.

Meanwhile, it is necessary to obtain the Uruguayan Government's agreement to the list of products on which the United States will consider granting concessions, which list must be published with the announcement. The need for raising the latter question with the Foreign Minister is suggested by the reference in his note to the formulation of Uruguay's requests for concessions after the announcement has been made here. In this connection you should explain that under our procedure all products on which this Government will consider granting concessions must be published with the announcement: that the purpose is to obtain the views of interested persons in this country on the granting of concessions on such products; and that any product not listed cannot be considered in the negotiations. The list of products enclosed with this Government's memorandum of June 28, 1939 is based on exhaustive study of our import trade with

Uruguay in the light of the rule generally followed by this Government of granting concessions on specific products only in trade agreements with the principal or an important supplier of such products. You should endeavor to obtain the prompt assent of the Uruguayan Government to the publication of this list as including all the products to which consideration will be given. You will, of course, make it clear that the inclusion of any product in the published list means only that it will be considered, since specific concessions cannot be determined in advance of negotiations and prior to public announcement and hearings in the United States.

If the Uruguayan officials indicate any desire that this Government consider adding products to the above-mentioned list, you should point out that the necessary consideration which would have to be given to any additional products and the unlikelihood that any would be found which could be added to the list would only mean unnecessary delay in issuing the public announcement here and consequently in the initiation of definitive negotiations.

You should ascertain whether the Uruguayan Government would have any objection to this Government's making the following statement in connection with the public announcement:

"Imports into Uruguay from certain countries, with which Uruguay normally has an export balance of trade, have in recent years received more favorable exchange treatment than have imports from the United States. The Government of Uruguay has agreed that the proposed trade agreement will be based upon the principles of multi-lateral trade which underlie the trade-agreements program of the United States. The proposed trade agreement will assure that imports into Uruguay from the United States will be accorded any advantage given competing imports from any other source and that any governmental regulation of imports into Uruguay will be applied in a non-discriminatory manner."

A similar statement was made in connection with the public announcement of intention to negotiate a trade agreement with Argentina.

You should express to the Foreign Minister the hope that no publicity will be given to the possibility of the negotiation of a trade agreement prior to the issuance of public announcement.

HULL

611.3331/274 : Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, October 16, 1939—7 p. m.

[Received 8:10 p. m.]

85. Department's telegram No. 60, October 10, 8 p. m. and Legation's 84, October 15.¹³ At a conference with the Foreign Minister at noon

¹³ Letter not printed.

today we discussed draft of his note which he has now delivered to me as a reply to the Legation's note of October 11 giving the substance of the Department's telegram cited above. A translation of his note follows:

"Montevideo, October 16, 1939.

Mr. Chargé d'Affaires: With reference to your note of the 11th instant regarding general bases for the negotiation of a commercial agreement between the oriental Republic of Uruguay and the United States of America, I have pleasure in replying as follows: that I express my conformity with the list of products on which the Government of the United States considers itself prepared to grant at this time concessions to the Government of Uruguay and also with the publication of the list referred to at the same time as the announcement of intention to begin negotiation.

That this is with the complete understanding that, according to article 11 of the draft of general conditions to be included in the commercial agreement under reference, all other natural or manufactured products which in future may be exported from the Republic to the United States will enjoy equal treatment with those originating in any third country.

With reference to the public announcement to be made, the Uruguayan Government perceives no objection to inclusion by the Government of the United States of the statement contained in note No. 155 of the Legation of the United States dated October 11, similar to that published at the time of the announcement of the intention to negotiate a Treaty of Commerce with the Argentine Republic and which is as follows:

'Imports into Uruguay from certain countries with which Uruguay normally has a commercial balance of exports, have been receiving during recent years exchange treatment more favorable than the imports from the United States. The Government of Uruguay has expressed its agreement in that the proposed commercial agreement be based on the principles of multilateral trade which underlie the trade agreements program of the United States. The proposed commercial agreement will assure that imports into Uruguay from the United States will receive any advantage which may be granted to competing imports from any other sources and that the governmental regulations of imports into Uruguay shall be applied in a non-discriminatory manner.'

In expressing the agreement above referred to, the Government of Uruguay stated that in its opinion, in exercising control on the basis of quantitative regulation, this could be implanted 'without causing disturbances in the trade which the Republic is maintaining with other countries—provided that action in this respect is exercised with the elasticity and the viewpoint demonstrated in the memorandum to which this is a reply' (note of October 9, 1939¹⁴).

In accordance with our conversation of today, publicity concerning the present state of the negotiation will be made simultaneously in Washington and in Montevideo, just as soon as the Chargé d'Affaires is good enough to inform me of the date and hour at which his Government decides these announcements shall be made.

¹⁴ See telegram No. 81, October 9, 11 p. m., from the Chargé in Uruguay, p. 795.

I am pleased to present to you Mr. Chargé d'Affaires the assurances of my most distinguished consideration. Signed A. Guani."

Dr. Guani has expressed the hope that the announcement of intention to negotiate may now be made but requests that the Department inform me in advance the date and hour of release of announcement in Washington in order that he may release a statement to the press here simultaneously.

DWYRE

611.3381/274 : Telegram

The Secretary of State to the Chargé in Uruguay (Dwyre)

WASHINGTON, October 17, 1939—6 p. m.

63. Your telegram no. 85, October 16, 7 p. m. You should inform the Uruguayan Foreign Minister that public notice of intention to negotiate will be released here for publication in the morning papers of October 20.¹⁵

While definitive negotiations can not be initiated until after the completion of the public hearings here, if agreeable to the Uruguayan officials it would be desirable to undertake the negotiations of the general provisions and discussion of other matters as rapidly as possible after the issuance of the public notice and the Department will instruct you shortly in this regard.

You should ascertain the attitude of the Uruguayan officials toward holding the definitive negotiations in Washington. You should state that your Government believes that this would be highly desirable. You should also state, however, that it would be desirable to avoid the arrival of a trade delegation here before the close of the period allowed for written briefs. The Department will advise you of the date on which this period will end.

With reference to that part of the Foreign Minister's note of October 16, 1939, which states "the list of products on which the Government of the United States considers itself prepared to grant at this time concessions to the Government of Uruguay", you should point out to the Foreign Minister that the list referred to is a list of products on which this Government will consider granting concessions to Uruguay and that, as stated in the Department's telegram no. 60 of October 10, specific concessions can not be determined in advance of negotiations and prior to public notice and hearings in the United States.

HULL

¹⁵ Department of State *Bulletin*, October 21, 1939, p. 418.

611.3331/276: Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, October 19, 1939—5 p. m.

[Received October 19—4: 50 p. m.]

87. The substance of the Department's telegram No. 63, October 17, 6 p. m., has been discussed at length with the Foreign Minister who understands clearly all points raised. I expressed to him my Government's belief that it would be highly desirable to hold the definitive negotiations in Washington whereupon he requested me to say that the Uruguayan Government would like to have the definitive negotiations conducted as in the case of Argentina. He believes that if the United States Government is sending a trade delegation of experts to Buenos Aires the same delegation might then come to Montevideo to conduct the negotiations here. He further stated that if it should be the case that Argentina is sending a trade delegation to the United States, Uruguay would do the same.

DWYRE

611.3331/276: Telegram

The Secretary of State to the Chargé in Uruguay (Dwyre)

WASHINGTON, October 21, 1939—noon.

65. Your telegram no. 87, October 19, 5 p. m. You should inform the Foreign Minister that our Embassy at Buenos Aires, assisted by experts sent from here, will conduct the negotiations with Argentina. Since, in those circumstances, it is the desire of the Uruguayan officials that our negotiations with them take place in Montevideo, they will be conducted through the Legation and we will arrange to have the experts we are sending to Buenos Aires consult with and assist the Legation as need arises.

To avoid loss of time, you should begin at once discussions in regard to the general provisions of the proposed agreement, on the basis of the draft attached to this Government's memorandum of June 28, instruction no. 152 of that date. Instructions regarding the release of concessions will be sent you later.

You should call upon William A. Fowler, Assistant Chief of the Division of Trade Agreements, who is now proceeding to Buenos Aires on the S. S. *Uruguay*, to assist you in these discussions to the extent permitted by the trade-agreement work in Buenos Aires.

We are instructing the Embassy at Buenos Aires to send you comments on the general provisions, a copy of which you should transmit to the Uruguayan officials. These comments, which outline the purposes intended to be accomplished by the various Articles of the gen-

eral provisions, should be helpful in your discussions. For additional comments in regard to the purpose and application of the Articles on quantitative restrictions, Articles VII and VIII, and the Article on exchange, Article X, which are of particular importance in the case of Uruguay, you should refer to the pertinent parts of the above-mentioned memorandum of June 28. Report fully to the Department regarding these discussions and request such telegraphic instructions as you think necessary in regard to difficult points encountered.

The Embassy at Buenos Aires will also send you a draft Article X relative to exchange. You should inform the Uruguayan officials that it is desired that this draft Article be substituted for the Article of the same number included in the general provisions enclosed with the memorandum of June 28. Although the new draft is substantially the same as the old, it is briefer and for that reason is considered preferable.

HULL

611.3331/233c: Telegram

*The Secretary of State to the Minister in Uruguay (Wilson)*¹⁶

WASHINGTON, October 21, 1939.

Notice of intention to negotiate a trade agreement with Uruguay was issued here today¹⁷ and the Legation at Montevideo is being instructed to initiate general provisions discussions with the Uruguayan officials at once. You will probably wish to discuss this matter fully with Fowler as the Embassy at Buenos Aires is being instructed to have him assist the Legation in such discussions to the extent permitted by the work in Buenos Aires.

CORDELL HULL

611.3331/290

The Minister in Uruguay (Wilson) to the Secretary of State

No. 1

MONTEVIDEO, October 30, 1939.

[Received November 9.]

SIR: I have the honor to report hereinafter developments regarding the trade agreement negotiations since my arrival at this post on October 23d:

On October 24 Mr. Dwyre informed the Foreign Minister by note (copy enclosed)¹⁸ that the United States Government would be glad,

¹⁶ Mr. Wilson was en route to his post aboard the S. S. *Uruguay*.

¹⁷ Department of State *Bulletin*, October 21, 1939, p. 418.

¹⁸ Not printed.

since the negotiations with Argentina were to be held in Buenos Aires, to meet the wishes of the Uruguayan Government and have the Uruguayan negotiations take place in Montevideo. The note expressed the desire that conversations on the general provisions be begun as soon as possible. In handing the note to Dr. Guani, Mr. Dwyre mentioned that we had just received an explanatory memorandum regarding the general provisions, as well as a new and briefer draft of Article X, and that we would make a Spanish translation of the memorandum and draft article and furnish copies to the Foreign Office (English and Spanish texts of the memorandum and Article X were sent to Dr. Guani on October 26).

When I called on Dr. Guani for the first time, on October 25th, I took occasion to discuss the trade agreement at some length. I said that I and the members of my staff were wholly at the disposal of himself and the Uruguayan officials for discussions at any moment on the trade agreement. When we had advanced matters somewhat, and whenever it would be helpful, I was sure that we could have Mr. Fowler and Mr. Allen come over from Buenos Aires. I said that although we were beginning later than the Argentine negotiations, I hoped we might make every effort to advance our work so that the two agreements could be brought into force at about the same time. I then went on to express a personal opinion, about as follows: that I had noted the existence in the United States, and the Minister had undoubtedly noted it as well, of opposition in certain quarters to the type of trade agreement which we hoped to make between the United States and Argentina and Uruguay. It had required an act of courage on the part of the Administration in Washington to announce intention to negotiate these agreements. The Trade Agreements Act expires next June, and it might or might not be renewed; in any case, next year would be a year of general elections in the United States. It seemed to me that here was an opportunity, which might not present itself again, for us to place our trade relations on a proper basis, and we ought to make every effort to take advantage of it and to wind up our negotiations by the first of the year, if at all possible.

Dr. Guani said that he was in full agreement; that he intended to set up an inter-Ministerial committee to work on the problem, and that he hoped to be ready, in two weeks time, to begin conversations on the general provisions.

I also mentioned the unfortunate effect of publicity given to the possibility of concessions on meat products, as reported in my telegram No. 91 of October 25—5 p. m.¹⁹

When I was received by President Baldomir on October 27th, I referred to the trade agreement negotiations and spoke on much the

¹⁹ Not printed.

same lines as to Dr. Guani. The President seemed interested and expressed his best wishes for the early and successful conclusion of the negotiations.

In calling on the Minister of Finance, Dr. Charlone, on October 28th, I spoke of my hope, for the reasons already mentioned, that we might make rapid progress. He said that he was in full agreement, and that everything which he and his services could do to advance the negotiations, would be done. He asked if Mr. Fowler had arrived in Buenos Aires, and said that he would look forward to seeing him again in Montevideo, as he recalled with pleasure their conversations last January.

I had a further conversation with Dr. Guani on October 28th, when I informed him that I had learned that in the negotiations in Buenos Aires it had been found helpful to set up general committees, composed respectively of representatives of the Embassy and of the competent Argentine Ministries, and subcommittees as well, and I suggested that we might follow the same procedure. Dr. Guani thought this a good idea, and promised again to advise me as soon as he was prepared to begin discussion of the general provisions.

My impression, from such talks as I have had to date, is that the Uruguayan officials probably have not gone very far with their study of the proposed trade agreement. I expect that we shall encounter much delay. It was surprising to find that Dr. Guani was ignorant of the fact that our government can conclude trade agreements which enter into effect without necessity of ratification by the Senate. He expressed interest in our Trade Agreements Act, which he said he had never read, and I at once sent him a copy of the Act. President Baldomir seemed to be under the impression that the trade agreement was practically on the point of being concluded. It is probable that in the Ministry of Finance and the Bank of the Republic more familiarity with the details of the subject will be found. I am told by some well informed people, however, that it is precisely in those quarters that opposition to the agreement exists.

I shall, of course, continue to try in every appropriate way to make progress in this matter.

Respectfully yours,

EDWIN C. WILSON

[Detailed discussions of provisions of the proposed trade agreement were carried on in Montevideo during November and December. Correspondence regarding these discussions is not printed, as before any definitive agreement was reached the breakdown of similar negotiations with Argentina led to a discontinuance of negotiations with Uruguay, as indicated in telegram No. 1, January 6, 1940, 2 p. m., to the Minister in Uruguay, printed *infra*.]

611.3331/329a : Telegram

The Secretary of State to the Minister in Uruguay (Wilson)

WASHINGTON, January 6, 1940—2 p. m.

1. Our trade-agreement negotiations with Argentina have broken down and it is expected that early next week an official statement will be issued by the two Governments in regard to the termination of the negotiations.²⁰ In accordance with the understanding on which negotiations were initiated with Uruguay, it is necessary to terminate also the trade-agreement negotiations with that country. Accordingly, we will say only that, since the negotiations with Argentina and Uruguay are closely interrelated, we are terminating the negotiations with Uruguay also.

Please advise the appropriate Uruguayan officials and express our deep regret at having to take this action.

You should also express our hope that the Uruguayan officials, in any statement they may make, will continue to treat the subject matter of the negotiations as confidential. Please send a copy of this telegram to the Embassy at Buenos Aires.

HULL

611.3331/337

Press Release Issued by the Department of State, January 8, 1940

The Department of State announced today that trade-agreement negotiations with Uruguay had been terminated. These negotiations have been conducted in an atmosphere of the utmost friendliness and cordiality. However, because of the similarity in important respects of the export trade of Uruguay and Argentina with the United States, it has been found necessary, in view of the recent termination of negotiations with Argentina, to terminate also the negotiations with Uruguay.

²⁰ See press release issued by the Department of State, January 8, 1940, p. 294.

VENEZUELA

AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA CONTINUING IN FORCE THE PROVISIONAL COMMERCIAL AGREEMENT OF MAY 12, 1938¹

611.3131/405: Telegram

The Chargé in Venezuela (Scott) to the Secretary of State

CARACAS, April 27, 1939—noon.

[Received 1:39 p. m.]

41. From Daniels.² Does the Department desire any action to be taken with respect to the *modus vivendi* which is due to expire next May 11? If the trade agreement is signed by that date obviously no action is necessary but this is beginning to appear doubtful. Neither the Foreign Office nor I have raised this question as yet. [Daniels.]

SCOTT

611.3131/405: Telegram

The Secretary of State to the Chargé in Venezuela (Scott)

WASHINGTON, May 2, 1939—5 p. m.

31. Telegram No. 41 April 27, noon, from Daniels. Although instructions to Daniels regarding the proposed trade agreement with Venezuela are now under consideration, and it is hoped that they will be sent him within the next few days, it would be impossible in any case, for an agreement to be concluded and in effect before the expiration on May 11 of the *modus vivendi* of May 12, 1938. Consequently, in order to maintain the legal basis whereon the Venezuelan Government accords United States trade most-favored-nation treatment pending the conclusion of a trade agreement, you should, unless you perceive objection, propose to that Government the following draft of identic notes, *mutatis mutandis*:

"Excellency: I have the honor to confirm the understanding reached as a result of recent conversations, that the provisions of the *modus vivendi* between the Governments of the United States of America and Venezuela, effected by an exchange of notes in Caracas dated May 12, 1938, shall be continued for a further period of 1 year or until

¹ For text of agreement of May 12, 1938, see Department of State Executive Agreement Series No. 122, or 52 Stat. 1493; for correspondence, see *Foreign Relations*, 1938, vol. v, pp. 956 ff.

² Paul C. Daniels, Foreign Service officer on special mission to Venezuela in connection with trade-agreement negotiations.

superseded by a more comprehensive commercial agreement, or until denounced by either Government by advance written notice of not less than 30 days.

Accept, Excellency, the renewed assurances of my highest consideration."

If agreeable to the Venezuelan Government, the proposed exchange of notes may be signed at any time prior to May 12, 1939.

Please keep the Department promptly informed in regard to this matter.

HULL

611.3131/406 : Telegram

The Chargé in Venezuela (Scott) to the Secretary of State

CARACAS, May 5, 1939—5 p. m.

[Received 7:45 p. m.]

44. Department's telegram No. 31, May 2. Minister of Foreign Affairs is agreeable to continuing in effect the provisions of the *modus vivendi* without change in substance, however, for legal and procedural reasons he desires to incorporate the articles of the original agreement in the new notes to be exchanged, and suggests the following form:

"Excellency: I have the honor to inform Your Excellency that I am authorized by my Government to confirm in the present note that, as a result of conversations with Your Excellency, it has been agreed to extend for the period of one year from the date of its expiration, or until the conclusion of a reciprocal trade agreement or treaty, or until denounced by one of the parties by 30 days advance written notice, the *modus vivendi* concluded between the United States of America and the United States of Venezuela on May 12, 1938, which is inserted below: 'Article I. (here would follow the complete text of the 3 numbered articles of the *modus vivendi*)'.

Accept Excellency the renewed assurances of my highest consideration."

Identical notes *mutatis mutandis* of this tenor would be exchanged.

Please telegraph if this form is acceptable.

SCOTT

611.3131/406 : Telegram

The Secretary of State to the Chargé in Venezuela (Scott)

WASHINGTON, May 6, 1939—3 p. m.

34. Your 44, May 5, 5 p. m. Suggested form approved.

HULL

611.3131/407: Telegram

The Chargé in Venezuela (Scott) to the Secretary of State

CARACAS, May 9, 1939—noon.

[Received 12:35 p. m.]

46. Department's telegram No. 34, May 6, 3 p. m. Identical note following form indicated in my telegram No. 44, May 5, 5 p. m., exchanged today with the Minister for Foreign Affairs continuing in effect the *modus vivendi* of May 12, 1938, for a further period of 1 year from the date of its termination subject to the provisions of article III. Complete texts of both notes will be forwarded in the next air mail pouch.

The notes will be published in this evening's *Gaceta Oficial* and will be available for publication in the morning newspapers of Caracas of May 10.

SCOTT

RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES
AND VENEZUELA, SIGNED NOVEMBER 6, 1939

[Formal notice of intention to negotiate this agreement was given on July 16, 1938, after agreement had been reached as to the basic principles and items to be considered. See *Foreign Relations*, 1938, volume V, pages 956 ff. Correspondence covering later negotiations carried on at Caracas regarding details of the agreement is not printed. For text of the agreement signed at Caracas, November 6, 1939, see Department of State Executive Agreement Series No. 180, or 54 Stat. 2375.]

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